

ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
May 08, 2014

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-13447

ANNALY CAPITAL MANAGEMENT, INC.
(Exact name of Registrant as specified in its Charter)

MARYLAND
(State or other jurisdiction of incorporation or
organization)

22-3479661
(IRS Employer Identification No.)

1211 AVENUE OF THE AMERICAS, SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(Zip Code)

(212) 696-0100
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date:

Class	Outstanding at April 30, 2014
Common Stock, \$.01 par value	947,503,334

ANNALY CAPITAL MANAGEMENT, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Financial Condition at March 31, 2014 (Unaudited) and December 31, 2013 (Derived from the audited consolidated financial statements at December 31, 2013)</u>	1
<u>Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the quarters ended March 31, 2014 and 2013</u>	2
<u>Consolidated Statements of Stockholders' Equity (Unaudited) for the quarters ended March 31, 2014 and 2013</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited) for the quarters ended March 31, 2014 and 2013</u>	4
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	
<u>Note 1. Description of Business</u>	6
<u>Note 2. Basis of Presentation</u>	6
<u>Note 3. Significant Accounting Policies</u>	6
<u>Note 4. Agency Mortgage-backed Securities</u>	14
<u>Note 5. Acquisition of Crexus</u>	15
<u>Note 6. Commercial Real Estate Investments</u>	17
<u>Note 7. Fair Value Measurements</u>	19
<u>Note 8. Secured Financing</u>	22
<u>Note 9. Derivative Instruments</u>	22
<u>Note 10. Convertible Senior Notes</u>	26
<u>Note 11. Common Stock and Preferred Stock</u>	27
<u>Note 12. Goodwill</u>	28
<u>Note 13. Interest Income and Interest Expense</u>	28
<u>Note 14. Net Income (Loss) per Common Share</u>	29
<u>Note 15. Long-term Stock Incentive Plan</u>	30
<u>Note 16. Income Taxes</u>	30
<u>Note 17. Lease Commitments and Contingencies</u>	31
<u>Note 18. Risk Management</u>	31
<u>Note 19. RCap Regulatory Requirements</u>	32
<u>Note 20. Related Party Transactions</u>	32
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Special Note Regarding Forward-Looking Statements</u>	33
<u>Overview</u>	35
<u>Business Environment</u>	35
<u>Results of Operations</u>	36
<u>Financial Condition</u>	42
<u>Capital Management</u>	45
<u>Risk Management</u>	47

<u>Critical Accounting Policies</u>	55
<u>Glossary of Terms</u>	56
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	63
<u>Item 4. Controls and Procedures</u>	63
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	64
<u>Item 1A. Risk Factors</u>	64
<u>Item 6. Exhibits</u>	65
<u>SIGNATURES</u>	67

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013(1)
ASSETS		
Cash and cash equivalents	\$924,197	\$552,436
Reverse repurchase agreements	444,375	100,000
Securities borrowed	513,500	2,582,893
Investments, at fair value:		
U.S. Treasury securities (including pledged assets of \$0 and \$1,113,027, respectively)	-	1,117,915
Agency mortgage-backed securities (including pledged assets of \$66,110,869 and \$63,897,873, respectively)	75,350,388	70,388,949
Agency debentures (including pledged assets of \$2,368,493 and \$2,931,261, respectively)	2,408,259	2,969,885
Investment in affiliates	137,647	139,447
Commercial real estate debt and preferred equity(2)	1,640,206	1,583,969
Investments in commercial real estate	40,313	60,132
Corporate debt, held for investment	145,394	117,687
Receivable for investments sold	19,116	1,193,730
Accrued interest and dividends receivable	276,007	273,079
Receivable for investment advisory income (including from affiliates of \$6,498 and \$6,839, respectively)	6,498	6,839
Goodwill	94,781	94,781
Interest rate swaps, at fair value	340,890	559,044
Other derivatives, at fair value	40,105	146,725
Other assets	33,101	34,949
Total assets	\$82,414,777	\$81,922,460
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury securities sold, not yet purchased, at fair value	\$-	\$1,918,394
Repurchase agreements	64,543,949	61,781,001
Securities loaned	513,510	2,527,668
Payable for investments purchased	1,898,507	764,131
Convertible Senior Notes	827,486	825,262
Securitized debt of consolidated VIE	260,700	-

