LANDEC CORP \CA\
Form 8-K
June 23, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **June 19, 2014**

LANDEC CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

0-27446	**94-3025618**
(Commission file number)	(IRS Employer Identification No.)

3603 Haven Avenue, Menlo Park, California 94025
(Address of principal executive offices and zip code)

(650) 306-1650
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed from last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 **Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(e) (i) On June 19, 2014, the Board of Directors (the "Board") of Landec Corporation (the "Company") approved the performance criteria and structure for cash bonuses that may be awarded to employees of the Company and its subsidiaries, Apio, Inc. ("Apio") and Lifecore Biomedical, Inc. ("Lifecore"), for the 2015 fiscal year (the "Plan"). Employees of the Company, Apio and Lifecore may earn cash bonuses only if the revenue and controllable net income for fiscal year 2015 for the relevant entity exceeds the specified target for the relevant entity. The aggregate cash bonus amount payable under the Plan is allocated among the participants based upon the base salary of each participant. Bonuses are calculated by multiplying a percentage of each participant's base salary by the percentage of the performance target that is achieved. The percentage of base salary used to determine each participant's maximum cash bonus payment ranges from 40% to 100% of base salary for executive officers and from 9% to 40% of base salary for other employees. To receive a cash bonus under the Plan, participants must be employed by the Company, Apio or Lifecore at the end of fiscal year 2015. Bonus payments, if any, will be made in single lump sum cash payments as soon as practicable after the end of the Company's 2015 fiscal year.

(ii) On June 19, 2014, the Board approved an increase to Gary Steele's salary to $500,000 and an increase to Molly Hemmeter's salary to $345,000, effective May 26, 2014.

(iii) On June 19, 2014, the Company entered into a new executive employment agreement (the "Employment Agreement") with Mr. Gary T. Steele, President, Chief Executive Officer and Chariman of the Board of the Company, effective as of May 26, 2014, setting forth the terms of his employment. The Employment Agreement expires on May 29, 2016 unless renewed or extended by both parties, and provides that Mr. Steele will be paid an annual base salary of $500,000 through the term of the Employment Agreement, plus an annual cash incentive award based upon the attainment of pre-determined goals. Mr. Steele will be eligible for grants of equity interests under the Company's 2013 Stock Incentive Plan at such times and in such amounts as determined by the Compensation Committee of the Board.

The Employment Agreement provides that upon Mr. Steele's death or disability, the Company shall pay Mr. Steele or his estate his unpaid base salary and the pro rata portion of his annual cash incentive award through the date of termination. If Mr. Steele is terminated without cause or if he terminates his employment for good reason (generally, any relocation of Mr. Steele's place of employment, reduction in salary, reduction in his target bonus amount or material reduction of his duties or authority), Mr. Steele will receive a severance payment equal to 100% of his annual base salary and a one-year acceleration of his unvested stock options and other equity awards, and the Company will pay or reimburse Mr. Steele for the monthly premiums for Medicare for the remainder of the lives of Mr. Steele and his spouse; provided that this benefit shall cease to be available at such time as Mr. Steele commences receiving substantially equivalent health insurance coverage in connection with new employment. In addition, the Employment Agreement provides that if Mr. Steele is terminated without cause or terminates his employment for good reason within two (2) years following a "change of control," Mr. Steele will receive a severance payment equal to 150% of his annual base salary and the Company will pay or reimburse Mr. Steele for the monthly premiums for Medicare for the remainder of the lives of Mr. Steele and his spouse; provided that this benefit shall cease to be available at such time as Mr. Steele commences receiving substantially equivalent health insurance coverage in connection with new

employment. In the event of a “change of control,” all of Mr. Steele’s unvested stock options and other equity awards shall immediately vest and become exercisable.

The Employment Agreement provides that if Mr. Steele retires, the Company will pay or reimburse Mr. Steele for the monthly premiums for Medicare for the remainder of the lives of Mr. Steele and his spouse; provided that this benefit shall cease to be available at such time as Mr. Steele commences receiving substantially equivalent health insurance coverage in connection with new employment.

Mr. Steele agreed, as part of the Employment Agreement, not to solicit, induce or recruit any employees or consultants of the Company for a period of two years following his termination. In addition, Mr. Steele agreed not to solicit any licensor to or customer of the Company for a period of two years following his termination.

The foregoing description of the Employment Agreement is only a summary and is qualified in its entirety by reference to the Employment Agreement, which is filed as an exhibit hereto.

