APEX MORTGAGE CAPITAL INC
Form 10-Q
May 15, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(mark one)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarter ended: MARCH 31, 2003
	OR
o	**TRANSITION REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number: 001-13637

APEX MORTGAGE CAPITAL, INC.

(Exact name of Registrant as specified in its Charter)

Maryland	**95-4650863**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
865 South Figueroa Street **Los Angeles, California**	**90017**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(213) 244-0000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange Which Registered**
Common Stock ($.01 par value)	American Stock Exchange

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 ý No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

At May 8, 2003, the aggregate market value of the voting stock held by non-affiliates was $171,672,844 based on the closing price of the Common Stock on the American Stock Exchange.

Number of shares of Common Stock outstanding at May 8, 2003: 29,857,000

APEX MORTGAGE CAPITAL, INC.

FORM 10-Q

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Apex Mortgage Capital, Inc.

Balance Sheets

(Unaudited)

	March 31, 2003	December 31, 2002
Assets		
Cash and cash equivalents	$ 3,107,000	$ 1,456,000
Fixed income trading securities, at fair value	556,929,000	606,014,000
Fixed income securities available-for-sale, at fair value	1,874,683,000	1,818,893,000
Equity securities available-for-sale, at fair value	4,184,000	4,168,000
Accrued interest receivable	11,759,000	12,012,000
Principal payments receivable	127,000	248,000
Other assets	1,135,000	2,587,000
	$ 2,451,924,000	$ 2,445,378,000
Liabilities and Stockholders Equity		
Liabilities		
Reverse repurchase agreements	$ 2,124,312,000	$ 2,112,444,000
Accrued interest payable	2,419,000	2,444,000
Dividend payable	7,557,000	13,509,000
Interest rate swaps, at fair value	120,214,000	120,098,000
Accrued expenses and other liabilities	2,172,000	2,224,000
	2,256,674,000	2,250,719,000
Commitments and contingencies (Note 6)		
Stockholders Equity		
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized; no shares outstanding		
Common stock, par value $0.01 per share; 100,000,000 shares authorized; 29,857,000 shares outstanding as of March 31, 2003 and Decemeber 31, 2002	299,000	299,000
Additional paid-in-capital	331,507,000	331,499,000
Accumulated other comprehensive loss	(94,091,000)	(95,880,000)
Accumulated deficit	(42,465,000)	(41,259,000)
	195,250,000	194,659,000
	$ 2,451,924,000	$ 2,445,378,000

See accompanying notes to financial statements

Apex Mortgage Capital, Inc.

Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2003	**2002**
Interest Income:		
Fixed income securities	$ 30,107,000	$ 27,254,000
Cash and cash equivalents	11,000	55,000
	30,118,000	27,309,000
Interest Expense	22,680,000	12,705,000
Net Interest Income	7,438,000	14,604,000
Dividend Income	101,000	126,000
Net Interest and Dividend Income	7,539,000	14,730,000
General and Administrative Expenses:		
Management fee	545,000	319,000
Incentive fee	658,000	2,650,000
Insurance	164,000	83,000
Professional fees	38,000	27,000
Directors fees	20,000	22,000
Non-employee stock options	8,000	27,000
Other	255,000	170,000
	1,688,000	3,298,000
Net Interest and Dividend Income After General and Administrative Expenses	5,851,000	11,432,000
Net Gain (Loss) from Investment and Derivative Activities	448,000	(1,704,000)
Net Income	$ 6,299,000	$ 9,728,000
Net Income Per Share:		
Basic	$ 0.21	$ 0.53
Diluted	$ 0.21	$ 0.53
Weighted Average Number of Shares Outstanding:		
Basic	29,857,000	18,316,000

Diluted		29,857,000		18,428,000
Dividends Declared Per Share:	$	0.25	$	0.50

See accompanying notes to financial statements

Apex Mortgage Capital, Inc.

Statements of Stockholders Equity

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity	Comprehensive Income (Loss)
Balance, January 1, 2003	29,857,000	$ 299,000	$ 331,499,000	$ (95,880,000)	$ (41,259,000)	$ 194,659,000	
Amortization of non-employees stock options			8,000			8,000	
Net income					6,299,000	6,299,000	$ 6,299,000
Other comprehensive income (loss):							
Net change in unrealized gain on available-for-sale securities				32,000		32,000	32,000
Net change in deferred loss on terminated interest rate swaps				1,873,000		1,873,000	1,873,000
Net change in unrealized loss on interest rate swaps classified as cash flow hedges				(116,000)		(116,000)	(116,000)
Comprehensive income (loss)							$ 8,088,000
Dividends declared					(7,505,000)	(7,505,000)	
Balance, March 31, 2003	29,857,000	$ 299,000	$ 331,507,000	$ (94,091,000)	$ (42,465,000)	$ 195,250,000	

See accompanying notes to financial statements

The following is a presentation of the changes in accumulated other comprehensive income (loss) for the three months ended March 31, 2003.

		Three Months Ended March 31, 2003
Unrealized Gains (Losses) on Available-for-Sale Securities:		
Unrealized gains (losses) arising during the year	$	32,000
Net change in unrealized gains (losses) on available-for-sale securities	$	32,000
Deferred Gain (Loss) on Terminated Interest Rate Swaps:		
Reclassification for amortization into interest expense	$	1,873,000
Net change in deferred gain (loss) on terminated interest rate swaps	$	1,873,000
Unrealized Gain (Loss) on Interest Rate Swaps Classified as Cash Flow Hedges:		
Net unrealized gain (loss) on interest rate swaps classified as cash flow hedges	$	(13,898,000)
Reclassification for adjustments to interest expense		13,782,000
Net change in unrealized gain (loss) on interest rate swaps classified as cash flow hedges	$	(116,000)

Apex Mortgage Capital, Inc.

Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,			
		2003		2002
Operating Activities:				
Net income	$	6,299,000	$	9,728,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Net amortization		5,947,000		(81,000)
Net (gain) loss from investment and derivative activities		(448,000)		1,704,000
Trading activities		48,987,000		(273,846,000)
Change in assets and liabilities:				
Accrued interest receivable		253,000		(5,722,000)
Other assets		1,452,000		(109,000)
Accrued interest payable		(25,000)		1,699,000
Accrued expenses and other liabilities		(52,000)		5,215,000
Net cash provided by (used in) operating activities		62,413,000		(261,412,000)
Investing Activities:				
Purchase of fixed income securities available-for-sale		(245,721,000)		(810,655,000)
Proceeds from sales of fixed income securities available-for-sale				5,520,000
Proceeds from sales of equity securities				1,117,000
Principal payments on fixed income securities available-for-sale		186,548,000		14,374,000
Net cash used in investing activities		(59,173,000)		(789,644,000)
Financing Activities:				
Net change in reverse repurchase agreements		11,868,000		974,900,000
Dividend distributions		(13,457,000)		(12,537,000)
Issuance of common stock				91,795,000
Net cash (used in) provided by financing activities		(1,589,000)		1,054,158,000
Net Increase in Cash and Cash Equivalents		1,651,000		3,102,000
Cash and Cash Equivalents at Beginning of Period		1,456,000		4,330,000
Cash and Cash Equivalents at End of Period	$	3,107,000	$	7,432,000
Supplemental Disclosure of Cash Flow Information:				
Cash paid for interest	$	20,831,000	$	11,006,375
Noncash Investing and Financing Activities:				

Change in accumulated other comprehensive loss	1,789,000	(4,601,000)
Change in receivable for unsettled securities		(94,679,000)
Change in dividends declared, not yet paid	(5,952,000)	(120,000)

See accompanying notes to financial statements

Apex Mortgage Capital, Inc.

Notes to Financial Statements

(Unaudited)

Note 1 - The Company

Apex Mortgage Capital, Inc. (the Company) was incorporated in Maryland on September 15, 1997. The Company commenced its operations of acquiring and managing a portfolio of mortgage related assets on December 9, 1997, upon receipt of the net proceeds from the initial public offering of the Company s Common Stock. The Company uses its equity capital and borrowed funds to seek to generate income based on the difference between the yield on its investments and the cost of its borrowings. The Company is structured for tax purposes as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code).

The Company has entered into a Management Agreement (the Management Agreement), as amended, with TCW Investment Management Company (the Manager), a wholly owned subsidiary of The TCW Group, Inc., pursuant to which the Manager manages the Company s day-to-day operations, subject to the direction and oversight of the Company s Board of Directors.

Note 2 - Summary of Significant Accounting Policies and Certain Risks

Overview

Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. The unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2002. The accounting policies used in the preparation of these interim financial statements were consistent with those used in the preparation of the financial statements for the year ended December 31, 2002, unless otherwise noted. Certain reclassifications may have been made to the prior period financial statements to conform to the current period presentation.

