CAPSTEAD MORTGAGE CORP
Form 8-K
February 11, 2003

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: FEBRUARY 6, 2003

(Date of Earliest Event Reported)

CAPSTEAD MORTGAGE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

MARYLAND	1-8896	75-2027937
(State of Incorporation)	(Commission File No.)	I.R.S. Employer Identification No.)

8401 NORTH CENTRAL EXPRESSWAY SUITE 800 DALLAS, TEXAS	75225
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (214) 874-2323

ITEM 5. OTHER EVENTS AND REGULATION FD DISCLOSURE

CAPSTEAD MORTGAGE CORPORATION ANNOUNCES FOURTH QUARTER RESULTS,
SETS RECORD DATE FOR ANNUAL MEETING AND ESTABLISHES
ACCELERATED COMMON DIVIDEND SCHEDULE FOR 2003

DALLAS -- February 6, 2003 -- Capstead Mortgage Corporation (NYSE: CMO) today reported net income of $20,411,000, or $1.03 per diluted common share for the quarter ended December 31, 2002, compared to $28,782,000, or $1.45 per diluted common share for the same quarter in 2001. Operating income, calculated after excluding depreciation on real estate, gain on asset sales and the dilutive effects of the Series B preferred shares, was $0.95 per common share

for the fourth quarter of 2002, compared to $1.19 and $1.43 per common share for the third and second quarters of 2002, respectively.

The Company reported net income of $96,123,000, or $4.85 per diluted common share, for the year ended December 31, 2002 compared to $106,276,000, or $5.68 per diluted common share reported in 2001.

Commenting on the Company's operations and financial position, Wesley R. Edens, Chairman of the Board and Chief Executive Officer, said, "Results for 2002, particularly early in the year, were excellent thanks largely to lower borrowing costs with lower prevailing short-term interest rates. However, with the steady decline in size of Capstead's portfolio of adjustable-rate mortgage ("ARM") Fannie Mae, Freddie Mac and Ginnie Mae securities as a result of mortgage prepayments, along with a lack of suitable investment opportunities, the Company's capital increasingly has not been optimally utilized. The decision in December 2002 to return to our common stockholders approximately $100 million of equity capital in the form of a $7.19 per common share special dividend should serve to enhance future returns on remaining common equity, particularly under current market conditions, while maintaining adequate liquidity to take advantage of suitable investment opportunities as they arise.

"We continue to evaluate suitable real estate-related investments, which may include credit-sensitive assets intended to produce attractive returns due largely to a higher risk of default and reduced liquidity compared to residential ARM securities. New investments such as these may help to provide more stability to future operating income; however, they may not offset the effects of declining earnings from our existing portfolio. Further, as seen this past year, additional investment opportunities may not be available on a timely basis. As a result, we anticipate that quarterly operating income and common dividends will continue trending lower and this trend would likely be accelerated by any increases in short-term interest rates."

ANNUAL MEETING RECORD DATE

The Company announced that the record date for determining stockholders entitled to notice of and to vote at the annual meeting of the Company on April 24, 2003 will be the close of business on February 20, 2003. The Company proxy statement and annual report will be mailed to stockholders on or about March 10, 2003.

FOURTH QUARTER RESULTS AND RELATED DISCUSSION

Fourth quarter operating income was impacted by declines both in the size of the Company's portfolio of mortgage securities and similar investments and in financing spreads (the difference between the yields earned on these investments and the rates charged on related borrowings). The portfolio declined by $239 million during the fourth quarter primarily as a result of runoff caused by mortgage prepayments. Financing spreads declined as lower borrowing rates only partially offset declines in portfolio yields.

The overall yield earned on the portfolio averaged 4.65% during the fourth quarter of 2002, a decline of 39 basis points from an average yield of 5.04% earned during the previous quarter. Yields on ARM securities fluctuate as coupon interest rates on the underlying mortgage loans reset to reflect current interest rates and are expected to continue to decline in the coming quarters. For example, if interest rates stabilize at rates in effect on February 6, 2003,

the average yield on the portfolio could decline approximately 91 basis points by the fourth quarter of 2003. Actual yields will depend on portfolio composition as well as fluctuations in, and market expectations for fluctuations in, interest rates and levels of mortgage prepayments.