Item 7.01 Regulation FD Disclosure

On June 19, 2014, the Board adopted an executive compensation clawback policy that provides for the recoupment of executive incentive compensation in the event of certain restatements of the financial results of the Company. Under the policy, in the event of a substantial restatement of the Company's financial results due to material noncompliance with financial reporting requirements, if the Board determines in good faith that any portion of a current or former executive officer's incentive compensation was paid as a result of such noncompliance, then the Company may recover that portion of such compensation that was based on the erroneous financial data. The policy applies to any incentive compensation received within the three-year period prior to date when the Company is required to prepare the accounting restatement but after May 27, 2013.

This information is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section and shall not incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit 10.40 – Employment Agreement with Gary T. Steele effective May 26, 2014.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

	LANDEC CORPORATION Registrant	
Date: June 19, 2014	By:	/s/ Gregory S. Skinner
		Gregory S. Skinner Vice President of Finance and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.40	Employment Agreement with Gary T. Steele effective May 26, 2014

:2.56%;">

2,402

(2,229

)

(93

)

Earnings from discontinued operations, net

8

804

(796

)

(99

)

Net earnings

181

3,206

(3,025

)

(94

)

Net loss attributable to noncontrolling interest (1)

180

80

100

125

Net earnings attributable to IMH

$

361

$

3,286

$

(2,925

)

(89

)%

Earnings per share available to common stockholders - basic

$

0.05

$

0.43

$

(0.38

)

(89

)

Earnings per share available to common stockholders - diluted

$

0.04

$

0.39

$

(0.35

)

(89

)

	For the Six Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Interest income	$ 420,465	$ 528,090	$ (107,625)	(20)%
Interest expense	417,620	525,765	(108,145)	(21)
Net interest income	2,845	2,325	520	22
Total non-interest income	29,041	33,293	(4,252)	(13)
Total non-interest expense	32,644	29,858	2,786	9
Income tax expense	21	129	(108)	(84)
Net (loss) earnings from continuing operations	(779)	5,631	(6,410)	(114)
(Loss) earnings from discontinued operations, net	(342)	3,190	(3,532)	(111)
Net (loss) earnings	(1,121)	8,821	(9,942)	(113)
Net loss attributable to noncontrolling interest (1)	495	383	112	29
Net (loss) earnings attributable to IMH	$ (626)	$ 9,204	$ (9,830)	(107)%
(Loss) earnings per share available to common stockholders - basic	$ (0.08)	$ 1.19	$ (1.27)	(107)%
(Loss) earnings per share available to common stockholders - diluted	$ (0.08)	$ 1.10	$ (1.18)	(107)%

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(1) Net loss attributable to noncontrolling interest represents the portion of the losses of Experience 1, Inc. and AmeriHome Mortgage Corporation (both subsidiaries of IRES) that the Company does not own.

Net Interest Income

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, loans held-for-sale and investment securities available-for-sale, or collectively, mortgage assets, and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and to a lesser extent, interest expense paid on long-term debt and notes payable. Interest income and interest expense during the period primarily

represents the effective yield, based on the fair value of the trust assets and liabilities.

The following tables summarize average balance, interest and weighted average yield on mortgage assets and borrowings, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

Table of Contents

	For the three months ended June 30,					
	2011			2010		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 5,847,862	$ 201,663	13.79%	$ 6,291,034	$ 248,064	15.77%
Loans held-for-sale	42,085	617	5.86%			0.00%
Other	4,500	103	9.16%	7,487	149	7.96%
Total interest-earning assets	$ 5,894,447	$ 202,383	13.73%	$ 6,298,521	$ 248,213	15.76%
LIABILITIES						
Securitized mortgage borrowings	$ 5,854,209	$ 198,955	13.59%	$ 6,276,241	$ 245,280	15.63%
Long-term debt	12,089	924	30.57%	11,625	1,197	41.19%
Notes payable	6,401	625	39.06%	19,677	181	3.68%
Warehouse borrowings	40,583	569	5.61%			
Total interest-bearing liabilities	$ 5,913,282	$ 201,073	13.60%	$ 6,307,543	$ 246,658	15.64%
Net Interest Spread (1)		$ 1,310	0.13%		$ 1,555	0.12%
Net Interest Margin (2)			0.09%			0.10%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread decreased $245 thousand for the three months ended June 30, 2011 to $1.3 million from $1.6 million for the comparable 2010 period. The decrease in net interest spread was primarily attributable to an increase in interest expense on notes payable and warehouse borrowings, partially offset by an increase in interest income on loans held-for-sale for the quarter ended June 30, 2011. As a result, net interest margin decreased from 0.10% for the three months ended June 30, 2010 to 0.09% for the three months ended June 30, 2011.

