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DYNEX CAPITAL INC  
Form 8-K  
March 16, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 8-K  
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CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: March 16, 2004  
(Date of earliest event reported)

DYNEX CAPITAL, INC.  
(Exact Name of Registrant as Specified in Charter)

1-9819  
(Commission File Number)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

4551 Cox Road, Suite 300, Glen Allen, Virginia  
(Address of principal executive offices)

52-1549373  
(I.R.S. Employ  
Identification N

23060  
(Zip Code)

(804) 217-5800  
(Registrant's telephone number, including area code)

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Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(c) Exhibits.

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Exhibit No.	Description
99	Press release issued by the Registrant dated March 15, 2004.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DYNEX CAPITAL, INC.  
(Registrant)

Date: March 16, 2004

By: \_\_\_\_\_  
Stephen J. Benedetti  
Executive Vice President and  
Chief Financial Officer

Exhibit Index

Exhibit No.	Description
99	Press release issued by the Registrant on March 15, 2004.

PRESS RELEASE

FOR IMMEDIATE RELEASE  
March 15, 2004

CONTACT: Investor Relations  
804-217-5897

DYNEX CAPITAL, INC.  
REPORTS 2003 RESULTS

Dynex Capital, Inc. (NYSE: DX) reported today financial results for 2003. Highlights for the year and other information contained in this release include:

o Generated cash flow from the investment portfolio of \$57.1 million for the year, and \$13.2 million for the fourth quarter

o Added \$28.9 million of securities to the investment portfolio in the fourth quarter through the call of seasoned single-family mortgage-backed securities, financing the call with a combination of repurchase agreement financing and available cash

o Incurred a net loss of \$21.1 million for the year and \$11.7 million for the fourth quarter due to continued high provision for losses on manufactured housing loans, and impairment charges on investments

o In January 2004, announced a recapitalization plan for the Company's Series A, Series B and Series C Preferred Stock, to close in the second quarter 2004 if accepted by our shareholders, which the Company believes will enhance its ability to engage in strategic transactions

o Book value per common share of \$7.55 at December 31, 2003 versus \$8.57 at December 31, 2002

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For the year ended December 31, 2003, the Company reported a net loss of \$21.1 million versus a net loss of \$9.4 million for 2002. After consideration of the preferred stock benefit (charge), the Company reported a net loss to common shareholders of \$14.3 million or \$1.31 per common share for 2003 versus \$18.9 million, or \$1.74 per common share for 2002. For the fourth quarter, the Company reported a net loss to common shareholders of \$12.9 million, or \$1.18 per common share versus a net loss of \$14.0 million, or \$1.28 per common share for the same period in 2002.

The Company has scheduled a conference call for Wednesday, March 17, 2004, at 11:00 a.m. Eastern Time to discuss fourth quarter results and the recapitalization transaction. Investors may participate by calling (800) 840-6219.

### 2003 Results

The Company reported that cash flow from its investment portfolio was \$57.1 million for all of 2003, and \$13.2 million for the quarter, versus \$75.8 million on a comparable basis for 2002, and \$14.0 million in the third quarter 2003. Cash flow declined in 2003 principally as a result of declines in interest-earning assets from prepayments in the investment portfolio, lower overall yields on investments, and lower collections on the delinquent property tax receivables portfolio.

The Company reported net interest margin before provision for loan losses on its investment portfolio of \$39.0 million in 2003 compared to \$49.2 million in 2002. After provision for loan losses, net interest margin was \$1.9 million versus \$20.7 million in 2002. Provision for loan losses in 2003 was \$37.1 million versus \$28.5 million in 2002. Included in the \$37.1 million was \$13.8 million in provision for loan losses for currently existing credit losses within outstanding manufactured housing loans that are current as to payment. In 2002, the Company had not considered current loans to be impaired under generally accepted accounting principles and was therefore providing reserves only for loans that were delinquent as to payment. As of December 31, 2003, the Company has net unreserved credit exposure on manufactured housing loans of \$11.9 million, which should be fully reserved through additional provision for loan losses during the second quarter of 2004. In addition, impairment charges for 2003 were \$16.4 million versus \$18.5 million in 2002, and \$11.9 million in the fourth quarter 2003. Impairment charges for 2003 included approximately \$10.4 million for adjustments in carrying value of the Company's investment in delinquent property tax receivables, and \$5.5 million in impairment charges on a debt-security backed principally by manufactured housing loans. The Company recorded the impairment charge as a result of revisions in the estimated collectible amounts of its investment in delinquent tax receivables.