Derivatives and Hedging Transactions

The Company may enter into interest rate swaps and other financial instruments in order to mitigate the impact of rising interest rates on the cost of its short-term borrowings and market value of its portfolio securities. The Company may also enter into forward contracts to sell U.S. Treasury securities and other financial instruments in order to mitigate the negative impact of rising interest rates on the fair value of its fixed income securities. Such financial instruments are generally referred to as derivatives.

The Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, on January 1, 2001. Under SFAS No. 133, all derivatives are recorded at fair value and presented as either assets or liabilities on the Company s balance sheets. If the Company were to change current or anticipated borrowings so that they were no longer appropriately matched to the swap agreements, the agreements might no longer qualify for hedge accounting treatment. In that case, changes in their fair values would affect net income.

Prior to adopting SFAS No. 133, the Company accounted for changes in fair values of the forward contracts through adjustments to accumulated other comprehensive income. Following adoption of

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SFAS No. 133, the Company recognizes changes in fair values of forward contracts as a component of net gain (loss) on investment and derivative activities in the statements of operations.

At March 31, 2003 and December 31, 2002, the Company s outstanding interest rate swaps qualify as cash flow hedges and are deemed to be fully effective as hedges under SFAS No. 133. Changes in fair values of such swaps are not reflected in current earnings, but are reflected in other comprehensive income. Currently, fair value of the interest rate swaps is determined by the average of values obtained from two market analytics systems, i.e., The Yield Book and Bloomberg.

Stock-based Compensation

The Company grants stock options to Directors and to certain directors, officers and employees of the Manager. Options granted to Directors of the Company are accounted for using the intrinsic-value method, and generally no compensation expense is recognized in the statements of operations for such options. Options granted to persons other than Directors (i.e., to non-employees) are accounted for using the fair value method; such stock options are measured at their fair value when they are granted and are recognized as general and administrative expense during the periods when the options are vested and the related services are performed. During the quarters ended March 31, 2003 and March 31, 2002, the Company did not issue any stock options. The effects of previously issued and unvested stock options to the Company s directors did not have an impact for either of the quarters presented below.

The following table represents the pro forma effects on net income (loss) and net income (loss) per share if compensation costs related to the director stock options were measured using the fair value method as prescribed under SFAS No. 123, *Accounting for Stock-based compensation:*

	Three Months Ended March 31,			
		2003		2002
Reported net income	$	6,299,000	$	9,728,000
Deduct: Total stock-based employee Compensation expense determined under fair value based method for all awards, net of related tax effects				
Pro forma net income	$	6,299,000	$	9,728,000
Earnings per share:				
Basic - as reported	$	0.21	$	0.53
Basic - pro forma	$	0.21	$	0.53
Diluted - as reported	$	0.21	$	0.53
Diluted - pro forma	$	0.21	$	0.53

Note 3 Fixed Income and Equity Securities

At March 31, 2003, fixed income and equity securities consisted of the following:

(in thousands)	Fixed Income Trading Securities	Fixed Income Securities Available-For-Sale	Equity Securities Available-For-Sale
Principal Amount	$ 536,951	$ 1,818,563	
Unamortized Premium (Discount)	12,171	23,030	
Adjusted Cost	549,122	1,841,593	$ 2,844
Gross Unrealized Gains	7,807	33,706	1,340
Gross Unrealized Losses		(616)	
Fair Value	$ 556,929	$ 1,874,683	$ 4,184

At December 31, 2002, fixed income and equity securities consisted of the following:

(in thousands)	Fixed Income Trading Securities	Fixed Income Securities Available-For-Sale	Equity Securities Available-For-Sale
Principal Amount	$ 585,817	$ 1,765,448	
Unamortized Premium (Discount)	12,838	20,371	
Adjusted Cost	598,655	1,785,819	$ 2,844
Gross Unrealized Gains	7,359	33,225	1,324
Gross Unrealized Losses		(151)	
Fair Value	$ 606,014	$ 1,818,893	$ 4,168

The contractual final maturity of the mortgage loans supporting fixed income mortgage securities is generally between 15 and 30 years at origination. Because of prepayments on the underlying mortgage loans, the actual weighted average maturity is expected to be substantially less.

Fixed-rate mortgage securities composed approximately 95% and 99% of the Company s portfolio of fixed income securities at March 31, 2003 and December 31, 2002, respectively. The expected average remaining maturity of the Company s other fixed income securities as of March 31, 2003 and December 31, 2002 was less than one year.

Adjustable-rate mortgage securities composed approximately 4.6% and 0.4% of the Company s portfolio of fixed income securities at March 31, 2003 and December 31, 2002, respectively. A portion of the adjustable-rate mortgage securities in the Company s portfolio are backed by loans subject to periodic and lifetime caps that limit the amount the securities effective interest rates can change during any given period and over the lives of the assets. Both at March 31, 2003 and December 31, 2002, the portion of adjustable-rate mortgage securities subject to periodic cap had an average periodic cap equal to 2.0%. At March 31, 2003 and December 31, 2002, the portion of adjustable-rate mortgage securities subject to a lifetime cap had an average lifetime cap equal to 10.3% and 11.3%, respectively.

During the quarter ended March 31, 2003, the Company reported a gain on investment and derivative activities of $448,000 in the statement of operations. The gain was the unrealized gain on fixed income trading securities.

During the quarter ended March 31, 2002, the Company reported a net loss on investment and derivative activities of $1,704,000 in the statement of operations. This loss consisted of a net loss of $481,000 on closed forward contracts, a loss of $232,000 on the sale of $99,881,000 of fixed income securities available-for-sale, a gain of $17,000 on the sale of $6,535,000 of fixed income trading securities, a gain of $341,000 on the sale of $1,117,000 of equity securities available-for-sale, and an unrealized loss of $1,349,000 on fixed income trading securities.

Note 4 - Reverse Repurchase Agreements

The Company has entered into reverse repurchase agreements to finance certain of its investments. These agreements are secured by a portion of the Company s investments and bear interest rates that have historically moved in close relationship to LIBOR. Reverse repurchase agreements are accounted for as short-term borrowings and recorded as a liability on the balance sheet.

At March 31, 2003, the Company had outstanding $2,124,312,000 of reverse repurchase agreements with a weighted average current borrowing rate of 1.28% and a weighted average maturity of one month. The reverse repurchase agreements were collateralized by securities with an estimated fair value of $2,213,442,000.

At December 31, 2002, the Company had outstanding $2,112,444,000 of reverse repurchase agreements with a weighted average current borrowing rate of 1.40% and a weighted average maturity of one month. The reverse repurchase agreements were collateralized by securities with an estimated fair value of $2,199,852,000.

Note 5 Derivative Financial Instruments and Hedging Activities

The Company has entered into interest rate swap agreements as summarized below. Under these agreements, the Company receives a floating rate and pays a fixed rate. The swaps qualify as cash flow hedges for accounting purposes, and effectively fix the interest rate paid on $1,678,500,000, as of March 31, 2003, of current and anticipated future borrowings under reverse repurchase agreements. The Company estimates that approximately $42,676,000 of unrealized and deferred realized losses on interest rate swaps currently included in accumulated other comprehensive loss will be reclassified into interest expense within the next twelve months as net settlements occur. As of March 31, 2003, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for current and anticipated future transactions is approximately 9.3 years.

Interest Rate Swaps at March 31, 2003:

(Dollars in thousands)

Current Notional Amount	Average Fixed Rate	Floating Rate	Par Weighted Average Maturity	Unrealized Losses
$1,678,500	4.643%	1 Month LIBOR	4.2 years	$ 120,214

Interest Rate Swaps at December 31, 2002:

(Dollars in thousands)

Current Notional Amount	Average Fixed Rate	Floating Rate	Par Weighted Average Maturity	Unrealized Losses
$ 1,678,500	4.643%	1 Month LIBOR	4.4 years	$ 120,098

During the fourth quarter of 2002, the Company terminated a portion of the outstanding interest rate swap agreements with a combined notional amount of $544,500,000, which resulted in a deferred loss of approximately $13,872,000 with an average term of 1.3 years and an average rate of 3.57%. The deferred loss is being amortized as an adjustment to interest expense over the remaining lives of the original swap agreements. However, the Company may be required to accelerate the deferred loss recognition if the general level of reverse repurchase agreements maintained by the Company declines in the future.

During the quarter ended March 31, 2003, interest expense was increased by $13,782,000 paid to swap counterparties and $1,873,000 from amortization of deferred losses on terminated swap contracts. During the quarter ended March 31, 2002, interest expense was increased by $5,691,000 paid to swap counterparties and decreased by $121,000 from amortization of deferred gains on terminated swap contracts.