During the three months ended June 30, 2011, the yield on interest-earning assets decreased to 13.73% from 15.76% in the comparable 2010 period. The yield on interest-bearing liabilities decreased to 13.60% for the three months ended June 30, 2011 from 15.64% for the comparable 2010 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor s demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

Table of Contents

	For the six months ended June 30,					
	2011			2010		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 5,902,466	$ 419,410	14.21%	$ 6,122,707	$ 527,830	17.24%
Loans held-for-sale	24,822	703	5.66%			0.00%
Other	4,723	352	14.91%	12,261	260	4.24%
Total interest-earning assets	$ 5,932,011	$ 420,465	14.18%	$ 6,134,968	$ 528,090	17.22%
LIABILITIES						
Securitized mortgage borrowings	$ 5,907,055	$ 413,922	14.01%	$ 6,107,655	$ 522,945	17.12%
Long-term debt	11,969	1,861	31.10%	11,008	2,362	42.91%
Notes payable	6,559	1,180	35.98%	23,471	458	3.90%
Warehouse borrowings	23,982	657	5.48%			
Total interest-bearing liabilities	$ 5,949,565	$ 417,620	14.04%	$ 6,142,134	$ 525,765	17.12%
Net Interest Spread (1)		$ 2,845	0.14%		$ 2,325	0.10%
Net Interest Margin (2)			0.10%			0.08%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread increased $520 thousand for the six months ended June 30, 2011 to $2.8 million from $2.3 million for the comparable 2010 period. The increase in net interest spread was primarily attributable to overall increases in pricing and the corresponding reduction in investor yield requirements between periods on securitized mortgage collateral and securitized mortgage borrowings, a decrease in interest expense on the long-term debt, partially offset by an increase in interest expense incurred on the notes payable for the six months ended June 30, 2011. As a result, net interest margin increased from 0.08% for the six months ended June 30, 2010 to 0.10% for the six months ended June 30, 2011.

During the six months ended June 30, 2011, the yield on interest-earning assets decreased to 14.18% from 17.22% in the comparable 2010 period. The yield on interest-bearing liabilities decreased to 14.04% for the six months ended June 30, 2011 from 17.12% for the comparable 2010 period. In connection with the fair value accounting for investment securities available-for-sale and securitized mortgage collateral and borrowings, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor s demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

Non-Interest Income

Changes in Non-Interest Income

	For the Three Months Ended June 30,			
	2011	**2010**	**Increase (Decrease)**	**% Change**
Change in fair value of net trust assets, excluding REO	$ 2,403	$ (4,244)	$ 6,647	157%
(Losses) gains from REO	(739)	4,965	(5,704)	(115)
Non-interest income - net trust assets	1,664	721	943	131
Mortgage and real estate services fees	14,360	15,572	(1,212)	(8)
Other non-interest income	147	(3)	150	(5,000)
Total non-interest income	$ 16,171	$ 16,290	$ (119)	(1)%

Table of Contents

*Non-interest income net trust assets.*Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts. To understand the economics on our residual interests in securitizations better, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from REO. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral and REO. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company s consolidated statement of operations. The net effect of changes in value related to our investment in all trust assets and liabilities is shown as non-interest income net trust assets, which includes losses from REO. Non-interest income related to our net trust assets (residual interests in securitizations) was $1.7 million for the three months ended June 30, 2011, compared to $721 thousand in the comparable 2010 period. The individual components of the non-interest income from net trust assets are discussed below:

Change in fair value of net trust assets, excluding REO. For the quarter ended June 30, 2011, the Company recognized a $2.4 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings and increase in fair value of investment securities available-for-sale of $296.3 million and $56 thousand, respectively. Offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and an increase in fair value of net derivative liabilities of $286.7 million and $7.2 million, respectively.