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Mortgages payable	19,317	19,332
Participation sold	13,963	14,065
Accrued interest payable	170,644	160,921
Dividends payable	284,247	284,230
Interest rate swaps, at fair value	1,272,616	1,141,828
Other derivatives, at fair value	6,045	55,518
Accounts payable and other liabilities	39,081	25,055
Total liabilities	69,850,065	69,517,405
Stockholders' Equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 authorized, issued and outstanding	177,088	177,088
7.625% Series C Cumulative Redeemable Preferred Stock: 12,650,000 authorized, 12,000,000 issued and outstanding	290,514	290,514
7.50% Series D Cumulative Redeemable Preferred Stock: 18,400,000 authorized, issued and outstanding	445,457	445,457
Common stock, par value \$0.01 per share, 1,956,937,500 authorized, 947,488,945 and 947,432,862 issued and outstanding, respectively	9,475	9,474
Additional paid-in capital	14,770,553	14,765,761
Accumulated other comprehensive income (loss)	(2,088,479)	(2,748,933)
Accumulated deficit	(1,039,896)	(534,306)
Total stockholders' equity	12,564,712	12,405,055
Total liabilities and stockholders' equity	\$82,414,777	\$81,922,460

(1) Derived from the audited consolidated financial statements at December 31, 2013.

(2) Includes senior securitized mortgages of consolidated VIE with a carrying value of \$398.1 million at March 31, 2014.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(dollars in thousands, except per share data)

(Unaudited)

	For the Quarter Ended	
	March 31, 2014	March 31, 2013
Net interest income:		
Interest income	\$ 655,901	\$ 737,217
Interest expense	124,971	177,590
Net interest income	530,930	559,627
Other income (loss):		
Realized gains (losses) on interest rate swaps(1)	(260,435)	(225,476)
Realized gains (losses) on termination of interest rate swaps	(6,842)	(16,378)
Unrealized gains (losses) on interest rate swaps	(348,942)	325,734
Subtotal	(616,219)	83,880
Investment advisory income	6,123	13,408
Net gains (losses) on disposal of investments	79,710	182,843
Dividend income from affiliates	13,045	6,431
Net gains (losses) on trading assets	(146,228)	1,549
Net unrealized gains (losses) on interest-only Agency mortgage-backed securities	(20,793)	80,127
Other income (loss)	1,460	132
Subtotal	(66,683)	284,490
Total other income (loss)	(682,902)	368,370
General and administrative expenses:		
Compensation and management fee	38,521	38,443
Other general and administrative expenses	8,857	13,469
Total general and administrative expenses	47,378	51,912
Income (loss) before income taxes	(199,350)	876,085
Income taxes	4,001	5,807
Net income (loss)	(203,351)	870,278
Dividends on preferred stock	17,992	17,992
Net income (loss) available (related) to common stockholders	\$ (221,343)	\$ 852,286

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Net income (loss) per share available (related) to common stockholders:

Basic	\$	(0.23)	\$	0.90
Diluted	\$	(0.23)	\$	0.87

Weighted average number of common shares outstanding:

Basic	947,458,813	947,249,901
Diluted	947,458,813	994,815,169

Dividends Declared Per Share of Common Stock	\$	0.30	\$	0.45
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Net income (loss)	\$	(203,351)	\$	870,278
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Other comprehensive income (loss):

Unrealized gains (losses) on available-for-sale securities	741,172	(867,151)		
Reclassification adjustment for net (gains) losses included in net income (loss)	(80,718)	(182,843)		
Other comprehensive income (loss)	660,454	(1,049,994)		
Comprehensive income (loss)	\$	457,103	\$	(179,716)

(1) Interest expense related to the Company's interest rate swaps is recorded in Realized gains (losses) on interest rate swaps.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in thousands, except per share data)