Note 6 Commitments and Contingencies

There have been no material changes to the matters disclosed in Note 10 - Commitments and Contingencies on the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

Note 7 Subsequent Events

On March 13, 2003, the Board of Directors authorized management to consider a full range of strategic alternatives for the Company in order to maximize shareholder value, including the potential sale of the Company. In this context, the Board of Directors has appointed a special committee consisting of the independent directors. The Company has engaged an investment bank, UBS Warburg LLC as its financial advisor to assist in the evaluation of strategic alternatives. In the event of a sale of the Company, the Manager is entitled to receive a termination fee under the terms of the Management Agreement. In the event of a termination, the Manager and the Board of Directors have agreed to limit the termination fee to an amount less than the fair market value contemplated to be paid under the Management Agreement. In the event of a sale of the Company, the termination fee will be an amount up to fifty percent of the premium over book value, not to exceed $10 million.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements for the year ended December 31, 2002 included in our Annual Report on Form 10-K previously filed with the SEC.

SAFE HARBOR/FORWARD LOOKING STATEMENTS

Certain information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements which can be identified by the use of forward-looking terminology such as may, will, should, anticipate, estimate, intend, continue or believes or the negatives thereof variations thereon or comparable terminology. Some important factors that would cause actual results to differ materially from those in any forward-looking statements include changes in interest rates; domestic and foreign business, market, financial or legal conditions; differences in the actual allocation of the assets of the company from those assumed; and the degree to which assets are hedged and the effectiveness of the hedge, among other factors. In addition, the degree of risk in the company s investments is increased by the company s leveraging of its assets. For additional discussion of factors that could cause actual results to differ from those contained in such forward-looking statements, see Principal Risks and Special Considerations , Item 7 Management s Discussion and Analysis of Financial Conditions and Results of Operations and Item 7A Quantitative and Qualitative Disclosures About Market Risk in the Company s annual report on Form 10-K for the year ended December 31, 2002. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

GENERAL

Apex Mortgage Capital, Inc. (the Company), a Maryland corporation, was formed on September 15, 1997, primarily to acquire United States agency and other highly rated, single-family real estate adjustable and fixed rate mortgage related assets. The Company commenced operations on December 9, 1997, following the initial public offering of the Company s common stock. The Company s principal executive offices are located at 865 South Figueroa Street, Suite 1800, Los Angeles, California 90017, and its telephone number is (213) 244-0000.

The Company uses its equity capital and borrowed funds to seek to generate income based on the difference between the yield on its mortgage related assets and the cost of its borrowings. The Company has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended (the Code). The Company will not generally be subject to federal taxes on its income to the extent that it distributes its net income to its stockholders and maintains its qualification as a REIT.

The day-to-day operations of the Company are managed by an external management company, TCW Investment Management Company (the Manager), subject to the direction and oversight of the Company s Board of Directors. A majority of the Board of Directors are unaffiliated with the TCW Group, Inc. (TCW and, together with its subsidiaries and affiliates, the TCW Group), or the Manager. The Manager is a wholly-owned subsidiary of TCW. The Manager was established in 1987, and the TCW Group began operations in 1971 through one of its affiliates. The Company s investment management team are selected members of the TCW Group s Mortgage-Backed Securities Group (the MBS Group), all of whom have over thirteen years of experience in raising and managing mortgage capital. The Company has elected to be

externally managed by the Manager to take advantage of the existing operational systems, expertise and economies of scale associated with the Manager s current business operations, among other reasons. The

Manager s key officers have experience in raising and managing mortgage capital, mortgage finance and the purchase and administration of mortgage related assets.

Website Access to Our Periodic SEC Reports

Our internet address is www.apexreit.com. We make our periodic SEC reports (Form 10-Q and Form 10-K) and current reports (Form 8-K) available free of charge through our website as soon as reasonably practicable after they are filed electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules.

Materials we file with the SEC may be read and copied at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet Website at www.sec.gov that contains reports, proxy and information statements, and other information regarding our company that we file electronically with the SEC.

RECENT EVENTS

Exploration of Strategic Alternatives. On March 13, 2003, we announced that our Board of Directors has authorized our management to consider a full range of strategic alternatives for our Company in order to maximize stockholder value, including, but not limited to, the potential sale of the Company. In this context, our Board of Directors has appointed a special committee consisting of our independent directors. The Company has engaged an investment bank, UBS Warburg LLC as its financial advisor to assist in the evaluation of strategic alternatives. In the event of a sale of the Company, the Manager is entitled to receive a termination fee under the terms of our management agreement. For this purpose, in the event of a termination, the Manager and our Board of Directors have agreed to limit the termination fee to an amount less than the fair market value contemplated to be paid under the management agreement. In the event of a sale of the Company, the termination fee will be an amount up to 50% of the premium over book value of the management agreement, not to exceed $10 million.

Reporting Period. Unless otherwise noted, this report describes the Company s operations and developments through the date hereof.

STRATEGY

In order to achieve its business objective and generate dividend yields that provide a competitive rate of return for its stockholders, the Company s strategy is to seek to:

purchase primarily single-family real estate adjustable and fixed rate mortgage related assets;

manage the credit risk of its mortgage related assets through, among other activities; (i) carefully selecting mortgage related assets to be acquired; (ii) complying with the Company s investment policy; (iii) actively monitoring the ongoing credit quality and servicing of its mortgage related assets; and (iv) maintaining appropriate capital levels and allowances for possible credit losses;

finance purchases of mortgage related assets with the net proceeds of equity offerings and, to the extent permitted by the Company s leverage policy, to utilize leverage to increase potential returns to stockholders through borrowings (primarily reverse repurchase agreements) with interest rates that will also reflect changes in short-term market interest rates;

seek to structure its borrowings in accordance with its interest rate risk management policy;

utilize interest rate swaps, forward contracts on U.S. Treasury notes, interest rate caps and similar financial instruments to mitigate interest rate risks;

seek to minimize prepayment risk primarily by structuring a diversified portfolio with a variety of prepayment characteristics; and

purchase equity and other securities issued by financial entities on an opportunistic basis.

There can be no assurance that the Company will be able to generate competitive earnings and dividends while holding primarily high quality mortgage related assets and maintaining a disciplined risk-control profile.

The Company may attempt to increase the return to stockholders over time by: (i) raising additional capital in order to increase its ability to invest in additional mortgage related assets; (ii) lowering its effective borrowing costs through direct funding with collateralized lenders, in addition to using Wall Street intermediaries, and investigating the possibility of using collateralized commercial paper and medium-term note programs; and (iii) improving the efficiency of its balance sheet structure by issuing uncollateralized subordinated debt and other forms of capital.

THE MANAGEMENT AGREEMENT

The Company has renewed its Management Agreement with the Manager for a one-year term ending on December 31, 2003. The Manager is primarily involved in two activities: (i) asset/liability management acquisition, financing, hedging, management and disposition of mortgage related assets, including credit and prepayment risk management; and (ii) capital management oversight of the Company s structuring, analysis, capital raising and investor relations activities. In conducting these activities, the Manager formulates operating strategies for the Company, arranges for the acquisition of mortgage related assets by the Company, arranges for various types of financing for the Company, monitors the performance of the Company s mortgage related assets and provides certain administrative and managerial services in connection with the operation of the Company. The Manager is required to manage the business affairs of the Company in conformity with the policies that are approved and monitored by the Company s Board of Directors. The Manager is required to prepare regular reports for the Company s Board of Directors that will review the Company s acquisitions of mortgage related assets, portfolio composition and characteristics, credit quality, performance and compliance with the policies approved by the Company s Board of Directors.

At all times, the Manager is subject to the direction and oversight of the Company s Board of Directors and has only such functions and authority as the Company delegates to it. The Manager is responsible for the day-to-day operations of the Company.

The Management Agreement may be renewed for additional one-year terms at the discretion of the unaffiliated directors, unless previously terminated by the Company or the Manager upon written notice. Except in the case of a termination or non-renewal by the Company for cause, upon termination or non-renewal of the Management Agreement by the Company, the Company is obligated to pay the Manager a termination or non-renewal fee, which may be significant. The termination or non-renewal fee shall be equal to the fair market value of the Management Agreement without regard to the Company s termination right, as determined by an independent appraisal. The selection of the independent appraiser shall be subject to the approval of the unaffiliated directors. Neither the fair market value of the Management Agreement nor the various factors which the appraiser may find relevant in its determination of the fair market value can be determined at this time.

The fair market value of the Management Agreement will be affected by significant variables, including (i) the historical management fees paid to the Manager, (ii) any projections of future management fees to be

paid to the Manager determined by the independent appraiser, (iii) the relative valuations of agreements similar to the Management Agreement, and (iv) other factors, all of which may be unrelated to the performance of the Manager.