For the quarter ended June 30, 2010, the Company recognized a $4.2 million loss from the change in fair value of net trust assets, excluding REO. The net loss recognized during the period was comprised of losses resulting from the decrease in the fair value of securitized mortgage collateral and an increase in the fair value of net derivative liabilities of $30.6 million and $11.3 million, respectively. Offsetting these losses were gains resulting from the increase in fair value of investment securities-for-sale and a decrease in the fair value of securitized mortgage borrowings of $541 thousand and $37.2 million, respectively.

Losses from REO. Losses from REO were $739 thousand for the three months ended June 30, 2011. This loss was comprised of $733 thousand in additional impairment write-downs during the period and $6 thousand in loss on sale of REO. During the three months ended June 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to previously reserved.

Gains (losses) from REO were $5.0 million for the three months ended June 30, 2010. This gain was comprised of a $5.2 million gain on sale of REO, coupled with $200 thousand in additional impairment write-downs during the period. During the three months ended June 30, 2010, the gain on sale of REO was attributable to mortgage insurance recoveries collected in the period as a result of our increased loss mitigation efforts of our portfolio. Additionally, loss severities decreased on properties liquidated during the period as compared to previously reserved.

Mortgage and real estate services fees. Revenues generated from these businesses are primarily from the Company s long-term mortgage portfolio. For the three months ended June 30, 2011, mortgage and real estate services fees were $14.4 million compared to $15.6 million in fees in the comparable 2010 period. The mortgage and real estate services fees of $14.4 million for the three months ended June 30, 2011, was primarily comprised of $4.7 million in title and escrow fees, $4.1 million in real estate services and recovery fees, $2.3 million in mortgage lending, $1.8 million in loss mitigation fees, and $1.5 million in portfolio service fees. The $1.2 million decrease in mortgage and real estate services fees was comprised of decreases in monitoring, surveillance and recovery fees, loss mitigation fees and portfolio service fees of approximately $2.5 million, $1.7 million, and $200 thousand, respectively. Offsetting these decreases was an increase in mortgage lending and title and escrow fees of approximately $2.2 million and $1.0 million, respectively.

	For the Six Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Change in fair value of net trust assets, excluding REO	$ 7,299	$ 3,128	$ 4,171	133%
(Losses) gains from REO	(4,988)	3,857	(8,845)	(229)
Non-interest income - net trust assets	2,311	6,985	(4,674)	(67)
Mortgage and real estate services fees	26,701	26,593	108	0
Other non-interest income	29	(285)	314	110
Total non-interest income	$ 29,041	$ 33,293	$ (4,252)	(13)%

Table of Contents

*Non-interest income net trust assets.*Since our consolidated and unconsolidated securitization trusts are nonrecourse to the Company, our economic risk is limited to our residual interests in these securitization trusts. To understand the economics on our residual interests in securitizations better, it is necessary to consider the net effect of changes in fair value of net trust assets and losses from REO. All estimated future losses are included in the estimate of the fair value of securitized mortgage collateral and REO. Losses on REO are reported separately in the consolidated statement of operations as REO is a nonfinancial asset which is the only component of trust assets and liabilities that is not recorded at fair value. Therefore, REO value at the time of sale or losses from further write-downs are recorded separately in the Company s consolidated statement of operations. The net effect of changes in value related to our investment in all trust assets and liabilities is shown as non-interest income net trust assets, which includes losses from REO. Non-interest income related to our net trust assets (residual interests in securitizations) was $2.3 million for the six months ended June 30, 2011, compared to $7.0 million in the comparable 2010 period. The individual components of the non-interest income from net trust assets are discussed below:

Change in fair value of net trust assets, excluding REO. For the six months ended June 30, 2011, the Company recognized a $7.3 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings of $159.0 million. Offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and investment securities available-for-sale and an increase in fair value of net derivative liabilities of $147.3 million, $146 thousand and $4.3 million, respectively.

For the six months ended June 30, 2010, the Company recognized a $3.1 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the increase in fair value of investment securities-for-sale and securitized mortgage collateral of $718 thousand and $650.8 million, respectively. Offsetting these gains were losses resulting from increases in the fair value of securitized mortgage borrowings and net derivative liabilities of $619.0 million and $29.3 million, respectively.

Losses from REO. Losses from REO were $5.0 million for the six months ended June 30, 2011. This loss was comprised of $5.0 million in additional impairment write-downs during the period and $10 thousand in loss on sale of REO. During the six months ended June 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to previously reserved.

