

CAPITOL FEDERAL FINANCIAL
Form 10-Q
May 05, 2009

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 March 31, 2009

or

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

Commission file number: 000-25391

Capitol Federal Financial
(Exact name of registrant as specified in its charter)

United States 48-1212142 (I.R.S.
(State or other jurisdiction of incorporation

Employer

or

organization) Identification No.)

700 Kansas Avenue, Topeka, Kansas 66603
(Address of principal executive offices) (Zip

Code)

Registrant's telephone number, including area code:
(785) 235-1341

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 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

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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 definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(do not check if a 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 April 27, 2009, there were 74,091,055 shares of Capitol Federal Financial Common Stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements
CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data and amounts)

	March 31, 2009	September 30, 2008
ASSETS:	(Unaudited)	
Cash and cash equivalents	\$ 52,025	\$ 87,138
Investment securities:		
Available-for-sale ("AFS") at market (amortized cost of \$158,556 and \$51,700)	156,550	49,586
Held-to-maturity ("HTM") at cost (market value of \$58,889 and \$92,211)	57,860	92,773
Mortgage-backed securities ("MBS")		
AFS, at market (amortized cost of \$1,490,325 and \$1,491,536)	1,531,916	1,484,055
HTM, at cost (market value of \$689,454 and \$743,764)	672,453	750,284
Loans receivable held-for-sale, net ("LHFS")	146,412	997
Loans receivable, net	5,377,699	5,320,780
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	131,278	124,406
Accrued interest receivable	32,564	33,704
Premises and equipment, net	33,240	29,874
Real estate owned ("REO"), net	5,824	5,146
Other assets	72,060	76,506
TOTAL ASSETS	\$ 8,269,881	\$ 8,055,249
LIABILITIES:		
Deposits	\$ 4,116,514	\$ 3,923,883
Advances from FHLB	2,411,560	2,447,129
Other borrowings, net	713,609	713,581
Advance payments by borrowers for taxes and insurance	46,433	53,213
Income taxes payable	8,011	6,554
Deferred income tax liabilities, net	24,031	3,223
Accounts payable and accrued expenses	33,332	36,450
Total liabilities	7,353,490	7,184,033
STOCKHOLDERS' EQUITY:		
Preferred stock (\$0.01 par value) 50,000,000 shares authorized; none issued	--	--
Common stock (\$0.01 par value) 450,000,000 shares authorized, 91,512,287 shares issued; 74,091,055 and 74,079,868 shares outstanding as of March 31, 2009 and September 30, 2008, respectively	915	915
Additional paid-in capital	449,782	445,391
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(9,074)	(10,082)
Unearned compensation, Recognition and Retention Plan ("RRP")	(394)	(553)
Retained earnings	770,186	759,375
Accumulated other comprehensive gain (loss)	24,622	(5,968)
Less shares held in treasury (17,421,232 and 17,432,419 shares as of March 31, 2009 and September 30, 2008, respectively, at cost)	(319,646)	(317,862)
Total stockholders' equity	916,391	871,216

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 8,269,881 \$ 8,055,249

See accompanying notes to consolidated interim financial statements.

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CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars and share counts in thousands except per share data)

	For the Three Months		For the Six Months Ended	
	Ended March 31, 2009	2008	March 31, 2009	2008
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 77,446	\$ 75,276	\$ 154,162	\$ 151,539
MBS	25,088	20,246	51,490	37,373
Investment securities	955	3,061	2,281	7,191
Capital stock of FHLB	778	1,864	1,558	3,944
Cash and cash equivalents	68	1,369	117	2,797
Total interest and dividend income	104,335	101,816	209,608	202,844
INTEREST EXPENSE:				
FHLB advances	26,653	31,796	56,198	65,957
Deposits	24,711	35,145	51,496	73,178
Other borrowings	7,109	3,873	14,834	6,080
Total interest expense	58,473	70,814	122,528	145,215
NET INTEREST AND DIVIDEND INCOME	45,862	31,002	87,080	57,629
PROVISION FOR LOAN LOSSES	2,107	119	2,656	119
NET INTEREST AND DIVIDEND INCOME AFTER PROVISION FOR LOAN LOSSES	43,755	30,883	84,424	57,510
OTHER INCOME:				
Retail fees and charges	4,031	4,095	8,561	8,584
Insurance commissions	873	697	1,364	1,175
Loan fees	597	581	1,166	1,179
Income from bank-owned life insurance ("BOLI")	241	612	625	1,233
Gains on sale of LHFS, net	516	180	540	257
Other, net	678	1,817	1,322	2,665
Total other income	6,936	7,982	13,578	15,093
OTHER EXPENSES:				
Salaries and employee benefits	10,569	10,273	21,732	20,708
Occupancy of premises	3,770	3,477	7,492	6,634
Advertising	1,947	1,386	3,689	2,217
Deposit and loan transaction fees	1,418	1,216	2,722	2,571
Regulatory and other services	980	1,459	2,129	3,078
Other, net	3,311	3,096	6,418	5,150
Total other expenses	21,995	20,907	44,182	40,358
INCOME BEFORE INCOME TAX EXPENSE	28,696	17,958	53,820	32,245
INCOME TAX EXPENSE	10,564	6,231	19,836	11,405
NET INCOME	\$ 18,132	\$ 11,727	\$ 33,984	\$ 20,840
Basic earnings per common share	\$ 0.25	\$ 0.16	\$ 0.46	\$ 0.29