### Balance Sheet

Total assets at December 31, 2003 were \$1.87 billion, versus \$2.21 billion at December 31, 2002. The decline in assets was principally the result of prepayments in the Company's securitized finance receivables. Prepayment speed for the entire investment portfolio as measured by the "constant prepayment rate", or CPR, was 21% during 2003 and the fourth quarter. Prepayments reduce the amount of the Company's interest-earning assets. CPR on the Company's single-family mortgage loan and securities portfolio was 37% during the quarter. Of the \$1.85 billion of assets in the investment portfolio, approximately \$352.4 million were adjustable-rate assets, substantially all of which were single-family loans and securities, with the balance being fixed-rate investments, substantially all of which were manufactured housing loans and commercial mortgage loans.

During the fourth quarter 2003, the Company called \$28.9 million of previously issued single-family mortgage backed securities and added these

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securities to its investment portfolio, utilizing \$23.9 million of repurchase agreement financing for the call. During all of 2003, the Company called an aggregate \$86.8 million of securities, selling \$54.7 million of these securities at a net gain of \$2.2 million and retaining \$32.1 million in its investment portfolio.

Shareholders' equity was \$149.8 million at December 31, 2003 versus \$223.4 million at December 31, 2002. The decrease in shareholders' equity was due to the retirement of the shares of preferred stock related to the tender offer completed in February 2003, coupled with the net loss for the year. Common book value per share, net of liquidation preference on Series A, Series B, and Series C Preferred Stock, was \$7.55 per share at December 31, 2003 versus \$8.57 per share at December 31, 2002.

The Company expects to formally commence the recapitalization transaction announced in early January 2004 within the next few weeks once the review of its preliminary offering documents is completed by the Securities and Exchange Commission. Assuming the prerequisite shareholder approvals are obtained, the Company anticipates that the closing of the transaction will occur by the end of April 2004.

### Discussion

Stephen J. Benedetti, Chief Financial Officer of the Company, stated, "2003 saw the Company continue on its road to recovery. First, the Company completed a tender offer in February 2003 on its existing Series A, Series B and Series C Preferred Stock, reducing the dividends in arrears on such Preferred Stock by \$16.1 million. The Company issued Senior Notes in connection with this tender offer which were redeemed in March 2004, a full one year ahead of their maturity. Second, the Company's investment portfolio generated \$57.1 million cash flow in 2003, putting the Company in a solid financial position to engage in new strategic alternatives in 2004. Third, the Company secured new recourse repurchase agreement financing essentially for the first time since 2000, and added investments with a very attractive return profile to the balance sheet. Finally, the results from 2003 put the Company in position to announce a recapitalization plan aimed at consolidating the Company's Series A, Series B and Series C Preferred Stock into a single Series D Preferred Stock and retiring a portion of the existing Preferred Stock in favor of new Senior Notes, while eliminating all remaining dividends in arrears on the existing Preferred Stock."

Mr. Benedetti continued, "Our reported results for 2003 reflect the continued challenges in several of the asset classes in which this Company is invested. In particular, provisions for loan losses on manufactured housing loans during 2003 continued to be high. As we have remaining only \$11.9 million in net credit exposure on manufactured housing loans at the end of 2003, the provision for loan losses in 2004 related to manufactured housing loans should decline relative to 2003. In addition, we recorded \$7.2 million in impairment charges on our delinquent property tax receivables in the fourth quarter, as a result of continued lower forecasted overall collections, due to the changing attributes of the property tax receivables and the underlying real estate securing the receivables. These investments will remain on non-interest accrual status and all cash collected will be applied against our investment. While we collected \$3.4 million on these receivables in the fourth quarter, collections are falling short of expectations thus far in the first quarter of 2004. As a result, we would expect cash flow from the investment portfolio in the first quarter of 2004 to decline below \$12 million."

Mr. Benedetti continued, "With short-term rates continuing to remain low and the yield curve relatively steep, cash flows from the securitized finance receivables portion of the investment portfolio should remain relatively strong. As an example of the benefit of the current rate environment, during the second quarter 2004, pursuant to optional redemption rights which the Company

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owns on collateralized bonds secured by manufactured housing loans, the Company anticipates redeeming several high coupon, investment grade classes of collateralized bonds at par. The Company has agreed to resell these bonds in April at a cash premium of an estimated \$7.3 million. This premium, which is not currently reflected in our financial statements or reported book value, is directly attributable to the current low rate environment, the overall favorable environment for spread product, and the now favorable environment for asset-backed securities backed by manufactured housing loans."