Gains from REO were $3.9 million for the six months ended June 30, 2010. This gain was comprised of a $3.4 million gain on sale of REO, coupled with $473 thousand in recoveries of the net realizable value during the period. During the six months ended June 30, 2010, the gain on sale of REO was attributable to mortgage insurance recovery collected in the period as a result of our increased loss mitigation efforts of our portfolio. Additionally, loss severities decreased on properties liquidated during the period as compared to previously reserved.

Mortgage and real estate services fees. Revenues generated from these businesses are primarily from the Company s long-term mortgage portfolio. For the six months ended June 30, 2011, mortgage and real estate services fees were $26.7 million compared to $26.6 million in fees in the comparable 2010 period. The mortgage and real estate services fees of $26.7 million for the six months ended June 30, 2011, was primarily comprised of $9.0 million in title and escrow fees, $8.6 million in real estate services and recovery fees, $3.2 million in loss mitigation fees, $3.0 million in mortgage lending and $2.9 million in portfolio service fees. The $0.1 million increase in mortgage and real estate services fees was comprised of an increase in mortgage lending, title and escrow fees and portfolio service fees of approximately $2.7 million, $2.5 million and $500 thousand, respectively. Offsetting these increases were decreases in loss mitigation fees and real estate services and recovery fees of approximately $3.6 million and $2.0 million, respectively.

Non-Interest Expense

Changes in Non-Interest Expense

	For the Three Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
General and administrative	$ 5,005	$ 4,630	$ 375	8%
Personnel expense	12,294	10,768	1,526	14
Total operating expense	$ 17,299	$ 15,398	$ 1,901	12%

Table of Contents

Total non-interest expense was $17.3 million for the three months ended June 30, 2011, compared to $15.4 million for the comparable period of 2010. The $1.9 million increase in non-interest expense was primarily attributable to a $1.5 million increase in personnel and related costs associated with the expansion of the mortgage lending platform into the Pacific Northwest and Gulf Coast Regions.

	For the Six Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
General and administrative	$ 9,584	$ 9,409	$ 175	2%
Personnel expense	23,060	20,449	2,611	13
Total operating expense	$ 32,644	$ 29,858	$ 2,786	9%

Total non-interest expense was $32.6 million for the six months ended June 30, 2011, compared to $29.9 million for the comparable period of 2010. The $2.8 million increase in non-interest expense was primarily attributable to a $2.6 million increase in personnel and related costs associated with the expansion of the mortgage lending platform into the Pacific Northwest and Gulf Coast Regions.

Income Taxes

The Company recorded income tax expense of $9 thousand and $21 thousand for the three and six months ended June 30, 2011, respectively. The Company recorded income tax expense of $45 thousand and $129 thousand for the three and six months ended June 30, 2010, respectively. The income tax expense for 2011 and 2010 is the result of state income taxes primarily from states where the Company does not have net operating loss carryforwards.

As of December 31, 2010, the Company had estimated federal and California net operating loss carryforwards of approximately $490.6 million and $492.1 million, respectively, of which $271.7 million (federal) relate to discontinued operations. During the year ended December 31, 2010, estimated net operating loss carryforwards were reduced as a result of the Company generating taxable income from cancellation of debt for approximately $426.2 million of securitized mortgage borrowings. Federal and state net operating loss (NOL) carryforwards begin to expire in 2020 and 2017, respectively. California net operating loss carryforwards have been suspended by the state until 2012, thus the expiration begins in 2017. The Company recorded a full valuation allowance against the deferred tax assets as it believes that as of June 30, 2011 it is more likely than not that the deferred tax assets will not be recoverable.

During the fourth quarter of 2009, the Company received a federal income tax refund in the amount of $8.9 million as a result of an election to carryback NOLs five years pursuant to 2009 federal legislation, *The Worker, Homeownership, and Business Assistance Act of 2009*. The Company files income tax returns in the U.S. federal and various state jurisdictions. The Company is subject to routine income tax audits in the various jurisdictions. A subsidiary of the Company is currently under examination by the Internal Revenue Service for tax year 2008. Management believes that there are no unresolved issues or claims likely to be material to our financial position. As of June 30, 2011, the Company has no material uncertain tax positions.