Average rates on related borrowings were 1.62% during the fourth quarter of 2002. Having benefited from reductions in the Federal Funds Rate totaling 475 basis points during 2001, short-term interest rates were relatively stable during the first three quarters of 2002. With the action taken by the Federal Reserve in November to reduce the Federal Funds Rate by an additional 50 basis points, the Company's average borrowing rates declined by 22 basis points during the fourth quarter and are expected to decline an additional 24 basis points during the first quarter of 2003. This decline is not expected to fully offset the effects on earnings of declining portfolio yields and balances. The Company's borrowing rates depend on actions by the Federal Reserve to change short-term interest rates, market expectations of future changes in short-term interest rates and the extent of changes in financial market liquidity.

BOOK VALUE PER COMMON SHARE

As of December 31, 2002, the Company's book value per common share was $8.23, a decline of $7.64 from the prior year. Book value declined primarily because of the $7.19 special dividend (included as part of the $8.35 fourth quarter dividend), dividend payments in excess of quarterly net income and a reduction in the aggregate unrealized gain on the Company's investments (most of which are debt securities carried at fair value with changes in fair value reflected in stockholders' equity) as a result of runoff caused by mortgage prepayments. This unrealized gain can be expected to continue to decline with runoff and to fluctuate with changes in interest rates and market liquidity, and such changes will largely be reflected in book value per common share. Book value will also be affected by other factors, including the level of dividend distributions and depreciation charges on net-leased real estate; however, temporary changes in fair values of investments not held in the form of debt or equity securities generally will not affect book value.

POTENTIAL 2003 COMMON SHARE DIVIDEND DATES

The Company has modified its regular common dividend schedule for 2003 to accelerate the announcement and payment of the first, second and third quarter common dividends by one month, conforming to the timing of the fourth quarter dividend. Accordingly, 2003 potential common share dividend dates are as follows:

QUARTER	DECLARATION DATE	RECORD DATE	PAYABLE DATE
First	March 13	March 31	April 21
Second	June 12	June 30	July 21
Third	September 11	September 30	October 21
Fourth	December 11	December 31	January 21, 2004

TAX CONSIDERATIONS OF 2002 COMMON DIVIDENDS

Each common dividend distribution applicable to the 2002 tax year consists of 41.25% ordinary taxable income and 58.75% return of capital. This has been determined based on the ratio of Capstead's taxable income for the year to total distributions made for the year, applied to each common dividend distribution, including the $8.35 fourth quarter dividend paid January 21, 2003. Stockholders receiving all $12.75 of common dividends for 2002 received taxable income of $5.26 per share and return of capital distributions of $7.49 per share. Stockholders should reduce the tax cost basis of their shares by the amount of return of capital distributions received. Return of capital distributions received in excess of tax cost basis should be reported as capital gain. Due to the complex nature of the applicable tax rules, it is recommended that stockholders consult their tax advisors to ensure proper tax treatment of common dividends received.

* * * *

Capstead Mortgage Corporation, a real estate investment trust, earns income from investing in real estate-related assets and other investment strategies.

This document contains "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that inherently involve risks and uncertainties. The Company's actual results and liquidity can differ materially from those anticipated in these forward-looking statements because of changes in the level and composition of the Company's investments and unforeseen factors. As discussed in the Company's filings with the Securities and Exchange Commission, these factors may include, but are not limited to, changes in general economic conditions, the availability of suitable investments, fluctuations in, and market expectations for fluctuations in, interest rates and levels of mortgage prepayments, deterioration in credit quality and ratings, the effectiveness of risk management strategies, the impact of leverage, liquidity of secondary markets and credit markets, increases in costs and other general competitive factors. Relative to direct investments in real estate, these factors may include, but are not limited to, lessee performance under lease agreements, changes in general as well as local economic conditions and real estate markets, increases in competition and inflationary pressures, changes in the tax and regulatory environment including zoning and environmental laws, uninsured losses or losses in excess of insurance limits and the availability of adequate insurance coverage at reasonable costs.

CAPSTEAD MORTGAGE CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31, 2002
	(UNAUDITED)
ASSETS	
Mortgage securities and similar investments	

