

CAPSTEAD MORTGAGE CORP

Form 10-Q

November 05, 2010

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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: **September 30, 2010**

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**

(Address of principal executive offices)

**75225**

(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 Web site, 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.

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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

**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)

70,128,810 as of November 5, 2010

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**CAPSTEAD MORTGAGE CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2010**

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Computation of Ratio of Income from Continuing Operations

Certification Pursuant to Section 302(a)

Certification Pursuant to Section 302(a)

Certification Pursuant to Section 906

**Table of Contents****ITEM 1. FINANCIAL STATEMENTS****PART I. FINANCIAL INFORMATION****CAPSTEAD MORTGAGE CORPORATION****CONSOLIDATED BALANCE SHEETS***(in thousands, except per share amounts)*

	<i>September 30, 2010</i> <i>(unaudited)</i>	<i>December 31, 2009</i>
<b>Assets:</b>		
Mortgage securities and similar investments (\$7.44 and \$7.86 billion pledged under repurchase arrangements at September 30, 2010 and December 31, 2009, respectively)	\$ 7,942,342	\$ 8,091,103
Cash collateral receivable from interest rate swap counterparties	38,738	30,485
Interest rate swap agreements at fair value		1,758
Cash and cash equivalents	177,637	409,623
Receivables and other assets	69,836	92,817
Investments in unconsolidated affiliates	3,117	3,117
	\$ 8,231,670	\$ 8,628,903
<b>Liabilities:</b>		
Repurchase arrangements and similar borrowings	\$ 7,062,389	\$ 7,435,256
Unsecured borrowings	103,095	103,095
Interest rate swap agreements at fair value	22,763	9,218
Common stock dividend payable	18,233	37,432
Accounts payable and accrued expenses	16,912	29,961
	7,223,392	7,614,962
<b>Stockholders equity:</b>		
Preferred stock \$0.10 par value; 100,000 shares authorized:		
\$1.60 Cumulative Preferred Stock, Series A, 188 shares issued and outstanding at September 30, 2010 and December 31, 2009 (\$3,085 aggregate liquidation preference)	2,630	2,630
\$1.26 Cumulative Convertible Preferred Stock, Series B, 15,819 shares issued and outstanding at September 30, 2010 and December 31, 2009 (\$180,023 aggregate liquidation preference)	176,703	176,703
Common stock \$0.01 par value; 250,000 shares authorized: 70,129 and 69,319 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	701	693
Paid-in capital	1,027,996	1,017,185
Accumulated deficit	(355,452)	(356,154)
Accumulated other comprehensive income	155,700	172,884
	1,008,278	1,013,941
	\$ 8,231,670	\$ 8,628,903

*See accompanying notes to consolidated financial statements.*



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**CAPSTEAD MORTGAGE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

*(in thousands, except per share amounts)*

*(unaudited)*

	<i>Quarter Ended September 30</i>		<i>Nine Months Ended September 30</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
<b>Interest income:</b>				
Mortgage securities and similar investments	\$ 40,614	\$ 74,695	\$ 148,398	\$ 243,641
Other	111	69	338	419
	40,725	74,764	148,736	244,060
<b>Interest expense:</b>				
Repurchase arrangements and similar borrowings	(11,096)	(26,802)	(35,610)	(98,385)
Unsecured borrowings	(2,186)	(2,186)	(6,560)	(6,560)
	(13,282)	(28,988)	(42,170)	(104,945)
	27,443	45,776	106,566	139,115
<b>Other revenue (expense):</b>				
Miscellaneous other revenue (expense)	(427)	16	(730)	(893)
Incentive compensation expense	(983)	(1,058)	(3,728)	(3,435)
General and administrative expense	(2,424)	(2,713)	(8,433)	(8,313)
	(3,834)	(3,755)	(12,891)	(12,641)
<b>Income before equity in earnings of unconsolidated affiliates</b>	<b>23,609</b>	<b>42,021</b>	<b>93,675</b>	<b>126,474</b>
<b>Equity in earnings of unconsolidated affiliates</b>	<b>64</b>	<b>64</b>	<b>194</b>	<b>194</b>
<b>Net income</b>	<b>\$ 23,673</b>	<b>\$ 42,085</b>	<b>\$ 93,869</b>	<b>\$ 126,668</b>
<b>Net income available to common stockholders:</b>				
Net income	\$ 23,673	\$ 42,085	\$ 93,869	\$ 126,668
Less cash dividends paid on preferred shares	(5,058)	(5,058)	(15,175)	(15,180)
	\$ 18,615	\$ 37,027	\$ 78,694	\$ 111,488
<b>Net income per common share:</b>				
Basic	\$ 0.27	\$ 0.56	\$ 1.13	\$ 1.74
Diluted	0.27	0.56	1.12	1.71

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**Cash dividends declared per share:**

Common	\$	0.260	\$	0.560	\$	1.120	\$	1.700
Series A Preferred		0.400		0.400		1.200		1.200
Series B Preferred		0.315		0.315		0.945		0.945

*See accompanying notes to consolidated financial statements.*

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**CAPSTEAD MORTGAGE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(in thousands, unaudited)*

	<i>Nine Months Ended September 30</i>	
	<i>2010</i>	<i>2009</i>
<b>Operating activities:</b>		
Net income	\$ 93,869	\$ 126,668
Noncash items:		
Amortization of investment premiums	46,497	20,443
Depreciation and other amortization	165	205
Equity-based compensation costs	1,144	850
Amounts related to interest rate swap agreements	(671)	1,613
Impairment charge related to commercial real estate loans		750
Net change in mortgage securities principal remittance receivable	12,046	(7,012)
Net change in remaining receivables, other assets, accounts payable and accrued expenses	2,472	(12,013)
<b>Net cash provided by operating activities</b>	<b>155,522</b>	<b>131,504</b>
<b>Investing activities:</b>		
Purchases of mortgage securities and similar investments	(2,410,469)	(1,350,614)
Purchased interest receivable related to purchases of mortgage securities and similar investments	(4,766)	(3,261)
Principal collections on mortgage securities and similar investments	2,511,525	1,065,446
<b>Net cash provided by (used in) investing activities</b>	<b>96,290</b>	<b>(288,429)</b>
<b>Financing activities:</b>		
Proceeds from repurchase arrangements and similar borrowings	57,170,168	53,397,517
Principal payments on repurchase arrangements and similar borrowings	(57,543,035)	(53,156,255)
Decrease (increase) in cash collateral receivable from interest rate swap counterparties	(8,253)	17,710
Capital stock transactions	10,233	79,979
Dividends paid	(112,911)	(110,369)
<b>Net cash (used in) provided by financing activities</b>	<b>(483,798)</b>	<b>228,582</b>
<b>Net change in cash and cash equivalents</b>	<b>(231,986)</b>	<b>71,657</b>
Cash and cash equivalents at beginning of period	409,623	96,839
<b>Cash and cash equivalents at end of period</b>	<b>\$ 177,637</b>	<b>\$ 168,496</b>

*See accompanying notes to consolidated financial statements.*



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**CAPSTEAD MORTGAGE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*SEPTEMBER 30, 2010*  
*(unaudited)*