Mr. Benedetti concluded, "We are hopeful that our preferred and common shareholders will approve the Company's recapitalization plan in the coming months. We believe that our preferred shareholders are being offered fair consideration, and have the choice between the liquidity of the Senior Notes and the chance to participate more directly in the improvement of the Company's prospects from the new Series D Preferred Stock and common stock. We expect to formally commence the recapitalization within the next few weeks, with a targeted close date in late April. Once the recapitalization is complete, the Board of Directors will focus on evaluating alternatives for the use of the Company's cash flows, and, if possible, in extracting value from the Company's estimated \$124 million tax net operating loss carry-forward. The focus of the Board will continue to be on those alternatives that provide the most value for our shareholders."

Dynex Capital, Inc. is a financial services company that elects to be treated as a real estate investment trust (REIT) for federal income tax purposes. Additional information about Dynex Capital, Inc. is available at [www.dynexcapital.com](http://www.dynexcapital.com).

Note: This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Act of 1995. The words "believe", "expect", "forecast", "anticipate", "estimate", "project", "plan", and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. The Company's actual results and timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements as a result of unforeseen external factors. These factors may include, but are not limited to, changes in general economic and market conditions, disruptions in the capital markets, fluctuations in interest rates, the completion of the proposed recapitalization plan, defaults by borrowers, defaults by third-party servicers, the accuracy of subjective estimates used in determining the fair value of certain financial assets of the Company, the impact of recently issued financial accounting standards, increases in costs and other general competitive factors. For additional information, see the Company's Form 10-Ks and Form 10-Qs as filed with the Securities and Exchange Commission.

# # #

DYNEX CAPITAL, INC.  
Consolidated Statements of Operations  
(Thousands except per share data)  
(unaudited)

Three Months Ended  
December 31,

-----  
2003

2002  
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Interest income	\$ 39,731	\$ 43,299
Interest and related expense	(29,861)	(30,928)
	-----	-----
Net interest margin before provision for loan losses	9,870	12,371
Provision for loan losses	(7,367)	(12,191)
	-----	-----
Net interest margin	2,503	180
Impairment charges	(11,873)	(8,924)
(Loss) gain on sale of investments, net	(224)	(66)
Trading losses	-	-
Other	266	(6)
General and administrative expenses	(2,336)	(2,749)
	-----	-----
Net loss	(11,664)	(11,565)
Preferred stock (charge) benefit	(1,192)	(2,397)
	-----	-----
Net loss to common shareholders	\$ (12,856)	\$ (13,962)
	=====	=====
Change in net unrealized loss during the period on:		
Investments classified as available-for-sale	(861)	1,726
Hedge instruments	945	(883)
	-----	-----
Comprehensive loss	\$ (11,580)	\$ (10,722)
	=====	=====
Net loss per common share		
Basic and diluted	\$ (1.18)	\$ (1.28)
	=====	=====

DYNEX CAPITAL, INC.  
Consolidated Balance Sheets  
(Thousands except per share data)  
(unaudited)

	December 31,	
	2003	2002
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 7,386	\$ 15,077
Other assets	7,174	4,912
	-----	-----
	14,560	19,989
	-----	-----
Investments:		
Securitized finance receivables:		
Loans, net	1,518,613	1,787,254
Debt securities, available for sale	255,580	328,674

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Other investments	37,903	54,322
Securities	30,275	6,208
Other loans	8,304	9,288
	-----	-----
	1,850,675	2,185,746
	-----	-----
	\$ 1,865,235	\$ 2,205,735
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Non-recourse securitization financing	\$ 1,679,830	\$ 1,980,702
Repurchase agreements	23,884	-
Senior Notes	10,049	-
Other liabilities	1,626	1,612
	-----	-----
	1,715,389	1,982,314
	-----	-----
SHAREHOLDERS' EQUITY:		
Preferred stock	47,014	94,586
Common stock	109	109
Additional paid-in capital	360,684	364,743
Accumulated other comprehensive loss	(3,882)	(4,832)
Accumulated deficit	(254,079)	(231,185)
	-----	-----
	149,846	223,421
	-----	-----
	\$ 1,865,235	\$ 2,205,735
	=====	=====
Preferred dividends in arrears	\$ 18,464	\$ 31,157
	=====	=====
Book value per common share (inclusive of dividends in arrears)	\$ 7.55	\$ 8.57
	=====	=====