($2.1 billion pledged under repurchase arrangements)	$2,431,519
CMO collateral and investments	1,083,421
	3,514,940
Real estate held for lease, net of accumulated depreciation	137,122
Receivables and other assets	55,863
Cash and cash equivalents	59,003
	$3,766,928
LIABILITIES	
Repurchase arrangements and similar borrowings	$2,145,656
Collateralized mortgage obligations ("CMOs")	1,074,779
Borrowings secured by real estate	120,400
Incentive fee payable to management and affiliate	5,986
Common dividend payable	116,585
Accounts payable and accrued expenses	4,944
	3,468,350
STOCKHOLDERS' EQUITY	
Preferred stock - $0.10 par value; 100,000 authorized:	
$1.60 Cumulative Preferred Stock, Series A, 219 and 273 shares issued and outstanding at December 31, 2002 and 2001, respectively ($3,587 aggregate liquidation preference)	3,058
$1.26 Cumulative Convertible Preferred Stock, Series B, 15,820 and 15,842 shares issued and outstanding at December 31, 2002 and 2001, respectively ($180,026 aggregate liquidation preference)	176,708
Common stock - $0.01 par value; 100,000 shares authorized; 13,962 and 13,862 shares issued and outstanding at December 31, 2001 and 2000, respectively	140
Paid-in capital	458,919
Accumulated deficit	(387,718)
Accumulated other comprehensive income	47,471
	298,578
	$3,766,928
BOOK VALUE PER COMMON SHARE	$8.23

CAPSTEAD MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED DECEMBER 31	
	2002	200
	(UNAUDITED)	
INTEREST INCOME:		
Mortgage securities and similar investments	$ 29,601	$ 51,
CMO collateral and investments	19,907	42,
Total interest income	49,508	94,
INTEREST AND RELATED EXPENSE:		
Repurchase arrangements and similar borrowings	9,432	19,
CMO borrowings	20,510	42,
Mortgage insurance and other	128	
Total interest and related expense	30,070	62,
Net margin on financial assets	19,438	32,
REAL ESTATE LEASE INCOME (affiliated)	2,764	
REAL ESTATE-RELATED EXPENSE:		
Interest	1,536	
Depreciation	939	
Total real estate-related expense	2,475	
Net margin on real estate held for lease	289	
OTHER REVENUE (EXPENSE):		
Gain on asset sales	2,824	
CMO administration and other revenue	315	
Management and affiliate incentive fee	(1,139)	(3,
Other operating expense	(1,316)	(1,
Total other revenue (expense)	684	(3,
NET INCOME	$ 20,411	$ 28,
Net income	$ 20,411	$ 28,
Less cash dividends on preferred stock	(5,068)	(5,
Net income available to common stockholders	$ 15,343	$ 23,
NET INCOME PER COMMON SHARE:		
Basic	$ 1.11	$ 1
Diluted	1.03	1
CASH DIVIDENDS DECLARED PER SHARE:		
Common - regular quarterly	$ 1.160	$ 1.
Common - special	7.190	
Series A Preferred	0.400	0.
Series B Preferred	0.315	0.

NOTE: All references to common shares and per common share amounts have been adjusted to reflect a 1-for-2 reverse common stock split which went into effect the close of business on June 29, 2001.

CAPSTEAD MORTGAGE CORPORATION
MARKET VALUE ANALYSIS
(IN THOUSANDS)
(UNAUDITED)

	DECEMBER 31, 2002			
MORTGAGE INVESTMENTS	PRINCIPAL BALANCE	PREMIUM (DISCOUNT)	BASIS	MARKET VALUE
DEBT SECURITIES HELD AVAILABLE-FOR-SALE: (a)				
Agency securities:				
Fannie Mae/Freddie Mac:				
Fixed-rate	$ 1,498	$ 7	$ 1,505	$ 1,644
Medium-term	--	--	--	--
ARMs:				
LIBOR/CMT	1,120,142	16,376	1,136,518	1,162,197
COFI	126,356	(3,655)	122,701	128,475
Ginnie Mae ARMs	881,911	9,767	891,678	904,470
	2,129,907	22,495	2,152,402	2,196,786
Non-agency securities (b)	82,545	717	83,262	84,766
CMBS (b)	107,989	(309)	107,680	107,762
CMO collateral and investments	26,793	150	26,943	27,814
	$ 2,347,234	$ 23,053	$ 2,370,287	$ 2,417,128
DEBT SECURITIES HELD-TO-MATURITY: (c)				
Released CMO collateral:				
Agency securities	$ 2,130	$ 14	$ 2,144	$ 2,336
Non-agency securities	528	(4)	524	576
CMO collateral	1,041,318	14,289	1,055,607	1,051,763
	$ 1,043,976	$ 14,299	$ 1,058,275	$ 1,054,675

(a) Unrealized gains and losses on investments in debt and equity securities classified as available-for-sale are recorded in stockholders' equity as a component of "Accumulated other comprehensive income." Gains or losses are recognized in operating results only if sold. Recent investments in a commercial loan syndication and real estate held for lease are not classified as debt securities. Consequently, these assets are not subject to mark-to-market accounting and therefore have been excluded from this analysis.