The Management Agreement may be assigned by the Manager to an affiliate of TCW without the consent of the Company. The Management Agreement may be assigned to a non-affiliate of TCW only with the approval of a majority of the unaffiliated directors.

Manager Compensation

The Manager will receive annual base management compensation based on the Average Net Invested Capital of the Company, payable monthly in arrears, equal to 3/4 of 1% of Average Net Invested Capital. The term Average Net Invested Capital means the month end sum of (1) the Company s total stockholders equity computed in accordance with accounting principles generally accepted in the United States of America, plus (2) any unsecured debt that has been approved for inclusion by the unaffiliated directors at issuance, plus or minus (3) an adjustment to exclude the impact of any unrealized gains, losses or other items that do not affect realized net income. Accordingly, incurring collateralized debt to finance specific investment purchases does not ordinarily increase Average Net Invested Capital.

The Manager shall also be entitled to receive as incentive compensation for each fiscal quarter, an amount equal to 30% of the Net Income of the Company, before incentive compensation, in excess of the amount that would produce an annualized Return on Equity equal to the Ten-Year U.S. Treasury Rate plus 1%. The incentive compensation calculation and payment will be made quarterly in arrears. The term Return on Equity is calculated for any quarter by dividing the Company s Net Income for the quarter by its Average Net Worth for the quarter. For purposes of calculating the incentive compensation payable, the definition Return on Equity is not related to the actual distributions received by stockholders or to an individual investor s actual return on investment. For such calculations, the Net Income of the Company means the taxable income of the Company (including net capital gains, if any) before the Manager s incentive compensation, net operating loss deductions arising from losses in prior periods and deductions permitted by the Code in calculating taxable income for a REIT plus the effects of adjustments, if any, necessary to record hedging and interest transactions in accordance with accounting principles generally accepted in the United States of America. A deduction for all of the Company s interest expenses for borrowed funds is taken into account in calculating Net Income. Average Net Worth for any period means the arithmetic average of the sum of the gross proceeds from any offering of its equity securities by the Company, before deducting any underwriting discounts and commissions and other expenses and costs relating to the offerings, plus the Company s retained earnings (without taking into account any losses incurred in prior periods) computed by taking the average of such values at the end of each month during such period, minus the cumulative amounts paid by the Company to repurchase its shares.

The ability of the Company to achieve an annualized Return on Equity in excess of the Ten-Year U.S. Treasury Rate plus 1%, and of the Manager to earn the incentive compensation described in the preceding paragraph, is dependent upon the level and volatility of interest rates, the Company s ability to react to changes in interest rates and to utilize successfully the operating strategies described herein, and other factors, many of which are not within the Company s or the Manager s control. The Manager s base compensation shall be calculated by the Manager within 15 days after the end of each month, and such calculation shall be promptly delivered to the Company. The Company is obligated to pay the base compensation within 30 days after the end of each month. The Manager shall compute the quarterly incentive compensation within 45 days after the end of each fiscal quarter, and the Company shall pay the incentive compensation with respect to each fiscal quarter within 15 days following the delivery to the Company of the Manager s written statement setting forth the computation of the incentive compensation for such quarter. Quarterly incentive compensation is subject to an annual adjustment so that the incentive compensation is based on earnings for the entire year. The Company believes that this compensation arrangement benefits its stockholders because it

ties the Manager s compensation to Return on Equity and, in periods of low earnings, the Manager s incentive compensation is reduced or eliminated, thereby lowering the Company s operating expenses.

POLICIES

The Company s current investment policies are set forth in its Annual Report on Form 10-K for the year ended December 31, 2002.

PRINCIPAL RISKS AND SPECIAL CONSIDERATIONS

Leverage Risk. The Company employs a leveraging strategy of generally borrowing up to 92% of its total assets, less any assets that are funded with committed secured borrowings, plus the market value of any related hedging transactions to finance the acquisition of additional mortgage related assets. The Company s borrowings may, from time to time, exceed 92% of its total assets. In the event borrowing costs exceed the income on its mortgage related assets, the Company will experience negative cash flow and incur losses. Another risk of leverage is the possibility that the value of the collateral securing the borrowings will decline. In such event, additional collateral or repayment of borrowings would be required. The Company could be required to sell mortgage related assets under adverse market conditions in order to maintain liquidity. If these sales were made at prices lower than the carrying value of the mortgage related assets, the Company would experience losses.

Interest Rate Risk. There is the possibility that the value of the Company s mortgage related assets may fall since fixed income securities generally fall when interest rates rise. The longer the term of a fixed income instrument, the more sensitive it will be to fluctuations in value from interest rate changes. Changes in interest rates may have a significant effect on the Company s operations, because it may hold mortgage related assets with long terms to maturity. Rising interest rates will negatively impact the Company s borrowings since the value of the collateral securing the borrowing will decline in value, requiring additional collateral or repayments of borrowing. This could reduce the level of borrowings and reduce returns. Also, when interest rates rise, the Company s holdings of mortgage related assets can reduce returns if the owners of the underlying mortgages pay-off their mortgages later than anticipated. This is known as *extension risk*. When interest rates decline, the Company s holdings of the mortgage related assets can reduce returns if the owners of the underlying mortgages pay-off their mortgages sooner than anticipated since the funds prepaid will have to be invested at the then lower prevailing rate. This is known as *prepayment risk*. In addition, when interest rates decline, not only can the value of mortgage related assets decline, but the yield can decline, particularly where the yield on the security is tied to interest rates, such as adjustable mortgages.

Liquidity Risk. There is the possibility that the Company may lose money or be prevented from realizing capital gains if it cannot sell a mortgage related asset at a time and price that is most beneficial to the Company. The Company is subject to liquidity risk because it invests in mortgage securities which have experienced periods of illiquidity.

Credit Risk. Credit risk is the possibility that the Company could lose money if an issuer is unable to meet its financial obligations, such as the payment of principal and/or interest on an instrument, or goes bankrupt. The Company may invest a portion of its assets in mortgage related assets which are not guaranteed by the U.S. Government or investment grade, which may make the Company subject to substantial credit risk. This is especially true during periods of economic uncertainty or during economic downturns.

Equity Risk. Equity risk is the possibility that the Company could lose money if its equity investments decline in value. Such a decline could be caused by a number of factors, including, but not limited to, overall market conditions, suspension or omission of dividends, bankruptcies and litigation. This is especially true during periods of economic uncertainty or during economic downturns.

Failure to Maintain REIT Status Risk. Failure to maintain REIT status risk refers to the possibility that the Company may become subject to federal income tax as a regular corporation. The Company intends at all times to maintain substantially all of its investments in, and otherwise conduct its business in a manner consistent with, the REIT Provisions of the Code. If the Company fails to qualify as a REIT, it would be treated as a regular corporation for federal tax purposes. This would result in the Company being subject to federal income tax that would further result in a substantial reduction of cash available for distribution to stockholders.

Failure to Maintain Investment Company Act Exemption Risk. The Company intends to conduct its business so as not to become a regulated investment company under the Investment Company Act. As a result, the Company s ownership of certain mortgage related assets may be limited by the Investment Company Act. This could have the effect of harming the Company s operations and returns to stockholders. In addition, if the Company fails to qualify for the exemption from registration as an investment company, its ability to use leverage would be substantially reduced. This could reduce income to the Company and returns to stockholders.

Risks Relating to Exploration of Strategic Alternatives. On March 13, 2003, we announced that our Board of Directors has authorized management to consider a full range of strategic alternatives for the Company in order to maximize stockholder value, including, without limitation, the potential sale of the Company. We are uncertain as to what strategic alternatives may be available to the Company or what impact any particular strategic alternative will have on our stock price if accomplished. Uncertainties and risks relating to our exploration of strategic alternatives include:

the exploration of strategic alternatives may disrupt our operations and distract management, which could harm our operating results and the market price of our common stock;

the process of exploring strategic alternatives may be more time-consuming and expensive than we anticipate;

we may not be able to identify any strategic alternatives that we believe are worth undertaking;

we may not be able to successfully execute or achieve the benefits of a strategic alternative which is approved by the Board or the independent committee thereof formed for that purpose;

we may incur significant financial advisory fees, legal and accounting fees and other general and administrative expenses associated with exploring and/or implementing various strategic alternatives, including possible termination or break-up fees with counterparties; and

we may terminate our management agreement with the Manager upon the consummation of any sale of the Company and, in such event, we will be obligated to pay the Manager a termination fee which could be substantial.

