

CAPSTEAD MORTGAGE CORP

Form 10-Q

May 06, 2011

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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: March 31, 2011  
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)

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**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.

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)

77,357,579 as of May 6, 2011

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**CAPSTEAD MORTGAGE CORPORATION**

**FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 31, 2011**

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Certification Pursuant to Section 302(a)	
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	<i>March 31, 2011</i> <i>(unaudited)</i>	<i>December 31, 2010</i>
<b>Assets:</b>		
Mortgage securities and similar investments (\$9.94 and \$8.22 billion pledged under repurchase arrangements at March 31, 2011 and December 31, 2010, respectively)	\$ 10,428,003	\$ 8,515,691
Cash collateral receivable from interest rate swap counterparties	27,650	35,289
Interest rate swap agreements at fair value	11,851	9,597
Cash and cash equivalents	162,936	359,590
Receivables and other assets	84,670	76,078
Investments in unconsolidated affiliates	3,117	3,117
	\$ 10,718,227	\$ 8,999,362
<b>Liabilities:</b>		
Repurchase arrangements and similar borrowings	\$ 9,449,490	\$ 7,792,743
Cash collateral payable to interest rate swap counterparties	9,950	9,024
Interest rate swap agreements at fair value	13,212	16,337
Unsecured borrowings	103,095	103,095
Common stock dividend payable	30,798	27,401
Accounts payable and accrued expenses	17,196	23,337
	9,623,741	7,971,937
<b>Stockholders equity:</b>		
Preferred stock - \$0.10 par value; 100,000 shares authorized:		
\$1.60 Cumulative Preferred Stock, Series A, 187 shares issued and outstanding at March 31, 2011 and December 31, 2010 (\$3,072 aggregate liquidation preference)	2,618	2,620
\$1.26 Cumulative Convertible Preferred Stock, Series B, 15,819 shares issued and outstanding at March 31, 2011 and December 31, 2010 (\$180,023 aggregate liquidation preference)	176,703	176,703
Common stock - \$0.01 par value; 250,000 shares authorized:		
74,994 and 70,259 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	750	703
Paid-in capital	1,088,955	1,028,382
Accumulated deficit	(354,883)	(354,883)
Accumulated other comprehensive income	180,343	173,900
	1,094,486	1,027,425
	\$ 10,718,227	\$ 8,999,362

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 March 31</i>	
	<i>2011</i>	<i>2010</i>
<b>Interest income:</b>		
Mortgage securities and similar investments	\$ 53,141	\$ 60,150
Other	113	92
	53,254	60,242
<b>Interest expense:</b>		
Repurchase arrangements and similar borrowings	(12,322)	(13,368)
Unsecured borrowings	(2,187)	(2,187)
Other	(4)	
	(14,513)	(15,555)
	38,741	44,687
<b>Other revenue (expense):</b>		
Miscellaneous other revenue (expense)	(218)	(205)
Incentive compensation expense	(1,233)	(1,415)
General and administrative expense	(2,663)	(2,695)
	(4,114)	(4,315)
<b>Income before equity in earnings of unconsolidated affiliates</b>	<b>34,627</b>	<b>40,372</b>
<b>Equity in earnings of unconsolidated affiliates</b>	<b>65</b>	<b>65</b>
<b>Net income</b>	<b>\$ 34,692</b>	<b>\$ 40,437</b>
<b>Net income available to common stockholders:</b>		
Net income	\$ 34,692	\$ 40,437
Less cash dividends paid on preferred shares	(5,058)	(5,058)
	\$ 29,634	\$ 35,379
<b>Net income per common share:</b>		
Basic	\$ 0.41	\$ 0.51
Diluted	\$ 0.41	\$ 0.51
<b>Cash dividends declared per share:</b>		
Common	\$ 0.410	\$ 0.500
Series A Preferred	0.400	0.400
Series B Preferred	0.315	0.315

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*See accompanying notes to consolidated financial statements.*