(b) As of the indicated dates, these portfolios consisted of adjustable-rate investments.

(c) Investments in debt and equity securities classified as held-to-maturity are carried on the balance sheet at amortized cost.

CAPSTEAD MORTGAGE CORPORATION
PORTFOLIO YIELD/COST ANALYSIS
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	4TH QUARTER AVERAGE			AS OF DECEMBER 31, 2002		P
	BASIS	ACTUAL YIELD/COST	ACTUAL RUNOFF	PREMIUMS (DISCOUNTS)	BASIS	1 Y
	(a)				(a)	
Agency securities:						
Fannie Mae/Freddie Mac:						
Fixed-rate	$ 3,848	9.55%	34%	$ 21	$ 3,649	
Medium-term	10,463	6.41	39	--	--	
ARMs:						
LIBOR/CMT	1,178,045	4.39	27	16,376	1,136,518	
COFI	127,328	5.03	22	(3,655)	122,701	
Ginnie Mae ARMs	945,263	4.74	35	9,767	891,678	
	2,264,947	4.59	30	22,509	2,154,546	
Non-agency securities	102,490	5.40	25	713	83,786	
CMBS and other commercial loans	171,966	4.86	63	(277)	147,217	
	2,539,403	4.65	35	$ 22,945	2,385,549	
Borrowings	2,283,494	1.62			2,145,656	
Capital employed/ financing spread	$ 255,909	3.03			$ 239,893	

Return on assets (c)	3.16

(a) Basis represents the Company's investment before unrealized gains and losses. Actual asset yields, runoff rates, borrowing rates and resulting financing spread are presented on an annualized basis.

(b) Projected yields reflect ARM coupon resets and lifetime prepayment assumptions as adjusted for expected prepayments over the next 3 months, as of the date of this press release. Actual yields realized in future periods will largely depend upon (i) changes in portfolio composition, (ii) ARM coupon resets, (iii) actual prepayments and (iv) any changes in lifetime prepayment assumptions.

(c) The Company uses its liquidity to pay down borrowings. Return on assets is calculated on an annualized basis assuming the use of this liquidity to reduce borrowing costs.

CAPSTEAD MORTGAGE CORPORATION
COMPARISON OF OPERATING INCOME *
AND DILUTED INCOME PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	QUARTER ENDED				
	DECEMBER 31, 2002		SEPTEMBER 30, 2002		-
	OPERATING	DILUTED	OPERATING	DILUTED	O
Net income	$20,411	$20,411	$22,751	$22,751	
Adjustments for:					
Depreciation on real estate	939	--	962	--	
Gain on asset sales	(2,824)	--	(1,901)	--	
Series B preferred dividends	(4,983)	--	(4,990)	--	
	$13,543	$20,411	$16,822	$22,751	
Weighted average common shares outstanding	13,880	13,880	13,871	13,871	
Net effect of dilutive securities:					
Preferred B shares	--	5,689	--	5,638	
Stock options and other preferred shares	303	303	310	310	

14,183	19,872	14,181	19,819
$0.95	$1.03	$1.19	$1.15

* Capstead reports operating income per share calculated after excluding depreciation on real estate, gain on asset sales, and the dilutive effects of the Series B preferred shares. As such, operating income represents a measure of the amount of funds generated by operations, which may, at the discretion of Capstead's Board of Directors, be used for reinvestment or distributed to common stockholders as dividends. Depreciation on real estate, although an expense deductible for federal income tax purposes and therefore an item that reduces Capstead's REIT distribution requirements, is added back to arrive at operating income because it is a noncash expense. Gains are excluded because they are considered non-operating in nature and because the Company has substantial capital loss carryforwards that are expected to eliminate REIT distribution requirements resulting from any gains realized through the year 2005. Operating income per share excludes the dilutive effects of the Series B preferred shares because at the current market prices of both the common shares and Series B preferred shares, it is not economically advantageous to convert the shares. Consequently, few, if any, actual Series B conversions are expected. Effective December 31, 2002, the Series B preferred shares are considered dilutive, for diluted net income per share purposes only, whenever annualized basic net income per share exceeds $2.24 ($1.26 Series B annualized dividend divided by the current conversion rate of 0.5632).

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 hereunto duly authorized.

CAPSTEAD MORTGAGE CORPORATION

February 11, 2003 By: /s/ Phillip A. Reinsch

Phillip A. Reinsch, Senior Vice President