

CAPSTEAD MORTGAGE CORP

Form 10-Q

May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2016

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: 001-08896

CAPSTEAD MORTGAGE CORPORATION

(Exact name of Registrant as specified in its Charter)

Maryland

(State or other jurisdiction of incorporation or organization)

75-2027937

(I.R.S. Employer Identification No.)

8401 North Central Expressway, Suite 800, Dallas, TX 75225-4404

(Address of principal executive offices)

(Zip Code)

(214) 874-2323

(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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 the 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

Edgar Filing: CAPSTEAD MORTGAGE CORP - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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) 95,947,090 as of May 6, 2016

CAPSTEAD MORTGAGE CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2016

INDEX

PART I. $\frac{3}{4}$ FINANCIAL INFORMATION

	<u>Page</u>
ITEM 1. Financial Statements (unaudited)	
<u>Consolidated Balance Sheets $\frac{3}{4}$ March 31, 2016 and December 31, 2015</u>	3
<u>Consolidated Statements of Income $\frac{3}{4}$ Quarter ended March 31, 2016 and 2015</u>	4
<u>Consolidated Statements of Comprehensive Income $\frac{3}{4}$ Quarter Ended March 31, 2016 and 2015</u>	5
<u>Consolidated Statements of Cash Flows $\frac{3}{4}$ Quarter Ended March 31, 2016 and 2015</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
ITEM 3. <u>Quantitative and Qualitative Disclosure of Market Risk</u>	46
ITEM 4. <u>Controls and Procedures</u>	46
PART II. $\frac{3}{4}$ OTHER INFORMATION	
ITEM 6. <u>Exhibits</u>	47
<u>SIGNATURES</u>	49

Index

ITEM 1. FINANCIAL STATEMENTS

PART I. ¾ FINANCIAL INFORMATION

CAPSTEAD MORTGAGE CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except pledged and per share amounts)

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Residential mortgage investments (\$13.29 and \$13.54 billion pledged at March 31, 2016 and December 31, 2015, respectively)	\$ 13,835,131	\$ 14,154,737
Cash collateral receivable from interest rate swap counterparties	72,037	50,193
Interest rate swap agreements at fair value	802	7,720
Cash and cash equivalents	52,054	54,185
Receivables and other assets	149,915	179,531
	\$ 14,109,939	\$ 14,446,366
Liabilities		
Secured borrowings	\$ 12,623,699	\$ 12,958,394
Interest rate swap agreements at fair value	46,309	26,061
Unsecured borrowings	98,014	97,986
Common stock dividend payable	25,592	25,979
Accounts payable and accrued expenses	32,932	39,622
	12,826,546	13,148,042
Stockholders' equity		
Preferred stock - \$0.10 par value; 100,000 shares authorized: 7.50% Cumulative Redeemable Preferred Stock, Series E, 8,164 and 8,156 shares issued and outstanding (\$204,109 and \$203,902 aggregate liquidation preferences) at March 31, 2016 and December 31, 2015, respectively	197,370	197,172
Common stock - \$0.01 par value; 250,000 shares authorized: 95,947 and 95,825 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	959	958
Paid-in capital	1,309,723	1,310,563
Accumulated deficit	(346,464)	(346,464)
Accumulated other comprehensive income	121,805	136,095
	1,283,393	1,298,324
	\$ 14,109,939	\$ 14,446,366

See accompanying notes to consolidated financial statements.

IndexCAPSTEAD MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME(in thousands, except per share amounts)
(unaudited)

	Quarter Ended March 31	
	2016	2015
Interest income:		
Residential mortgage investments	\$59,500	\$58,645
Other	192	94
	59,692	58,739
Interest expense:		
Secured borrowings	(26,582)	(19,214)
Unsecured borrowings	(1,977)	(2,123)
	(28,559)	(21,337)
	31,133	37,402
Other revenue (expense):		
Salaries and benefits	(1,157)	(1,049)
Short-term incentive compensation	(1,422)	(692)
Long-term incentive compensation	(645)	(608)
Other general and administrative expense	(1,169)	(1,149)
Miscellaneous other revenue	613	53
	(3,780)	(3,445)
Net income	\$27,353	\$33,957
Net income available to common stockholders:		
Net income	\$27,353	\$33,957
Less preferred stock dividends	(3,826)	(3,742)
	\$23,527	\$30,215
Net income per common share:		
Basic and diluted	\$0.25	\$0.32
Weighted average common shares outstanding:		
Basic	95,614	95,469
Diluted	95,745	95,674
Cash dividends declared per share:		
Common	\$0.26	\$0.31
Series E Preferred	0.47	0.47

See accompanying notes to consolidated financial statements.

IndexCAPSTEAD MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, unaudited)

	Quarter Ended	
	March 31	
	2016	2015
Net income	\$27,353	\$33,957
Other comprehensive income (loss)		
Amounts related to available-for-sale securities:		
Change in net unrealized gains	12,483	6,107
Amounts related to cash flow hedges:		
Change in net unrealized losses	(32,127)	(18,391)
Reclassification adjustment for amounts included in net income	5,354	6,448
	(14,290)	(5,836)
Comprehensive income	\$13,063	\$28,121

See accompanying notes to consolidated financial statements.

Index

CAPSTEAD MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Quarter Ended March 31	
	2016	2015
Operating activities:		
Net income	\$ 27,353	\$ 33,957
Noncash items:		
Amortization of investment premiums	26,011	25,078
Amortization of equity-based awards		