FINANCIAL CONDITION

Fixed Income Securities

At March 31, 2003 and December 31, 2002, the Company held $2,431,612,000 and $2,424,907,000 of fixed income securities, respectively. The original maturity of a significant portion of the fixed income securities ranges from fifteen to thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

The following table is a schedule of fixed income securities held and listed by security type (dollars in thousands):

	March 31, 2003		December 31, 2002	
Fixed Income Securities	**Carrying Value**	**Percent of Portfolio**	**Carrying Value**	**Percent of Portfolio**
Mortgage Securities:				
Adjustable Rate (1)	$ 109,864	4.52%	$ 9,173	0.38%
Fixed Rate	2,320,998	95.45%	2,415,484	99.61%
Other Fixed Income Securities	750	0.03%	250	0.01%
Totals	$ 2,431,612	100.00%	$ 2,424,907	100.00%

(1) At March 31, 2003, the interest rate indices for 90% and 10% of the adjustable rate mortgage securities were based on the one-year U.S. Treasury rate and the six-month London Inter-Bank Offered Rate, respectively.

At December 31, 2002, the interest rate indices for 99% and 1% of the adjustable rate mortgage securities were based on the one-year U.S. Treasury rate and the six-month London Inter-Bank Offered Rate, respectively.

The following table shows various weighted average characteristics of the fixed income securities held by the Company at March 31, 2003 (dollars in thousands):

Security Type	**Par Amount**	**Par as a Percent of Category**	**Adjusted Cost Basis**	**Market Price**	**Current Coupon**	**Weighted Average Life (1)**
15 Year Agency Pass-throughs	$ 139,524	5.92%	102.20%	102.90%	5.05%	4.1
30 Year Agency Pass-throughs	2,098,546	89.09%	101.52%	103.40%	6.04%	2.6
AAA CMOs	7,527	0.32%	98.39%	101.50%	7.25%	1.4
Total Fixed Rate Holdings	2,245,597	95.33%	101.55%	103.36%	6.02%	2.7
Other Fixed Income Securities	2,500	0.11%	11.83%	30.00%	17.88%	
Adjustable Rate Holdings	107,417	4.56%	102.44%	102.28%	5.24%	5.0
Category Total	$ 2,355,514	100.00%	101.49%	103.23%	6.00%	2.8

The following table shows various weighted average characteristics of the fixed income securities held by the Company at December 31, 2002 (dollars in thousands):

Security Type		Par Amount	Par as a Percent of Category	Adjusted Cost Basis	Market Price	Current Coupon	Weighted Average Life (1)
30 Year Agency Pass-throughs		2,327,391	98.98%	101.54%	103.24%	6.07%	2.7
AAA CMOs		12,409	0.53%	97.54%	101.91%	7.10%	1.0
Total Fixed Rate Holdings		2,339,800	99.51%	101.52%	103.23%	6.08%	2.7
Other Fixed Income Securities		2,500	0.11%	16.04%	10.00%	18.28%	0.3
Adjustable Rate Holdings		8,965	0.38%	97.42%	102.32%	5.12%	1.0
Category Total	$	2,351,265	100.00%	101.41%	103.13%	6.09%	2.7

(1) The weighted average life of the fixed rate mortgage securities is based upon market prepayment expectations as of the dates shown. The actual weighted average life could be longer or shorter depending on the actual prepayment rates experienced over the life of the securities and is sensitive to changes in both prepayment rates and interest rates. The weighted average life shown for the adjustable rate mortgage assets represents the average time until the next coupon reset date. All averages are shown in years.

Equity Securities

At March 31, 2003 and December 31, 2002, the Company held $4,184,000 and $4,168,000 of equity securities, respectively. Equity securities consist primarily of investment in equities issued by other real estate investment trusts.

At March 31, 2003, equity securities consisted of the following:

(In thousands)	**Shares Held**	**Adjusted Cost**	**Fair Value**
Common Stock:			
Dynex Capital, Inc.	75	$ 122	$ 366
Total Common Stock		122	366
Convertible Preferred Stock:			
Capstead Mortgage Corporation, Series B	321	2,722	3,818
Total Convertible Preferred Stock		2,722	3,818
Total Equity Securities		$ 2,844	$ 4,184

At December 31, 2002, equity securities consisted of the following:

(In thousands)	Shares Held	Adjusted Cost	Fair Value
Common Stock:			
Dynex Capital, Inc.	75	$ 122	$ 363
Total Common Stock		122	363
Convertible Preferred Stock:			
Capstead Mortgage Corporation, Series B	321	2,722	3,805
Total Convertible Preferred Stock		2,722	3,805
Total Equity Securities		$ 2,844	$ 4,168

Other Assets

The Company had other assets of $13,021,000 and $14,847,000 at March 31, 2003 and December 31, 2002, respectively. Other assets consist of accrued interest receivable, principal payments receivable, deferred insurance expense, deferred shareholder rights expense and other prepaid expenses.

Stockholders Equity

The Company had stockholders equity of $195,250,000 and $194,659,000 at March 31, 2003 and December 31, 2002, respectively. The increase in stockholders equity at March 31, 2003 was primarily due to a decrease in accumulated other comprehensive loss during the quarter ended March 31, 2003. The decrease in accumulated other comprehensive loss included an increase in unrealized gains on available-for-sale securities, a decrease in unrealized losses on interest rate swaps, and a decrease in deferred loss on terminated interest rate swaps. The increase in accumulated deficit included net income less dividends declared for the quarter ended March 31, 2003.

Hedging Instruments

There can be no assurance that the Company will enter into hedging activities or that, if entered into, such activities will have the desired beneficial impact on the Company s results of operations or financial condition. Moreover, no hedging activity can completely insulate the Company from the risks associated with changes in interest rates and prepayment rates.

Hedging involves risk and typically involves costs, including transaction costs. Such costs increase dramatically as the period covered by the hedging increases and during periods of rising and volatile interest rates. The Company may increase its hedging activity and, thus, increase its hedging costs during such periods when interest rates are volatile or rising and hedging costs have increased. The Company intends generally to hedge as much of the interest rate risk as the Manager determines is in the best interest of the Company s stockholders given the cost of such hedging transactions and the Company s desire to maintain its status as a REIT. The Company s policies do not contain specific requirements as to the percentages or amount of interest rate risk that the Manager is required to hedge.

The Company utilizes interest rate swap agreements as a tool to manage interest rate risk. Under the swap agreements, the Company receives a floating rate and pays a fixed rate. The notional amount of each

agreement is matched against a like amount of current and anticipated borrowings under reverse repurchase agreements to mitigate the potential effect on cash flows and net interest income of rising interest rates by effectively fixing the rate paid on the matched borrowings over the life of the contract. In the absence of such financial instruments, interest expense on reverse repurchase agreements and similar short-term borrowings, which mature and reprice frequently, can increase faster than the Company can adjust its interest-earning assets and increase interest income, because the Company s mortgage related securities generally have much longer maturities and have fixed rates of interest.

The interest rate swap agreements entered into by the Company are classified as cash flow hedges for accounting purposes and meet the requirements of SFAS No. 133 for such classification. Therefore, changes in the fair value of the agreements are reported in accumulated other comprehensive income, a component of stockholders equity, and do not affect net income in the period of the change. Periodic exchanges of cash flows with the counterparties to the agreements are recorded as adjustments to interest expense. If the Company were to terminate the swap agreements prior to their contractual termination dates, or change current or anticipated borrowings so that they were no longer appropriately matched to the swap agreements, the agreements might not qualify for hedge accounting treatment. In that case, changes in their fair values would affect net income.

Borrowings hedged by interest rate swaps are used primarily to acquire and hold fixed income securities available-for-sale. Changes in the fair values of securities available-for-sale are also reported in accumulated other comprehensive income, a component of stockholders equity. Changes in fair values of the securities only affect periodic earnings when they are sold or if they have an other-than-temporary impairment. Therefore, earnings volatility is reduced by the use of the swap agreements as cash flow hedges and the acquisition of available-for-sale securities with the borrowings hedged by the agreements. Impairment of the available-for-sale securities or decisions to sell the securities prior to their expected maturities could result in unanticipated earnings volatility.

During the fourth quarter of 2002, the Company terminated a portion of the outstanding interest rate swap agreements with a combined notional amount of $544,500,000, which resulted in a deferred loss of approximately $13,872,000 with an average term of 1.3 years and an average rate of 3.57%. The deferred loss is being amortized as an adjustment to interest expense over the remaining lives of the original swap agreements. However, the Company may be required to accelerate the deferred loss recognition if the general level of reverse repurchase agreements maintained by the Company declines in the future.

