

Invesco Mortgage Capital Inc.
Form 10-Q
November 03, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(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, 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 001-34385

(Exact Name of Registrant as Specified in Its Charter)

Maryland	26-2749336
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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, 2016, there were 111,588,883 outstanding shares of common stock of Invesco Mortgage Capital Inc.

Table of Contents

INVESCO MORTGAGE CAPITAL INC.
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	<u>1</u>
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>1</u>
<u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	<u>2</u>
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Statement of Equity for the nine months ended September 30, 2016</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
Item 4. <u>Controls and Procedures</u>	<u>74</u>
<u>PART II OTHER INFORMATION</u>	<u>75</u>
Item 1. <u>Legal Proceedings</u>	<u>75</u>
Item 1A. <u>Risk Factors</u>	<u>75</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>75</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>75</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>75</u>
Item 5. <u>Other Information</u>	<u>75</u>
Item 6. <u>Exhibits</u>	<u>77</u>

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

\$ in thousands except share amounts	As of	
	September 30, 2016	December 31, 2015
ASSETS		
Mortgage-backed and credit risk transfer securities, at fair value (including pledged securities of \$15,493,599 and \$15,553,934, respectively)	16,074,077	16,065,935
Commercial loans, held-for-investment	273,291	209,062
Cash and cash equivalents	47,282	53,199
Due from counterparties	241,161	110,009
Investment related receivable	44,944	154,594
Accrued interest receivable	49,390	50,779
Derivative assets, at fair value	505	8,659
Other assets	183,514	115,072
Total assets	16,914,164	16,767,309
LIABILITIES AND EQUITY		
Liabilities:		
Repurchase agreements	12,060,502	12,126,048
Secured loans	1,650,000	1,650,000
Exchangeable senior notes	396,420	394,573
Derivative liabilities, at fair value	382,321	238,148
Dividends and distributions payable	50,921	51,734
Investment related payable	17	167
Accrued interest payable	23,915	21,604
Collateral held payable	—	4,900
Accounts payable and accrued expenses	1,477	2,376
Due to affiliate	10,295	10,851
Total liabilities	14,575,868	14,500,401
Equity:		
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)	149,860	149,860
Common Stock, par value \$0.01 per share; 450,000,000 shares authorized; 111,588,883 and 113,619,471 shares issued and outstanding, respectively	1,116	1,136
Additional paid in capital	2,382,847	2,407,372
Accumulated other comprehensive income	585,563	318,624
Retained earnings (distributions in excess of earnings)	(943,771)	(771,313)
Total stockholders' equity	2,310,971	2,241,035
Non-controlling interest	27,325	25,873
Total equity	2,338,296	2,266,908
Total liabilities and equity	16,914,164	16,767,309
The accompanying notes are an integral part of these condensed consolidated financial statements.		

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
\$ in thousands, except share amounts				
Interest Income				
Mortgage-backed and credit risk transfer securities	112,467	128,305	347,573	395,844
Residential loans ⁽¹⁾	—	28,380	—	88,001
Commercial loans	5,680	3,743	16,520	11,349
Total interest income	118,147	160,428	364,093	495,194
Interest Expense				
Repurchase agreements	24,892	41,303	97,952	125,544
Secured loans	2,746	1,622	8,149	4,639
Exchangeable senior notes	5,620	5,620	16,847	16,840
Asset-backed securities ⁽¹⁾	—	20,686	—	64,913