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

*(in thousands, unaudited)*

	<i>Quarter Ended March 31</i>	
	<i>2011</i>	<i>2010</i>
<b>Operating activities:</b>		
Net income	\$ 34,692	\$ 40,437
Noncash items:		
Amortization of investment premiums	12,832	13,465
Depreciation and other amortization	54	55
Equity-based compensation costs	429	380
Amounts related to interest rate swap agreements	55	(89)
Net change in mortgage securities principal remittance receivable	(2,717)	(286,679)
Net change in remaining receivables, other assets, accounts payable and accrued expenses	(5,209)	(8,584)
 Net cash provided by (used in) operating activities	 40,136	 (241,015)
<b>Investing activities:</b>		
Purchases of mortgage securities and similar investments	(2,399,175)	(281,749)
Purchased interest receivable related to purchases of mortgage securities and similar investments	(5,419)	(600)
Principal collections on mortgage securities and similar investments	475,039	763,562
 Net cash (used in) provided by investing activities	 (1,929,555)	 481,213
<b>Financing activities:</b>		
Proceeds from repurchase arrangements and similar borrowings	18,400,641	18,684,277
Principal payments on repurchase arrangements and similar borrowings	(16,743,894)	(19,060,380)
Decrease in cash collateral receivable from interest rate swap counterparties	7,639	2,030
Increase in cash collateral payable to interest rate swap counterparties	926	
Capital stock transactions	59,862	10,222
Dividends paid	(32,409)	(42,491)
 Net cash provided by (used in) financing activities	 1,692,765	 (406,342)
 <b>Net change in cash and cash equivalents</b>	 (196,654)	 (166,144)
Cash and cash equivalents at beginning of period	359,590	409,623
 <b>Cash and cash equivalents at end of period</b>	 \$ 162,936	 \$ 243,479

See accompanying notes to consolidated financial statements.



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**CAPSTEAD MORTGAGE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2011**

*(unaudited)*

**NOTE 1 BUSINESS**

Capstead Mortgage Corporation operates as a self-managed real estate investment trust for federal income tax purposes (a REIT ) and is based in Dallas, Texas. Unless the context otherwise indicates, Capstead Mortgage Corporation, together with its subsidiaries, is referred to as Capstead or the Company. Capstead earns income from investing in a leveraged portfolio of residential mortgage pass-through securities consisting almost exclusively of adjustable-rate mortgage ( ARM ) securities issued and guaranteed by government-sponsored enterprises, either Fannie Mae or Freddie Mac (together, the GSEs ), or by an agency of the federal government, Ginnie Mae. Agency-guaranteed residential mortgage pass-through securities ( Agency Securities ) carry an implied AAA rating with limited, if any, credit risk, particularly in light of the conservatorship of the GSEs by the federal government.

**NOTE 2 BASIS OF PRESENTATION**

***Interim Financial Reporting and Reclassifications***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter ended March 31, 2011 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2011. For further information refer to the audited consolidated financial statements and footnotes thereto incorporated by reference into the Company s annual report on Form 10-K for the year ended December 31, 2010. Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 3 EARNINGS PER COMMON SHARE**

Basic earnings per common share is computed by dividing net income, after deducting preferred share dividends and adjusting for the impact of unvested stock awards deemed to be participating securities, by the weighted average number of common shares outstanding, calculated excluding unvested stock awards. Diluted earnings per common share is computed by dividing net income, after deducting dividends on convertible preferred shares when such shares are antidilutive and similar adjustments for participating securities, by the weighted average number of common shares and common share equivalents outstanding calculated excluding unvested stock awards, giving effect to equity awards and convertible preferred shares when such awards and shares are dilutive. For calculation purposes the Series A and B preferred shares are considered dilutive whenever basic earnings per common share exceeds each Series dividend divided by the conversion rate applicable for that period. Unvested stock awards that are deemed participating securities are included in the calculation of diluted earnings per share, if dilutive, under either the two class method or the treasury stock method, depending upon which method produces the more dilutive result.

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Components of the computation of basic and diluted earnings per common share were as follows (dollars in thousands, except per share amounts):

	<i>Quarter Ended March 31</i>	
	<i>2011</i>	<i>2010</i>
<b><i>Basic earnings per common share</i></b>		
Numerator for basic earnings per common share:		
Net income	\$ 34,692	\$ 40,437
Series A and B preferred share dividends	(5,058)	(5,058)
Unvested stock award participation in earnings	(129)	(195)
	\$ 29,505	\$ 35,184
Denominator for basic earnings per common share:		
Weighted average common shares outstanding	71,639	69,377
Average unvested stock awards outstanding	(457)	(387)
	71,182	68,990
	\$ 0.41	\$ 0.51
<b><i>Diluted earnings per common share</i></b>		
Numerator for diluted earnings per common share:		
Net income	\$ 34	