

REDWOOD TRUST INC  
Form 10-Q  
May 05, 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: March 31, 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

78,548,044 shares outstanding as of May 4, 2011

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2011 FORM 10-Q REPORT**

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TABLE OF CONTENTS**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share Data) (Unaudited)	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Residential real estate loans	\$3,795,762	\$3,797,095
Commercial real estate loans	62,436	50,386
Real estate securities, at fair value:		
Trading securities	321,820	329,717
Available-for-sale securities	781,992	825,119
Total real estate securities	1,103,812	1,154,836
Other investments		
Cash and cash equivalents	220,276	46,937
Total earning assets	5,182,286	5,049,254
Restricted cash	34,983	24,524
Accrued interest receivable	13,569	13,782
Derivative assets	5,698	8,051
Deferred tax asset	3,487	3,487
Deferred securities issuance costs	7,052	5,928
Other assets	36,231	38,662
Total Assets <sup>(1)</sup>	\$5,283,306	\$5,143,688
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Short-term debt	\$	\$44,137
Accrued interest payable	6,611	5,930
Derivative liabilities	70,157	83,115
Accrued expenses and other liabilities	8,358	14,305
Dividends payable	19,535	19,531
Asset-backed securities issued Sequoia	3,646,342	3,458,501
Asset-backed securities issued Acacia	310,952	303,077
Long-term debt	139,500	139,500
Total liabilities <sup>(2)</sup>	4,201,455	4,068,096
<b>Equity</b>		
Common stock, par value \$0.01 per share, 100,000,000 shares authorized; 78,138,724 and 78,124,668 issued and outstanding	781	781
Additional paid-in capital	1,692,095	1,689,851
Accumulated other comprehensive income	122,112	112,339
Cumulative earnings	493,105	474,940
Cumulative distributions to stockholders	(1,233,282)	(1,213,158)

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Total stockholders' equity	1,074,811	1,064,753
Noncontrolling interest	7,040	10,839
Total equity	1,081,851	1,075,592
Total Liabilities and Equity	\$5,283,306	\$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 March 31, 2011 and December 31, 2010, these assets totaled \$4,134,480 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 March 31, 2011 and December 31, 2010, these liabilities totaled \$4,027,793 and \$3,838,386, respectively.

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

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TABLE OF CONTENTS**REDWOOD TRUST, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME**

(In Thousands, Except Share Data) (Unaudited)	Three Months Ended March 31,	
	2011	2010
Interest Income		
Residential real estate loans	\$ 18,469	\$ 14,488
Commercial real estate loans	1,225	303
Real estate securities	34,624	43,899
Other investments		9
Cash and cash equivalents	15	17
Total interest income	54,333	58,716
Interest Expense		
Short-term debt	(182 )	
Asset-backed securities issued	(19,423 )	(17,066 )
Long-term debt	(2,367 )	(1,116 )
Total interest expense	(21,972 )	(18,182 )
Net Interest Income	32,361	40,534
Provision for loan losses	(2,807 )	(9,475 )
Market valuation adjustments	(3,118 )	(9,291 )
Other-than-temporary impairments <sup>(1)</sup>	(2,622 )	(1,946 )
Market valuation adjustments, net	(5,740 )	(11,237 )
Net Interest Income After Provision and Market Valuation Adjustments	23,814	19,822
Operating expenses	(11,514 )	(17,306 )
Realized gains on sales and calls, net	3,864	44,338
Net income before provision for income taxes	16,164	46,854
Provision for income taxes	(14 )	(26 )
Net income	16,150	46,828
Less: Net loss attributable to noncontrolling interest	(2,015 )	(15 )
Net Income Attributable to Redwood Trust, Inc.	\$ 18,165	\$ 46,843
Basic earnings per common share	\$0.23	\$0.59
Diluted earnings per common share	\$0.22	\$0.58
Regular dividends declared per common share	\$0.25	\$0.25
Basic weighted average shares outstanding	78,027,840	77,677,235
Diluted weighted average shares outstanding	79,371,776	78,542,299

For the three months ended March 31, 2011, other-than-temporary impairments were \$3,312, of which \$690 were recognized in Accumulated Other Comprehensive Income. For the three months ended March 31, 2010, other-than-temporary impairments were \$3,615, of which \$1,669 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 Three Months Ended March 31, 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)				18,165		(2,015 )	16,150	
Net unrealized gain on available-for-sale securities			3,049			4,539	7,588	
Reclassification of other-than-temporary impairments to net income			1,770				1,770	
Net unrealized gain on interest rate agreements			3,890				3,890	
Reclassification of unrealized loss on interest rate agreements to net income			1,064				1,064	
Total other comprehensive gain			9,773				30,462	
Total comprehensive income							30,462	
Issuance of common stock:								
Dividend reinvestment & stock purchase plans	13,304	196					196	
Employee stock purchase and incentive plans	752	(26 )					(26 )	
Non-cash equity award compensation		2,074					2,074	
Distributions to noncontrolling interest, net						(6,323 )	(6,323 )	
Common dividends declared					(20,124 )		(20,124 )	
March 31, 2011	78,138,724	\$781	\$1,692,095	\$122,112	\$493,105	\$(1,233,282)	\$7,040	\$1,081,851

## For the Three Months Ended March 31, 2010