At March 31, 2003, the Company had entered into interest rate swap agreements summarized below:

(Dollars in thousands)

Current Notional Amount	Average Fixed Rate	Floating Rate	Par Weighted Average Maturity	Unrealized Losses
$ 1,678,500	4.643%	1 Month LIBOR	4.2 years	$ 120,214

At December 31, 2002, the Company had entered into interest rate swap agreements summarized below:

(Dollars in thousands)

Current Notional Amount	Average Fixed Rate	Floating Rate	Par Weighted Average Maturity	Unrealized Losses
$ 1,678,500	4.643%	1 Month LIBOR	4.4 years	$ 120,098

At various times the Company has used forward contracts to sell U.S. Treasury securities as a means to seek to mitigate the effect of rising interest rates on the fair value of its mortgage related securities. The fair values of these forward contracts generally move in the opposite direction of the fair values of the mortgage related securities, and approximately in the same proportion when the maturities and other terms are appropriately matched. When interest rates rise, the fair value of the mortgage related securities declines, but the increasing fair values of the forward contracts help to preserve net asset value relative to the changing fair value of the short-term borrowings used to fund them.

The Company s forward contracts do not meet the criteria for hedge accounting under SFAS No. 133. Therefore, changes in their fair values affect current earnings, as do changes in the fair values of the securities to which they are matched such securities are classified as trading securities. Although the changes in the fair values of the forward contracts and the trading securities are offsetting, the contracts are not fully effective as hedges and, therefore, there can be volatility in periodic earnings to the extent they are not effective.

At March 31, 2003 and December 31, 2002, the Company had no open forward contracts to sell U.S. Treasury notes.

Liabilities

The Company has entered into reverse repurchase agreements to finance certain of its mortgage-backed securities. These agreements are secured by a portion of the Company s mortgage-backed securities and bear interest rates that have historically moved in close relationship to LIBOR.

At March 31, 2003, the Company had outstanding $2,124,312,000 of reverse repurchase agreements with a weighted average current borrowing rate of 1.28% and a maturity of one month. The reverse repurchase agreements were collateralized by mortgage-backed securities with an estimated fair value of $2,213,442,000.

At December 31, 2002, the Company had outstanding $2,112,444,000 of reverse repurchase agreements with a weighted average current borrowing rate of 1.40% and a maturity of one month. The reverse repurchase agreements were collateralized by mortgage-backed securities with an estimated fair value of $2,199,852,000.

The Company had interest rate swaps with an unrealized loss of $120,214,000 and $120,098,000 at March 31, 2003 and December 31, 2002, respectively. Under the swap agreements, the Company receives a floating rate and pays a fixed rate.

The Company had $12,148,000 and $18,177,000 of other liabilities at March 31, 2003 and December 31, 2002, respectively. The decrease in other liabilities at March 31, 2003 was primarily due to a decrease of dividend payable during the quarter ended March 31, 2003. Other liabilities also consist of accrued interest payable and accrued expenses and other liabilities. The Company anticipates settling all other liabilities within one year.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2003 Compared To Three Months Ended March 31, 2002

Overview

For the quarter ended March 31, 2003, the Company s net income was $6,299,000, or $0.21 per common share on a basic and diluted basis, based on a weighted average of 29,857,000 shares outstanding. This compares to net income of $9,728,000, or $0.53 per common share on a basic and diluted basis, based on a weighted average of 18,316,000 and 18,428,000 shares outstanding, respectively, for the three months ended March 31, 2002. The weighted average number of shares used to calculate net income per diluted share includes the effect of the assumed exercise of outstanding stock options.

The primary reasons for the change in operating results for the three months ended March 31, 2003 compared to 2002 are: (1) changes in interest rates and market conditions affecting the fair values of the Company s Mortgage Related Securities and related derivative financial instruments and net interest income, and (2) related changes in investment and hedging strategies.

Net Interest Income

Net interest income for the quarter ended March 31, 2003 was $7,438,000, consisting of interest income on fixed income securities and cash balances less interest expense on reverse repurchase agreements and interest rate swaps, compared to $14,604,000 for the quarter ended March 31, 2002, or a decrease of 49%. The decrease in net interest income was primarily due to a decrease in net interest margin, from 3.23% for the quarter ended March 31, 2002 to 0.89% for the quarter ended March 31, 2003. Changes in interest income and expense are primarily a function of changes in average effective interest rates on the Company s fixed income securities, reverse repurchase agreements and interest rate swaps, and changes in the average amount of those assets and liabilities outstanding during each year.

The following table reflects the average balances for each category of the Company s interest earning assets as well as the Company s interest bearing liabilities, with the corresponding effective rate of interest annualized:

AVERAGE BALANCE AND RATE TABLE

(Dollars in thousands)

	For the Quarter Ended March 31, 2003		For the Quarter Ended March 31, 2002	
	Average Balance	Effective Rate	Average Balance	Effective Rate
Interest-Earning Assets:				
Mortgage Securities	$ 2,300,350	5.24%	$ 1,679,584	6.49%
Cash and Cash Equivalents	6,616	0.67%	9,273	2.37%
Total Interest-Earning Assets	2,306,966	5.22%	1,688,857	6.47%
Interest-Bearing Liabilities:				
Reverse Repurchase Agreements	2,095,587	4.33%	1,570,692	3.24%
Net Interest-Earning Assets and Spread	$ 211,379	0.89%	$ 118,165	3.23%

The effective yield data is computed by dividing the annualized net interest income or expense, including the effect on interest expense of hedging transactions as applicable into the average daily balance shown.

The following table reflects the average balances for the Company s equity securities, with the corresponding effective dividend yield annualized:

AVERAGE BALANCE AND RATE TABLE

(Dollars in thousands)

	For the Quarter Ended March 31, 2003		For the Quarter Ended March 31, 2002	
	Average Balance	Effective Dividend Yield	Average Balance	Effective Dividend Yield
Equity securities	$ 3,802	10.63%	$ 4,519	4.07%

The following table shows the approximate amounts of the change in interest income and expense between 2003 and 2002 that was a function of rate and volume changes, and the amount of the change that cannot be ascribed specifically to either rate or volume changes:

RATE / VOLUME TABLE

(Dollars in thousands)

	Three Months Ended March 31, 2003 compared to 2002		
	Total	Changes Due to	
	Change	Volume (1)	Rates (1)
Interest-Earning Assets			
Fixed income securities	$ 2,853	$ 10,074	($7,221)
Cash and cash equivalents	(44)	(16)	(28)
Total interest income	2,809	10,058	(7,249)
Interest-Bearing Liabilities			
Reverse repurchase agreements	9,975	4,246	5,729
Total interest expense	9,975	4,246	5,729
Change In Net Interest Income	$ (7,166)	$ 5,812	$ (12,978)

(1) Changes in interest income/expense not arising from volume or rate variances are allocated proportionately to rate and volume.

A portion of the change in interest expense in the table above is related to the Company s use of interest rate swaps. Periodic settlements of the swap agreements with their counterparties result in adjustments to interest expense associated with the reverse repurchase agreements hedged by the swaps. During the quarter ended March 31, 2003, interest expense was increased by $13,782,000 paid to swap counterparties and $1,873,000 from amortization of deferred losses on terminated swap contracts. During the quarter ended March 31, 2002, interest expense was increased by $5,691,000 paid to swap counterparties and decreased by $121,000 from amortization of deferred gains on terminated swap contracts.

Low interest rates have continued to increase mortgage prepayments and this in turn has continued to adversly affect the Company earnings. For the past three quarters, the average constant prepayment rate (CPR) for the portfolio has continued to rise with the CPR for the first quarter of 2003 increasing to 31 CPR, up 28% from the 24 CPR rate in the fourth quarter of 2002.

Dividend Income

The Company reported dividend income of $101,000 from dividends on equity investments for the quarter ended March 31, 2003, compared to $126,000 for the quarter ended March 31, 2002.

Net Gain (Loss) on Investment and Derivative Activities

During the quarter ended March 31, 2003, the Company reported net gains on investment and derivative activities of $448,000 in the statement of operations. This gain was an unrealized gain on fixed income trading securities.

During the quarter ended March 31, 2002, the Company reported net losses on investment and derivative activities of $1,704,000 in the statement of operations. This loss consisted of a net loss of $481,000 on closed forward contracts, a loss of $232,000 on the sale of $99,881,000 of fixed income securities available-for-sale, a gain of $17,000 on the sale of $6,535,000 of fixed income trading securities, a gain of $341,000 on the sale of $1,117,000 of equity securities available-for-sale, and an unrealized loss of $1,349,000 on trading securities.

General and Administrative Expenses

General and administrative expenses decreased to $1,688,000 for the quarter ended March 31, 2003 from $3,298,000 for the quarter ended March 31, 2002. The primary reason for the decrease was a decrease in incentive fee expenses in the quarter ended March 31, 2003 compared to the quarter ended March 31, 2002. The decrease in incentive fee expenses was primarily due to interest rate swap agreeements that increased borrowing costs in the quarter ended March 31, 2003 compared to the quarter ended March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company s primary sources of funds as of March 31, 2003 and December 31, 2002, consisted of reverse repurchase agreements totaling $2,124,312,000 and $2,112,444,000, respectively. The Company expects to continue to borrow funds in the form of reverse repurchase agreements. At March 31, 2003, the Company had borrowing arrangements with approximately twenty different investment banking firms. Increases in short-term interest rates could negatively impact the valuation of the Company s mortgage assets, which could limit the Company s borrowing ability or cause its lenders to initiate margin calls.

