

ACCREDITED HOME LENDERS HOLDING CO

Form 10-Q

August 09, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2005

or

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

For the transition period from _____ to _____

Commission File Number 001-32275

ACCREDITED HOME LENDERS HOLDING CO.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3669482
(I.R.S. Employer
Identification No.)

15090 Avenue of Science
San Diego, California 92128

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 858-676-2100

Former name, former address and former fiscal year, if changed since last report: Not applicable.

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 or No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes or No

The number of outstanding shares of the registrant's common stock as of August 4, 2005 was 21,858,675.

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FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements. When used in this report, statements which are not historical in nature, including the words anticipate, estimate, should, expect, believe, intend and similar expressions are intended to identify forward-looking statements. These statements include statements containing a projection of revenues, earnings or losses, capital expenditures, dividends, capital structure or other financial terms.

The forward-looking statements in this report are based upon our management's beliefs, assumptions and expectations of our future operations and economic performance, taking into account the information currently available to them. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties, some of which are not currently known to us, that may cause our actual results, performance or financial condition to be materially different from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

changes in demand for, or value of, mortgage loans due to the attributes of the loans we originate; the characteristics of our borrowers; and fluctuations in the real estate market, interest rates or the market in which we sell or securitize our loans;

the degree and nature of our competition;

a general deterioration in economic or political conditions;

our ability to protect and hedge our mortgage loan portfolio against adverse interest rate movements;

changes in government regulations that affect our ability to originate and service mortgage loans;

changes in the credit markets, which affect our ability to borrow money to originate mortgage loans;

our ability to employ and retain qualified employees; and

the other factors referenced in this report, including, without limitation, under the section entitled "ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report might not occur. We qualify any and all of our forward-looking statements entirely by these cautionary factors.

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In this Form 10-Q, unless the context requires otherwise, *Accredited, Company, we, our, and us* means Accredited Home Lenders Holding Co and its subsidiaries.

PART I**ITEM 1. Financial Statements****ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except par value and per share amounts) (Unaudited)

	June 30, 2005	December 31, 2004
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 79,739	\$ 35,155
Restricted cash	32,420	4,589
Mortgage loans held for sale, net of reserve of \$19,119 and \$17,065, respectively	2,190,054	1,790,134
Mortgage loans held for investment, net of reserve of \$84,228 and \$60,138 respectively	5,874,220	4,690,758
Furniture, fixtures and equipment, net	34,967	34,763
Other receivables	75,567	57,658
Deferred income tax asset, net	5,731	34,250
Prepaid expenses and other assets	54,988	41,070
	<u> </u>	<u> </u>
Total assets	<u>\$ 8,347,686</u>	<u>\$ 6,688,377</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Warehouse credit facilities	\$ 1,720,125	\$ 2,204,860
Asset backed commercial paper	988,538	
Securitization bond financing	5,044,210	3,954,115
Income taxes payable	2,389	22,310
Accounts payable and accrued liabilities	52,064	46,615
	<u> </u>	<u> </u>
Total liabilities	<u>7,807,326</u>	<u>6,227,900</u>
COMMITMENTS AND CONTINGENCIES (Note 13)		
MINORITY INTEREST IN SUBSIDIARY	97,922	97,922
STOCKHOLDERS EQUITY:		

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Preferred stock, \$.001 par value; authorized 5,000,000 shares; no shares issued or outstanding		
Common stock, \$.001 par value; authorized 40,000,000 shares; issued and outstanding 21,832,861 shares and 21,379,690 shares, respectively (including 765,069 and 585,545, respectively, of restricted stock awarded under the deferred compensation plan)	22	21
Additional paid-in capital	96,375	84,281
Unearned compensation	(16,766)	(12,058)
Accumulated other comprehensive income	3,678	2,042
Retained earnings	359,129	288,269
	<u> </u>	<u> </u>
Total stockholders' equity	442,438	362,555
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 8,347,686	\$ 6,688,377
	<u> </u>	<u> </u>

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

Table of Contents**ACCREDITED HOME LENDERS HOLDING CO. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS***(In thousands, except per share amounts)(Unaudited)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
REVENUES:				
Interest income	\$ 141,154	\$ 84,673	\$ 266,047	\$ 145,299
Interest expense	(68,124)	(28,093)	(122,451)	(49,023)
Net interest income	73,030	56,580	143,596	96,276
Provision for losses	(19,360)	(17,843)	(37,297)	(25,292)
Net interest income after provision	53,670	38,737	106,299	70,984
Gain on sale of loans	85,780	77,619	152,243	132,349
Loan servicing income	2,724	1,646	4,839	3,209
Other income	1,508	11	3,339	1,916
Total net revenues	143,682	118,013	266,720	208,458
OPERATING EXPENSES:				
Salaries, wages and benefits	49,696	39,858	92,123	75,113
General and administrative expenses	12,486	11,044	25,579	20,631
Occupancy	5,424	4,678	10,447	8,531
Advertising and promotion	3,985	3,027	8,092	5,493
Depreciation and amortization	3,526	2,249	6,930	4,023
Total operating expenses	75,117	60,856	143,171	113,791
Income before income taxes and minority interest	68,565	57,157	123,549	94,667
Income tax provision	26,499	22,863	47,701	37,867
Minority interest dividends on preferred stock of subsidiary	2,494		4,989	
Net income	\$ 39,572	\$ 34,294	\$ 70,859	\$ 56,800
Earnings per common share:				
Basic	\$ 1.89	\$ 1.70	\$ 3.39	\$ 2.80
Diluted	\$ 1.81	\$ 1.60	\$ 3.24	\$ 2.65
Weighted average shares outstanding:				
Basic	20,982	20,194	20,917	20,269
Diluted	21,872	21,459	21,860	21,402

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

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	Six Months Ended June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 70,859	\$ 56,800
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6,930	4,023
Provision for losses	37,297	25,292
Minority interest dividends paid on preferred stock of subsidiary	4,989	
Deferred income tax provision (benefit)	27,599	(26,820)
Unrealized loss (gain) on risk derivatives	(6,646)	23,348
Adjustment into earnings for gain on derivatives from other comprehensive income	(6,152)	
Amortization of deferred costs	2,229	1,016
Changes in operating assets and liabilities:		
Restricted cash	(27,831)	(4,274)
Mortgage loans originated, net of fees	(7,374,054)	(5,756,973)
Cost of loans sold, net of fees	4,888,354	3,489,966
Principal payments received on loans held for sale	57,584	31,553
Other receivables	(20,489)	(228)
Prepaid expenses and other assets	11,821	(3,345)
Income taxes payable	(17,035)	32,449
Accounts payable and accrued liabilities	4,277	(6,947)
	<u> </u>	<u> </u>
Net cash used in operating activities	(2,340,268)	(2,134,140)
	<u> </u>	<u> </u>