

Invesco Mortgage Capital Inc.  
Form 10-Q  
November 06, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2014

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 001-34385

(Exact Name of Registrant as Specified in Its Charter)

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Maryland 26-2749336  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

1555 Peachtree Street, N.E., Suite 1800 30309  
Atlanta, Georgia  
(Address of Principal Executive Offices) (Zip Code)  
(404) 892-0896  
(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. (Check one):

Large Accelerated filer  Accelerated filer   
Non-Accelerated filer  (Do not check if a smaller reporting company) 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

As of November 1, 2014, there were 123,102,325 outstanding shares of common stock of Invesco Mortgage Capital Inc.



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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

In thousands except share amounts	As of September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Mortgage-backed securities, at fair value	17,297,034	17,348,657
Residential loans, held-for-investment <sup>(1)</sup>	3,103,434	1,810,262
Commercial loans, held-for-investment	144,707	64,599
Cash and cash equivalents	128,944	210,612
Due from counterparties	28,499	1,500
Investment related receivable	55,942	515,404
Investments in unconsolidated ventures, at fair value	42,281	44,403
Accrued interest receivable	66,295	68,246
Derivative assets, at fair value	74,421	262,059
Deferred securitization and financing costs	13,485	13,894
Other investments	62,500	10,000
Other assets	1,521	1,343
Total assets <sup>(1)</sup>	21,019,063	20,350,979
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Repurchase agreements	13,571,889	15,451,675
Secured loans	1,250,000	—
Asset-backed securities issued by securitization trusts <sup>(1)</sup>	2,745,940	1,643,741
Exchangeable senior notes	400,000	400,000
Derivative liabilities, at fair value	222,559	263,204
Dividends and distributions payable	64,976	66,087
Investment related payable	12,351	28,842
Accrued interest payable	23,080	26,492
Collateral held payable	35,446	52,698
Accounts payable and accrued expenses	2,567	4,304
Due to affiliate	9,854	10,701
Total liabilities <sup>(1)</sup>	18,338,662	17,947,744
<b>Equity:</b>		
Preferred Stock, par value \$0.01 per share; 50,000,000 shares authorized:		
7.75% Series A Cumulative Redeemable Preferred Stock: 5,600,000 shares issued and outstanding (\$140,000 aggregate liquidation preference)	135,356	135,356
7.75% Fixed-to-Floating Series B Cumulative Redeemable Preferred Stock: 6,200,000 shares issued and outstanding (\$155,000 aggregate liquidation preference)	149,918	—
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized; 123,101,132 and 124,510,246 shares issued and outstanding, respectively	1,231	1,245
Additional paid in capital	2,531,914	2,552,464
Accumulated other comprehensive income (loss)	310,837	(156,993 )
Retained earnings (distributions in excess of earnings)	(477,759 )	(155,957 )
Total shareholders' equity	2,651,497	2,376,115

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Non-controlling interest	28,904	27,120
Total equity	2,680,401	2,403,235
Total liabilities and equity	21,019,063	20,350,979

The consolidated balance sheets include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations and liabilities of the VIEs for which creditors do not have recourse to the Company. As of (1) September 30, 2014 and December 31, 2013, total assets of the consolidated VIEs were \$3,118,222 and \$1,819,295, respectively, and total liabilities of the consolidated VIEs were \$2,754,169 and \$1,648,400, respectively. Refer to Note 3 - "Variable Interest Entities" for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

In thousands, except share amounts	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Interest Income				
Mortgage-backed securities	144,043	157,539	447,702	486,619
Residential loans	22,713	13,417	60,888	20,443
Commercial loans	2,649	372	6,329	432
Total interest income	169,405	171,328	514,919	507,494
Interest Expense				
Repurchase agreements	45,756	73,695	142,649	208,487
Secured loans	1,223	—	1,399	—
Exchangeable senior notes	5,620	5,621	16,840	12,403
Asset-backed securities	17,660	10,266	47,421	15,722
Total interest expense	70,259	89,582	208,309	236,612
Net interest income	99,146	81,746	306,610	270,882
Provision for loan losses	(209)	) 87	(52)	) 751
Net interest income after provision for loan losses	99,355	81,659	306,662	270,131
Other Income (loss)				
Gain (loss) on sale of investments, net	(47,952)	) (69,323)	) (80,436)	) (56,919)
Equity in earnings and fair value change in unconsolidated ventures	1,145	1,422	5,480	5,169
Gain (loss) on derivative instruments, net	(3,704)	) (6,887)	) (322,832)	) 44,424
Realized and unrealized credit default swap income	247	297	868	828
Other investment income (loss), net	(1,358)	) —	(1,358)	) —
Total other income (loss)	(51,622)	) (74,491)	) (398,278)	) (6,498)
Expenses				
Management fee – related party	9,214	10,945	27,876	32,106
General and administrative	4,079	2,259	11,014	6,845
Total expenses	13,293	13,204	38,890	38,951
Net income (loss)	34,440	(6,036)	) (130,506)	) 224,682
Net income (loss) attributable to non-controlling interest	394	(63)	) (1,485)	) 2,392
Net income (loss) attributable to Invesco Mortgage Capital Inc.	34,046	(5,973)	) (129,021)	) 222,290
Dividends to preferred shareholders	2,713	2,713	8,138	8,138
Undeclared cumulative dividends to preferred shareholders	661	—	661	—
Net income (loss) attributable to common shareholders	30,672	(8,686)	) (137,820)	) 214,152
Earnings (loss) per share:				
Net income (loss) attributable to common shareholders				
Basic	0.25	(0.06)	) (1.12)	) 1.61
Diluted	0.25	(0.06)	) (1.12)	) 1.56
Dividends declared per common share	0.50	0.50	1.50	1.80

The accompanying notes are an integral part of these consolidated financial statements.



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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

In thousands except share amounts	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income (loss)	34,440	(6,036 )	(130,506 )	224,682
Other comprehensive income (loss):				
Unrealized gain (loss) on mortgage-backed securities	(113,946 )	5,707	328,743	(763,016 )
Reclassification of unrealized loss on sale of mortgage-backed securities to gain (loss) on sales of investments, net	47,952	69,323	80,436	56,919
Unrealized gain (loss) on derivative instruments	—	(74,098 )	—	183,391
Reclassification of unrealized loss on derivative instruments to gain (loss) on derivatives, net	—	43,583	—	116,553
Reclassification of amortization of repurchase agreements interest expense to repurchase agreements interest expense	21,227	—	64,055	—
Total Other comprehensive income (loss)	(44,767 )	44,515	473,234	(406,153 )
Comprehensive income (loss)	(10,327 )	38,479	342,728	(181,471 )
Less: Comprehensive (income) loss attributable to non-controlling interest	117	(402 )	(3,919 )	1,856
Less: Dividends to preferred shareholders	(2,713 )	(2,713 )	(8,138 )	(8,138 )
Less: Undeclared cumulative dividends to preferred shareholders	(661 )	—	(661 )	—
Comprehensive income (loss) attributable to common shareholders	(13,584 )	35,364	330,010	(187,753 )

The accompanying notes are an integral part of these consolidated financial statements.



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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF EQUITY  
For the nine months ended September 30, 2014  
(Unaudited)

Attributable to Common Shareholders  
Additional  
Paid in  
Capital