For liquidity, the Company will also rely on the cash flow from operations, primarily monthly principal and interest payments to be received on the mortgage assets.

The Company believes that equity capital, combined with the cash flow from operations and the utilization of borrowings, will be sufficient to enable the Company to meet anticipated liquidity requirements. However, an increase in prepayment rates substantially above the Company s expectations could cause a liquidity shortfall. If the Company s cash resources are at any time insufficient to satisfy the Company s liquidity requirements, the Company may be required to liquidate mortgage assets, sell debt or additional equity securities or borrow money to meet its obligations. If required, the sale of mortgage assets at prices lower than the carrying value of such assets would result in losses and reduced income.

The Company may in the future increase its capital resources by making additional offerings of equity and debt securities, including classes of preferred stock, common stock, commercial paper, medium-term notes, collateralized mortgage obligations and senior or subordinated notes. All debt securities, other borrowings, and classes of preferred stock will be senior to the Common Stock in a liquidation of the Company. The effect of additional equity offerings may be the dilution of stockholders equity in the Company or the reduction of the price of shares of the Common Stock, or both. The Company is unable to estimate the amount, timing or nature of any additional offerings as they will depend upon market conditions and other factors.

INFLATION

Virtually all of the Company s assets and liabilities are financial in nature. As a result, interest rates and other factors drive the Company s performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and the Company s dividends are determined by the Company s net income as calculated for tax purposes; in each

case, the Company s activities and balance sheet are measured with reference to historical cost and or fair market value without considering inflation.

CRITICAL ACCOUNTING POLICIES

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial information contained within these financial statements is, to a significant extent, financial information that is based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve complex and subjective decisions and assessments, management has identified its most critical accounting policies to be the following:

Classifications of Investment Securities

The Company s investment securities are classified as either trading securities or available-for-sale securities, as discussed in Note 2 to the financial statements. Although all of the Company s investment securities are carried on the balance sheets at fair value, the classification of the securities as trading or as available-for-sale determines whether changes in fair value are recorded immediately through current earnings, as they are for trading securities, or as adjustments to accumulated other comprehensive income (loss), which is a component of stockholders equity, as they are for available-for-sale securities. If available-for-sale securities were classified as trading securities, there could be substantially greater volatility in earnings from period-to-period.

Valuations of Investment Securities

As noted above, all investment securities are carried on the balance sheets at fair value. Some of the Company s securities, particularly the equity securities, have readily determinable fair values based on quotes provided from recognized securities exchanges. However, most of the Company s fixed income securities have fair values determined by management with reference to price estimates provided by dealers in the securities, independent pricing services, and other sources. Because the price estimates may vary to some degree between sources, management must make certain judgments and assumptions about the appropriate price to use to calculate the fair values for financial reporting purposes. Different judgments and assumptions could result in different presentations of value.

When the fair value of an available-for-sale security is less than amortized cost, management considers whether there is an other-than-temporary impairment in the value of the security (e.g., whether the security will be sold prior to the recovery of fair value). If, in management s judgment, an other-than-temporary impairment exists, the cost basis of the security is written down to the then-current fair value, and the unrealized loss is transferred from accumulated other comprehensive income as an immediate reduction of current earnings (i.e., as if the loss had been realized in the period of impairment).

Interest Income and Dividend Recognition

Interest income on the Company s mortgage securities and other fixed income securities is accrued based on the actual coupon rate and the outstanding principal amount. Premiums and discounts are amortized or accreted into interest income over the lives of the securities using the effective yield method adjusted for the effects of estimated prepayments. In the event that the cost basis of a security has been reduced below par because of an other-than-temporary impairment in value, the difference is treated like a discount in determining the appropriate amount of accretion to recognize as interest income between the date when the cost is adjusted and when the security is ultimately sold. Also, dividends on equity securities are recognized as income on their declaration dates.

Accounting for Derivative Financial Instruments and Hedging Activities

The Company currently uses two types of derivative financial instruments, as discussed in Notes 2 and 5 to the financial statements. Both types are used fundamentally for the purpose of hedging the Company s exposure to interest rate risk, and both are carried at fair value on the balance sheets. Forward contracts to sell U.S. Treasury securities are matched against a portion of the Company s fixed income trading securities. These contracts do not qualify for hedge accounting and, therefore, changes in fair values of these instruments are recorded immediately through current earnings. Such changes tend to offset fair value changes in the opposite direction for the fixed income trading securities and help to reduce the volatility of periodic earnings. Interest rate swap agreements are matched against a portion of the Company s current and anticipated reverse repurchase agreements (borrowings), effectively fixing the rate of interest paid on those borrowings for longer durations. These instruments qualify for hedge accounting and are considered to be cash flow hedges. To the extent that periodic changes in fair values of the swap agreements are deemed to be the result of their effectiveness as hedges, such changes are recorded as adjustments to accumulated other comprehensive income, a component of stockholders equity, rather than to current earnings. If the swaps no longer qualified as cash flow hedges (for example, if the terms of the swaps were not matched appropriately to the terms of the borrowings, or if anticipated borrowings matched to the swaps were not in fact made) all or a portion of the swaps fair values could become adjustments to current earnings.

Accounting for Stock Options

The Company issues stock options to its Directors and to certain employees of the Manager. The stock options issued to Directors are accounted for using the intrinsic-value method. Because the options were issued with exercise prices no less than the market price of the Common Stock on the dates of grant, and because the stock options key terms are fixed, use of the intrinsic-value method results in the Company not recognizing compensation expense for these stock options. Note 6 to the financial statements discloses the effects on recent earnings if these stock options were accounted for at fair value when granted and if compensation expense were recognized in periodic earnings over the vesting periods of the options. If the terms of the options were to be changed, variable accounting might need to be used, and the Company might then need to begin recognizing compensation expense for these options. Options granted to persons other than Directors (i.e., to non-employees) are accounted for using the fair value method; such stock options are measured at their fair value when they are granted and are recognized as general and administrative expense during the periods when the options are vested and the related services are performed.

Off Balance Sheet Arrangements

Subsequent to January 1, 2002, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, the Company has not guaranteed any obligations of unconsolidated entities nor does it have any commitment or intent to provide additional funding to any such entities. As such, the Company is not materially exposed to any market, credit, liquidity or financing risk that could arise if the Company had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

The Company s two primary components of market risk are interest rate risk and equity price risk, as discussed below.

Interest Rate Risk

Effect on Net Interest Income. The Company invests in fixed-rate mortgage assets that are expected to be funded with short-term borrowings. During periods of rising interest rates, the borrowing costs associated with funding such fixed-rate assets are subject to increase while the income earned on such assets may remain substantially unchanged. This would result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. The Company may enter into derivative transactions seeking to mitigate the negative impact of a rising interest rate environment. Hedging techniques will be based, in part, on assumed levels of prepayments of the Company s mortgage assets. If prepayments are slower or faster than assumed, the life of the mortgage assets will be longer or shorter which would reduce the effectiveness of the Company s hedging techniques and may result in losses on such transactions. Hedging techniques involving the use of derivative securities are highly complex and may produce volatile returns. The hedging activity of the Company will also be limited by the asset and sources of income requirements applicable to the Company as a REIT.

Extension Risk. Fixed-rate assets are generally acquired with a projected weighted average life based on certain assumptions regarding prepayments. In general, when a fixed-rate mortgage asset is acquired with borrowings, the Company may, but is not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes the Company s borrowing costs for a period close to the anticipated average life of the related asset. This strategy is designed to protect the Company from rising interest rates because the borrowing costs are fixed for the duration of the asset. However, if prepayment rates decrease in a rising interest rate environment, the life of the mortgage asset could extend beyond the term of the swap agreement or other hedging instrument. This situation could negatively impact the Company as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the asset would remain fixed. This situation may also cause the market value of the Company s mortgage assets to decline with little or no offsetting gain from the related hedging transactions. In certain situations, the Company may be forced to sell assets and incur losses or borrow money to maintain adequate liquidity.

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Prepayment Risk. Fixed-rate assets in combination with hedging instruments are also subject to prepayment risk. In falling interest rate scenarios, the fixed-rate mortgage assets may prepay faster such that the average life becomes shorter than its related hedging instrument. If this were to happen, the Company would potentially need to reinvest at rates lower than that of the related hedging instrument. This situation may result in the narrowing of interest rate spreads or may cause losses.