Results of Operations by Business Segment

Mortgage and Real Estate Services

Condensed Statements of Operations Data

	For the Three Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Net interest income	$ 49	$ 6	$ 43	717%
Mortgage and real estate services fees	14,360	15,572	(1,212)	(8)
Other non-interest income	68	20	48	240
Total non-interest income	14,428	15,592	(1,164)	(7)
Personnel expense	10,887	8,830	2,057	23
Non-interest expense and income taxes	2,794	2,039	755	37
Net earnings	$ 796	$ 4,729	$ (3,933)	(83)%

Table of Contents

For the three months ended June 30, 2011, mortgage and real estate services fees were $14.4 million compared to $15.6 million in fees in the comparable 2010 period. The mortgage and real estate services fees of $14.4 million for the three months ended June 30, 2011, was primarily comprised of $4.7 million in title and escrow fees, $4.1 million in real estate services and recovery fees, $2.3 million in mortgage lending, $1.8 million in loss mitigation fees, and $1.5 million in portfolio service fees. The $1.2 million decrease in mortgage and real estate services fees was comprised of decreases in real estate services and recovery fees, loss mitigation fees and portfolio service fees of approximately $2.5 million, $1.7 million, and $200 thousand, respectively, primarily the result of a reduction in loan modifications and foreclosures. Offsetting these decreases was an increase in mortgage lending and title and escrow fees of approximately $2.0 million and $1.0 million, respectively.

The $2.0 million increase in mortgage lending during the three months ended June 30, 2011 was primarily the result of an increase in net gain on sale of loans slightly offset by an increase in provision for repurchases as compared to the same period in 2010. For the three months ended June 30, 2011, net gain on sale of loans was $2.2 million as compared to $84 thousand in the second quarter of 2010. Provision for repurchases increased to $105 thousand for the three months ended June 30, 2011 as compared to $4 thousand for the same period in 2010. For the three months ended June 30, 2011, the increase in net gain on sale of loans and provision for repurchase was the result of $208.4 million in loan sales during the period as compared to a minimal amount of loans brokered for the comparable 2010 period.

For the three months ended June 30, 2011, personnel expense increased $2.1 million to $10.9 million as a result of increases in personnel and related costs associated with the expansion of our mortgage lending platform into the Pacific Northwest and Gulf Coast Regions during the first quarter of 2011.

	For the Six Months Ended June 30,			
	2011	**2010**	**Increase (Decrease)**	**% Change**
Net interest income	$ 50	$ 11	$ 39	355%
Mortgage and real estate services fees	26,701	26,593	108	0
Other non-interest income	(257)	28	(285)	(1,018)
Total non-interest income	26,444	26,621	(177)	(1)
Personnel expense	19,926	16,440	3,486	21
Non-interest expense and income taxes	4,841	4,329	512	12
Net earnings	$ 1,727	$ 5,863	$ (4,136)	(71)%

For the six months ended June 30, 2011, mortgage and real estate services fees were $26.7 million compared to $26.6 million in fees in the comparable 2010 period. The mortgage and real estate services fees of $26.7 million for the six months ended June 30, 2011, was primarily comprised of $9.0 million in title and escrow fees, $8.6 million in real estate services and recovery fees, $3.2 million in loss mitigation fees, $3.0 million in mortgage lending and $2.9 million in portfolio service fees. The $0.1 million increase in mortgage and real estate services fees was comprised of an increase in mortgage lending, title and escrow fees and portfolio service fees of approximately $2.7 million, $2.5 million and $500 thousand, respectively. Offsetting these increases were decreases in loss mitigation fees and real estate services and recovery fees of approximately $3.6 million and $2.0 million, respectively, primarily the result of a reduction in loan modifications and foreclosures.

The $2.5 million increase in other non-interest income during the six months ended June 30, 2011 was primarily the result of an increase in net gain on sale of loans slightly offset by an increase in provision for repurchases as compared to the same period in 2010. For the six months ended June 30, 2011, net gain on sale of loans was $2.9 million as compared to $214 thousand for the same period in 2010. Provision for repurchases increased to $222 thousand for the six months ended June 30, 2011 as compared to $8 thousand for the same period in 2010. For

the six months ended June 30, 2011, the increase in net gain on sale of loans and provision for repurchase was the result of $231.5 million in loan sales during the period as compared to a minimal amount of loans brokered for the comparable 2010 period.

For the six months ended June 30, 2011, personnel and non-interest expense and income taxes increased as a result of startup costs of approximately $2.0 million the Company invested in its mortgage lending operation infrastructure and personnel costs associated with the expansion into the Pacific Northwest and Gulf Coast Regions during the first quarter of 2011.

