

CAPITOL FEDERAL FINANCIAL
Form 10-Q
May 07, 2007

**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, 2007

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

(State or other jurisdiction of incorporation

(I.R.S.

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 30, 2007, there were 74,271,720 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, 2007 (Unaudited)	September 30, 2006
ASSETS:		
Cash and cash equivalents	\$ 242,186	\$ 183,242
Investment securities:		
Available-for-sale("AFS") at market (amortized cost of \$131,060 and \$189,275)	131,167	189,480
Held-to-maturity("HTM"), at cost (market value of \$637,279 and \$233,525)	642,237	240,000
Mortgage-related securities:		
Trading, at market	--	396,904
AFS, at market (amortized cost of \$453,625 and \$558,939)	454,114	556,248
HTM, at cost (market value of \$1,128,515 and \$1,101,159)	1,149,329	1,131,634
Loans receivable held-for-sale, net	266	1,440
Loans receivable, net	5,215,701	5,221,117
Mortgage servicing rights ("MSR")	6,304	6,917
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	157,344	165,130
Accrued interest receivable	37,712	38,032
Premises and equipment, net	28,344	26,500
Real estate owned, net	1,905	2,409
Income taxes receivable, net	7,119	5,359
Deferred income taxes, net	9,164	20,967
Other assets	14,401	13,694
TOTAL ASSETS	\$ 8,097,293	\$ 8,199,073
LIABILITIES:		
Deposits	\$ 4,002,866	\$ 3,900,431
Advances from FHLB	3,074,973	3,268,705
Other borrowings, net	53,495	53,467
Advance payments by borrowers for taxes and insurance	33,877	48,353
Accounts payable and accrued expenses	61,458	64,898
Total liabilities	7,226,669	7,335,854
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 as of March 31, 2007 and September 30, 2006	915	915
Additional paid-in capital	435,643	429,286
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(13,106)	(14,784)
Unearned compensation, Recognition and Retention Plan ("RRP")	(803)	(825)
Retained earnings	757,281	760,890
Accumulated other comprehensive gain (loss)	370	(1,543)
Less shares held in treasury (17,242,193 and 17,480,537 shares as of		

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March 31, 2007 and September 30, 2006, at cost)	(309,676)	(310,720)
Total stockholders' equity	870,624	863,219
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,097,293	\$ 8,199,073

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 and amounts)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2007	2006	2007	2006
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 73,990	\$ 75,505	\$ 147,182	\$ 150,665
Mortgage-related securities	17,317	18,950	36,838	38,294
Investment securities	9,262	4,425	15,946	9,319
Capital stock of FHLB	2,544	2,473	5,243	4,856
Cash and cash equivalents	1,460	605	4,530	684
Total interest and dividend income	104,573	101,958	209,739	203,818
INTEREST EXPENSE:				
Deposits	36,267	28,974	71,736	56,219
FHLB advances	38,508	38,176	79,249	77,980
Other borrowings	1,101	993	2,230	1,948
Total interest expense	75,876	68,143	153,215	136,147
NET INTEREST AND DIVIDEND INCOME				
	28,697	33,815	56,524	67,671
PROVISION (RECOVERY) FOR LOAN LOSSES				
	55	(138)	(225)	130
NET INTEREST AND DIVIDEND INCOME AFTER PROVISION (RECOVERY) FOR LOAN LOSSES				
	28,642	33,953	56,749	67,541
OTHER INCOME:				
Retail fees and charges	3,543	3,914	7,831	8,263
Loan fees	551	435	1,212	910
Insurance commissions	513	808	954	1,232
Gain on trading securities, net	--	--	34	--
Loss on sale of available-for-sale securities	--	--	(47)	--
Other, net	824	858	1,662	1,452
Total other income	5,431	6,015	11,646	11,857
OTHER EXPENSES:				
Salaries and employee benefits	10,373	10,185	20,494	20,120
Occupancy of premises	3,529	3,185	6,399	6,283
Regulatory and outside services	1,490	1,102	3,133	2,301
Deposit and loan transaction costs	950	1,103	2,000	2,212
Advertising	1,223	868	2,112	1,565