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Diluted earnings per common share	\$	0.25	\$	0.16	\$	0.46	\$	0.29
Dividends declared per public share	\$	0.50	\$	0.50	\$	1.11	\$	1.00
Basic weighted average common shares		73,113		72,875		73,088		72,916
Diluted weighted average common shares		73,175		72,929		73,168		72,973

See accompanying notes to consolidated interim financial statements.

CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

(Dollars in thousands except per share data and amounts)

	Common Stock	Additional Paid-In Capital	Unearned Compensation (ESOP)	Unearned Compensation (RRP)	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Treasury Stock	Total
Balance at October 1, 2008	\$ 915	\$ 445,391	\$ (10,082)	\$ (553)	\$ 759,375	\$ (5,968)	\$ (317,862)	\$ 871,216
Comprehensive income:								
Net income					33,984			33,984
Changes in unrealized gains (losses) on securities available-for-sale, net of deferred income taxes of \$18,588						30,590		30,590
Total comprehensive income								64,574
ESOP activity, net		3,145	1,008					4,153
RRP activity, net		35						35
Stock based compensation - stock options and RRP		150		159				309
Acquisition of treasury stock							(2,426)	(2,426)
Stock options exercised		1,061					642	1,703
Dividends on common stock to public stockholders (\$1.11 per public share)					(23,173)			(23,173)
Balance at March 31, 2009	\$ 915	\$ 449,782	\$ (9,074)	\$ (394)	\$ 770,186	\$ 24,622	\$ (319,646)	\$ 916,391

See accompanying notes to consolidated interim financial statements.

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CAPITOL FEDERAL FINANCIAL AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Dollars in thousands)

	For the Six Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 33,984	\$ 20,840
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(1,558)	(3,944)
Provision for loan losses	2,656	119
Originations of LHFS	(863)	(15,034)
Proceeds from sales of LHFS	31,631	16,409
Amortization and accretion of premiums and discounts on MBS and investment securities	503	283
Depreciation and amortization of premises and equipment	2,415	2,537
Amortization of deferred amounts related to FHLB advances, net	584	--
Common stock committed to be released for allocation - ESOP	4,153	3,353
Stock based compensation - stock options and RRP	309	427
Other, net	41	1,239
Changes in:		
Accrued interest receivable	1,140	4,331
Other assets	4,665	(792)
Income taxes payable/receivable	4,212	12,392
Accounts payable and accrued expenses	(4,120)	(2,063)
Net cash provided by operating activities	79,752	40,097
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities or calls of investment securities AFS	19,996	99,782
Purchases of investment securities AFS	(127,151)	--
Proceeds from maturities or calls of investment securities HTM	39,600	510,108
Purchases of investment securities HTM	(3,962)	(173,843)
Principal collected on MBS AFS	119,712	102,075
Purchases of MBS AFS	(118,469)	(810,881)
Principal collected on MBS HTM	77,870	112,850
Purchases of MBS HTM	--	(3,389)
Proceeds from the redemption of capital stock of FHLB	3,688	27,361
Purchases of capital stock of FHLB	(9,002)	(12,926)
Loan originations, net of principal collected	(84,890)	(29,903)
Loan purchases, net of principal collected	(155,984)	25,459
Net deferred fee activity	490	235
Purchases of premises and equipment	(5,838)	(1,445)
Proceeds from sales of REO	3,273	2,168
Net cash used in investing activities	(240,667)	(152,349)

(Continued)

	For the Six Months Ended March 31,	
	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(23,173)	(20,760)
Deposits, net of withdrawals	192,631	98,184
Proceeds from advances/line of credit from FHLB	1,261,102	300,000
Repayments on advances/line of credit from FHLB	(1,261,102)	(500,000)
Deferred prepayment penalty on FHLB advances	(36,153)	--
Proceeds from repurchase agreements	--	350,000
Change in advance payments by borrowers for taxes and insurance	(6,780)	(6,488)
Acquisitions of treasury stock	(2,426)	(7,245)
Stock options exercised and excess tax benefits from stock options	1,703	271
Net cash provided by financing activities	125,802	213,962
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(35,113)	101,710
CASH AND CASH EQUIVALENTS:		
Beginning of period	87,138	162,791
End of period	\$ 52,025	\$ 264,501
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments, net of refunds	\$ 15,596	\$ 410
Interest payments, net of interest credited to deposits	\$ 71,907	\$ 70,979
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to REO	\$ 5,137	\$ 2,804
Purchase of security that will settle in a subsequent period	\$ 1,002	&#