Table of Contents

Long-term Portfolio

Condensed Statements of Operations Data

	For the Three Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Net interest income	$ 1,261	$ 1,549	$ (288)	(19)%
Change in fair value of net trust assets, excluding REO	2,403	(4,244)	6,647	157
(Losses) gains from REO	(739)	4,965	(5,704)	(115)
Non-interest (loss) income- net trust assets	1,664	721	943	131
Other non-interest income	79	(23)	102	443
Total non-interest income	1,743	698	1,045	150
Personnel expense	1,408	1,938	(530)	(27)
Non-interest expense and income taxes	2,219	2,636	(417)	(16)
Net loss	$ (623)	$ (2,327)	$ 1,704	73%

Net loss for the long-term portfolio was $623 thousand for the three months ended June 30, 2011, compared to a loss of $2.3 million for the comparable period of 2010. The decrease in net loss is primarily attributable to a $943 thousand increase in non-interest income-net trust assets, $530 thousand decrease in personnel expense and a $417 thousand reduction in non-interest expense and income taxes.

For the three months ended June 30, 2011, the Company recognized a $2.4 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings and increase in fair value of investment securities available-for-sale of $296.3 million and $56 thousand, respectively. Offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and increase in fair value of net derivative liabilities of $286.7 million and $7.2 million, respectively. Losses from REO were $739 thousand for the three months ended June 30, 2011. This loss was comprised of $733 thousand in additional impairment write-downs during the period and $6 thousand in loss on sale of REO. During the three months ended June 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to previously reserved.

Personnel expense and non-interest expense and income taxes decreased $530 thousand and $417 thousand, respectively, during the three months ended June 30, 2011 primarily as a result of reduced personnel associated with the long-term portfolio segment of the Company.

	For the Six Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Net interest income	$ 2,795	$ 2,314	$ 481	21%
Change in fair value of net trust assets, excluding REO	7,299	3,128	4,171	133

(Losses) gains from REO	(4,988)	3,857	(8,845)	(229)
Non-interest income- net trust assets	2,311	6,985	(4,674)	(67)
Other non-interest income	286	(313)	599	191
Total non-interest income	2,597	6,672	(4,075)	(61)
Personnel expense	3,134	4,009	(875)	(22)
Non-interest expense and income taxes	4,764	5,209	(445)	(9)
Net loss	$ (2,506)	$ (232)	$ (2,274)	(980)%

Table of Contents

Net loss for the long-term portfolio was $2.5 million for the six months ended June 30, 2011, compared to a loss of $232 thousand for the comparable period of 2010. The increase in net loss is primarily attributable to a $4.7 million decrease in non-interest income-net trust assets partially offset by an $875 thousand reduction in personnel expense and a $445 thousand decrease in non-interest expense and income taxes.

For the six months ended June 30, 2011, the Company recognized a $7.3 million gain from the change in fair value of net trust assets, excluding REO. The net gain recognized during the period was comprised of gains resulting from the decrease in fair value of securitized mortgage borrowings of $159.0 million. Offsetting these gains were losses resulting from decreases in the fair value of securitized mortgage collateral and investment securities available-for-sale and an increase in fair value of net derivative liabilities of $147.3 million, $146 thousand and $4.3 million, respectively. Losses from REO were $5.0 million for the six months ended June 30, 2011. This loss was comprised of $5.0 million in additional impairment write-downs during the period and $10 thousand in loss on sale of REO. During the six months ended June 30, 2011, additional impairment write-downs were attributable to higher expected loss severities on properties held during the period as compared to previously reserved.

Personnel expense and non-interest expense and income taxes decreased $875 thousand and $445 thousand, respectively, during the six months ended June 30, 2011 primarily as a result of reduced personnel associated with the long-term portfolio segment of the Company.

Discontinued Operations

Condensed Statements of Operations Data

	For the Three Months Ended June 30,			
	2011	**2010**	**Increase (Decrease)**	**% Change**
Net interest income	$	$ 17	$ (17)	(100)%
Gain (loss) loans held-for-sale	120	(111)	231	208
Provision for repurchases	(740)	(416)	(324)	(78)
Other non-interest income	966	575	391	68
Total non-interest income	346	48	298	621
Non-interest expense and income taxes	338	(739)	1,077	146
Net earnings	$ 8	$ 804	$ (796)	(99)%

Provision for repurchases increased $324 thousand to a provision of $740 thousand for the three months ended June 30, 2011, compared to a provision of $416 thousand for the same period in 2010. The $324 thousand increase is the result of increases in estimated repurchase obligations during the second quarter of 2011.