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Other, net	2,455	1,493	3,513	3,047
Total other expenses	20,020	17,936	37,651	35,528
INCOME BEFORE INCOME				
TAX EXPENSE	14,053	22,032	30,744	43,870
INCOME TAX EXPENSE	5,597	8,445	12,037	16,970
NET INCOME	\$ 8,456	\$ 13,587	\$ 18,707	\$ 26,900
Basic earnings per common share				
	\$ 0.12	\$ 0.19	\$ 0.26	\$ 0.37
Diluted earnings per common				
share	\$ 0.12	\$ 0.19	\$ 0.26	\$ 0.37
Dividends declared per share				
	\$ 0.50	\$ 0.50	\$ 1.09	\$ 1.30
Weighted average number of common shares outstanding:				
Basic	72,812	72,647	72,718	72,649
Diluted	72,955	72,923	72,895	72,947

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, 2006	\$ 915	\$ 429,286	\$ (14,784)	\$ (825)	\$ 760,890	\$ (1,543)	\$ (310,720)	\$ 863
Comprehensive income:								
Net income					18,707			18,707
Changes in unrealized gains on available-for-sale securities, net of deferred income taxes of \$1.2 million						1,913		1,913
Total comprehensive income								20,620
Tax benefit of market value change in vested RRP shares		26						26
Common stock committed to be released for allocation - ESOP		2,824	1,009					3,833
Acquisition of treasury stock							(1,516)	(1,516)
Stock options exercised		3,224					2,518	5,742
Treasury stock activity related to RRP, net		138		(190)			42	
Amortization of unearned compensation - RRP				212				212
Stock based compensation expense		145						145

Dividends in excess of debt service cost - ESOP			669						
Dividends on common stock to stockholders (\$1.09 per public share)					(22,316)				(22,316)
Balance at March 31, 2007	\$ 915	\$ 435,643	\$ (13,106)	\$ (803)	\$ 757,281	\$	370	\$ (309,676)	\$ 870

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,

2007

2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$	18,707	\$	26,900
Adjustments to reconcile net income to net cash provided by operating activities:				
FHLB stock dividends		(5,243)		(4,856)
Net loan origination fees capitalized		722		1,288
Amortization of net deferred loan origination fees		(776)		(678)
(Recovery) provision for loan losses		(225)		130
Originations of loans receivable held-for-sale		(1,667)		(2,206)
Proceeds from sales of loans receivable held-for-sale		2,910		3,775
Amortization of MSR		498		368
Impairment (recovery of impairment) of MSR		115		(132)
Amortization and accretion of premiums and discounts on mortgage-related securities and investment securities		(551)		4,082
Principal collected on trading securities		7,729		--
Proceeds from sale of trading securities		389,209		--
Depreciation and amortization of premises and equipment		2,023		1,769
Amortization of deferred debt issuance costs		28		28
Common stock committed to be released for allocation - ESOP		3,833		3,353
RRP shares sold, net of forfeitures		(10)		(11)
Stock based compensation - stock options and RRP		357		500
Other, net		(327)		(323)
Changes in:				
Accrued interest receivable		320		874
Other assets		(707)		513
Income taxes payable/receivable and deferred income taxes		8,900		12,466
Accounts payable and accrued expenses		2,828		(2,710)
Net cash provided by operating activities		428,673		45,130
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from maturities or calls of investment securities AFS		60,000		50,000
Purchases of investment securities AFS		(1,520)		--
Proceeds from maturities or calls of investment securities HTM		226,500		--
Purchases of investment securities HTM		(626,388)		--
Principal collected on mortgage-related securities AFS		108,407		159,067
Purchases of mortgage-related securities AFS		(19,912)		--
Proceeds from sale of mortgage-related securities AFS		15,237		--
Principal collected on mortgage-related securities HTM		116,655		144,076
Purchases of mortgage-related securities HTM		(134,878)		(983)
Proceeds from the redemption of capital stock of FHLB		13,029		--
Loan originations, net of principal collected		(40,738)		(11,503)

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Loan purchases, net of principal collected	44,518	(50,004)
Purchases of premises and equipment, net	(3,871)	(3,272)
Proceeds from sales of real estate owned, net	2,694	2,074
Net cash (used in) provided by investing activities	(240,267)	289,455

(Continued)

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends paid	(22,316)	(26,616)
Dividends in excess of debt service cost of ESOP, net	669	(79)
Deposits, net of withdrawals	102,435	54,831
Proceeds from advances/line of credit from FHLB	--	629,100
Repayments on advances/line of credit from FHLB		