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Forward Contract Risk. The Company may also enter in forward contracts to sell U.S. Treasury notes in addition to or instead of interest rate swap agreements. These forward contracts are generally expected to mitigate the impact of rising interest rates on the fair value of the Company s fixed income securities. However, if the duration mismatch between mortgage securities and U.S. Treasury notes were to widen, which could occur in both a rising and falling interest rate environment, the fair value of the Company s portfolio would generally be expected to decline. In addition, the use of forward contracts to sell U.S. Treasury notes generally does not directly impact borrowing costs in the same manner as interest rate swap agreements. Therefore, the use of such forward contracts could result in net income volatility during periods of interest rate volatility.

The Company also invests in adjustable-rate mortgage assets that are typically subject to periodic and lifetime interest rate caps that limit the amount an adjustable-rate mortgage asset s interest rate can change

during any given period, as well as the minimum rate payable. The Company s borrowings will not be subject to similar restrictions. Hence, in a period of increasing interest rates, interest rates on its borrowings could increase without limitation by caps, while the interest rates on its mortgage assets are generally limited by caps. This problem will be magnified to the extent the Company acquires mortgage assets that are not fully indexed. Further, some adjustable-rate mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in receipt by the Company of less cash income on its adjustable-rate mortgage assets than is required to pay interest on the related borrowings. These factors could lower the Company s net interest income or cause a net loss during periods of rising interest rates, which would negatively impact the Company s financial condition, cash flows and results of operations.

The Company intends to fund a substantial portion of its acquisitions of adjustable-rate mortgage assets with borrowings that have interest rates based on indices and repricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and repricing terms of the mortgage assets. Thus, the Company anticipates that in most cases the interest rate indices and repricing terms of its mortgage assets and its funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods, especially during the 1979-1982 and 1994 interest rate environments, when the spread between such indices was volatile. During periods of changing interest rates, such interest rate mismatches could negatively impact the Company s financial condition, cash flows and results of operations.

Prepayment rates generally increase when prevailing interest rates fall below the interest rates on existing mortgage assets. In addition, prepayment rates generally increase when the difference between long-term and short-term interest rates declines. Prepayments of mortgage assets could harm the Company s results of operations in several ways. The Company anticipates that a substantial portion of its adjustable-rate mortgage assets may bear initial teaser interest rates that are lower than their fully indexed rates (the applicable index plus a margin). In the event that such an adjustable-rate mortgage asset is prepaid prior to or soon after the time of adjustment to a fully indexed rate, the Company will have held the mortgage asset while it was less profitable and lost the opportunity to receive interest at the fully indexed rate over the expected life of the adjustable-rate mortgage asset. In addition, the prepayment of any mortgage asset that had been purchased at a premium by the Company would result in the immediate write-off of any remaining capitalized premium amount and consequent reduction of the Company s net interest income by such amount. Finally, in the event that the Company is unable to acquire new mortgage assets to replace the prepaid mortgage assets, its financial condition, cash flow and results of operations could be harmed.

Effect on Fair Value. Another component of interest rate risk is the effect changes in interest rates will have on the market value of the Company s assets. This is the risk that the market value of the Company s assets will increase or decrease at different rates than that of the Company s liabilities, including its hedging instruments.

The Company primarily assesses its interest rate risk by estimating the duration of its assets and the duration of its liabilities, including all hedging instruments. Duration essentially measures the market price volatility of financial instruments as interest rates change. The Company generally calculates duration using various financial models and empirical data and different models and methodologies can produce different duration numbers for the same securities.

The following sensitivity analysis table shows the estimated impact on the fair value of the Company s interest rate sensitive investments, net of its hedging instruments and reverse repurchase agreement liabilities, assuming rates instantaneously rise and fall one hundred, two hundred, and three hundred basis points. Interest rate sensitive investments currently include fixed income trading and available-for-sale securities. (Dollars are in thousands except per share amounts.)

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	Fair Value for Scenario Shown						
	Interest Rates Fall 300 Basis Points	**Interest Rates Fall 200 Basis Points**	**Interest Rates Fall 100 Basis Points**	**Unchanged**	**Interest Rates Rise 100 Basis Points**	**Interest Rates Rise 200 Basis Points**	**Interest Rates Rise 300 Basis Points**
Interest Rate Sensitive Instruments After Hedging Instruments	$ 54,719	$ 100,564	$ 148,250	$ 187,086	$ 179,874	$ 126,194	$ 63,831
Change in Fair Value	$ (132,367)	$ (86,522)	$ (38,836)		$ (7,212)	$ (60,892)	$ (123,255)
Change as a Percent of Fair Value of Interest Rate Sensitive Investments	(5.44)%	(3.56)%	(1.60)%		(0.30)%	(2.50)%	(5.07)%
Change as a Percent of Stockholders Equity	(67.79)%	(44.31)%	(19.89)%		(3.69)%	(31.19)%	(63.13)%
Change on a Per Share Basis	$ (4.43)	$ (2.90)	$ (1.30)		$ (0.24)	$ (2.04)	$ (4.13)

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond one hundred basis points from current levels. Therefore, the volatility in fair value for the Company could increase significantly when interest rates change beyond one hundred basis points. In addition, there are other factors that impact the fair value of the Company s interest rate sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, there may be differences between the fair value changes shown above and actual changes in fair value as interest rates change, and those differences may be material and adverse.

The Company has established an interest rate risk management policy that is intended to mitigate the negative impact of changing interest rates. The Company generally intends to mitigate interest rate risk by targeting the difference between the market weighted average duration on its mortgage related assets funded with secured borrowings to the market weighted average duration of such borrowings to plus or minus one year or less, taking into account all hedging transactions. The Company generally does not intend to have any specific duration target for the portion of its mortgage related assets that are not funded by secured borrowings.

There can be no assurance that the Company will be able to limit such duration differences and there may be periods of time when the duration difference will be greater than one year.

Equity Price Risk

Another component of market risk for the Company is equity price risk. This is the risk that the market value of the Company s equity investments will decrease. The following table shows the impact on the Company s fair value as the price of its equity securities change, assuming price decreases of 10% and price increases of 10%. Actual price decreases or increases may be greater or smaller. (Dollars are in thousands except per share amounts.)

	Fair Value for Scenario Shown		
	Prices Decrease 10%	Unchanged	Prices Increase 10%
Equity Investments	$ 3,766	$ 4,184	$ 4,602
Change in Fair Value	(418)		418
Change as a Percent of Fair Value	(10)%		10%
Change as a Percent of Stockholders Equity	(0.2)%		0.2%
Change on a Per Share Basis	$ (0.01)		$ 0.01

Although there is no direct link between changes in fair value and changes in earnings in many cases, a decline in fair value for the Company may translate into decreased earnings over the remaining life of the investment portfolio.

If the fair market value of the Company s portfolio were to decline significantly, the Company s overall liquidity may be impaired which could result in the Company being required to sell assets at losses.

The Company s analysis of risks is based on management s experience, estimates, models and assumptions. These analyses rely on models of financial information which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by the Manager may produce results that differ significantly from the estimates and assumptions used in the Company s models and the projected results shown in the above tables and in this report. These analyses contain certain forward-looking statements and are subject to the Safe Harbor contained in the Private Securities Litigation Reform Act of 1995.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including the Company s Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) as of a date (the Evaluation Date) within 90 days prior to the filing date of this quarter report on Form 10Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective in timely alerting them to the material information relating to us required to be included in our periodic filings.

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(b) Changes in disclosure controls and procedures.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these internal controls subsequent to March 31, 2003.

PART II. **OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) *Exhibits*

The exhibits listed on the Exhibit List, which appears below following the signature page, are included or incorporated by reference in this Quarterly Report.

b) *Reports on Form 8-K*

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Apex Mortgage Capital, Inc. (Registrant)
Dated: May 15, 2003	/s/ Philip A. Barach Philip A. Barach President and Chief Executive Officer (Principal Executive Officer)
Dated: May 15, 2003	/s/ David S. DeVito David S. DeVito Chief Financial Officer (Principal Accounting Officer)

EXHIBIT INDEX

Pursuant to Item 601 (a)(2) of Regulation S-K, this exhibit index immediately precedes the exhibits.

The following exhibits are part of this Quarterly Report on Form 10-Q and are numbered in accordance with Item 601 of Regulation S-K.

Exhibit No.	Description
99.1	Section 906 Certification (filed herewith) by Philip A. Barach.
99.2	Section 906 Certification (filed herewith) by David S. DeVito.

CERTIFICATIONS

I, Philip A. Barach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apex Mortgage Capital, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (and persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Philip A. Barach
Philip A. Barach
President and Chief Executive Officer

I, David S. DeVito, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Apex Mortgage Capital, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (and persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ David S. DeVito
David S. DeVito
Chief Financial Officer and Controller