The $391 thousand increase in other non-interest income during the three months ended June 30, 2011, is primarily the result of a $775 thousand settlement on loans previously purchased by our discontinued mortgage operations.

Non-interest income and income taxes decreased $1.1 million between periods primarily due to a gain in the second quarter of 2010 related to lease impairment adjustments as a result of changes in our expected minimum future lease payments.

Table of Contents

	For the Six Months Ended June 30,			
	2011	2010	Increase (Decrease)	% Change
Net interest income	$	$ 44	$ (44)	(100)%
Gain on loans held-for-sale	98	85	13	15
Provision for repurchases	(993)	(363)	(630)	(174)
Other non-interest income	1,110	2,411	(1,301)	(54)
Total non-interest income	215	2,133	(1,918)	(90)
Non-interest expense and income taxes	557	(1,013)	1,570	155
Net (loss) earnings	$ (342)	$ 3,190	$ (3,532)	(111)%

Provision for repurchases increased $630 thousand to $993 thousand for the six months ended June 30, 2011, compared to $363 thousand for the same period in 2010. The $630 thousand increase is the result of increases in estimated repurchase obligations during the first half of 2011.

The $1.3 million decrease in other non-interest income is primarily the result of gains of $304 thousand on sales of REO properties not in trusts and recovery of REO write-downs during the six months ended June 30, 2011 as compared to $1.7 million for the same period in 2010. Additionally during the six months ended June 30, 2011, the Company received a $775 thousand settlement on loans previously purchased by our discontinued mortgage operations.

Non-interest expense and income taxes decreased $1.6 million between periods primarily due to a gain in the second quarter of 2010 related to lease impairment adjustments as a result of changes in our expected minimum future lease payments.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding

required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company s chief executive officer and chief financial officer concluded that, as of that date, the Company s disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting during the Company s quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

On May 25, 2011, the lawsuit filed in the United States District court, Central district of California as Case No. SACV11-00717 entitled Norma B. Power Trust, individually and on Behalf of All Others Similarly Situated v. Impac Mortgage Holdings, Inc., et al, regarding allegations of unauthorized false, invalid amendments to the Company s corporate charter with regards to its of series B Preferred Stock and Series C Preferred Stock was voluntarily dismissed by the plaintiffs.

The Company is party to litigation and claims which arise in the ordinary course of business.

Please refer to IMH s reports on Form 10-K for the year ended December 31, 2010 and Form 10-Q for the quarter ended March 31, 2011 for a description of other litigation and claims.

ITEM 1A: RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2010 and our quarterly reports on Form 10-Q for the period ended March 31, 2011, include a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: RESERVED

None.

ITEM 5: OTHER INFORMATION

On April 4, 2011, the master repurchase agreement with New Century Bank was amended to increase the borrowing capacity from $25.0 million to $32.5 million.

On June 30, 2011, the maturity date of the master repurchase agreement with New Century Bank was extended from June 29, 2011 to June 29, 2012.

On March 28, 2011, the maturity date of the master repurchase agreement with East West Bank was extended from June 30, 2011 to April 2012.

On April 1, 2011, the Company, through its subsidiaries, entered into a $2.0 million working capital line of credit agreement with Wells Fargo Bank with a floating interest rate of LIBOR plus 3.5% and an expiration date of April 2012. Under the terms of the working capital line of credit agreement, the subsidiary is required to maintain various financial and other covenants such as minimum liquidity and profitability.

ITEM 6: EXHIBITS

(a) Exhibits:

10.1 Amendment dated April 4, 2011 to Master Repurchase Agreement with New Century Bank.
10.2 Amendment dated June 30, 2011 to Master Repurchase Agreement with New Century Bank.
10.3 Amendment dated March 28, 2011 to Master Repurchase Agreement with East West Bank.
10.4 Line of Credit Agreement dated April 1, 2011 among Excel Mortgage Servicing, Inc. and Wells Fargo
10.5 Supplemental Indenture No. 1 dated May 17, 2011 between LVII 2010-R1, Deuschte Bank National Trust Company
31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101* The following materials from Impac Mortgage Holdings, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

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* This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

/s/ TODD R. TAYLOR
Todd R. Taylor
Chief Financial Officer
(authorized officer of registrant and principal financial officer)

August 15, 2011