(Unaudited)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% Series C Cumulative Redeemable Preferred Stock	7.50% Series D Cumulative Redeemable Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
BALANCE, December 31, 2012	\$177,088	\$290,514	\$445,457	\$9,472	\$14,740,774	\$3,053,242	\$(2,792,103)	\$15,924,444
Net income (loss)	-	-	-	-	-	-	870,278	870,278
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	(867,151)	-	(867,151)
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(182,843)	-	(182,843)
Exercise of stock options	-	-	-	-	265	-	-	265
Stock compensation expense	-	-	-	-	817	-	-	817
Net proceeds from direct purchase and dividend reinvestment	-	-	-	1	760	-	-	761
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	3,963	-	-	3,963
Preferred Series A dividends, declared \$0.492 per share	-	-	-	-	-	-	(3,648)	(3,648)

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Preferred Series C dividends, declared \$0.477 per share	-	-	-	-	-	-	(5,719)	(5,719)
Preferred Series D dividends, declared \$0.469 per share	-	-	-	-	-	-	(8,625)	(8,625)
Common dividends declared, \$0.45 per share	-	-	-	-	-	-	(426,173)	(426,173)
BALANCE, March 31, 2013	\$177,088	\$290,514	\$445,457	\$9,473	\$14,746,579	\$2,003,248	\$(2,365,990)	\$15,306,369
BALANCE, December 31, 2013	\$177,088	\$290,514	\$445,457	\$9,474	\$14,765,761	\$(2,748,933)	\$(534,306)	\$12,405,055
Net income (loss)	-	-	-	-	-	-	(203,351)	(203,351)
Unrealized gains (losses) on available-for-sale securities	-	-	-	-	-	741,172	-	741,172
Reclassification adjustment for net (gains) losses included in net income (loss)	-	-	-	-	-	(80,718)	-	(80,718)
Net proceeds from direct purchase and dividend reinvestment	-	-	-	1	606	-	-	607
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	4,186	-	-	4,186
Preferred Series A dividends, declared \$0.492 per share	-	-	-	-	-	-	(3,648)	(3,648)
Preferred Series C dividends, declared \$0.477 per share	-	-	-	-	-	-	(5,719)	(5,719)
Preferred Series D dividends, declared \$0.469	-	-	-	-	-	-	(8,625)	(8,625)

per share									
Common									
dividends									
declared, \$0.30									
per share	-	-	-	-	-	-	(284,247)	(284,247)	
BALANCE,									
March 31, 2014	\$177,088	\$290,514	\$445,457	\$9,475	\$14,770,553	\$(2,088,479)	\$(1,039,896)	\$12,564,712	

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(Unaudited)

	For the Quarter Ended March	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$(203,351)	\$870,278
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of Investment Securities premiums and discounts, net	118,988	421,057
Amortization of commercial real estate investment premiums and discounts, net	792	-
Amortization of intangibles	99	323
Amortization of deferred financing costs	2,813	2,038
Amortization of net origination fees and costs, net	(973)	-
Amortization of contingent beneficial conversion feature and equity component of Convertible Senior Notes	6,410	3,324
Depreciation expense	292	-
Net gain on sale of commercial real estate	(1,213)	-
Net (gains) losses on sales of Agency mortgage-backed securities and debentures	(80,718)	(182,843)
Stock compensation expense	-	817
Unrealized (gains) losses on interest rate swaps	348,942	(325,734)
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	20,793	(80,127)
Net (gains) losses on trading assets	146,228	14,829
Proceeds from repurchase agreements of RCap	329,649,937	237,569,485
Payments on repurchase agreements of RCap	(324,602,992)	(238,600,415)
Proceeds from reverse repurchase agreements	35,181,890	105,335,861
Payments on reverse repurchase agreements	(35,526,265)	(108,458,231)
Proceeds from securities borrowed	19,993,580	53,799,157
Payments on securities borrowed	(17,924,187)	(54,326,700)
Proceeds from securities loaned	37,178,735	110,725,140
Payments on securities loaned	(39,192,893)	(110,203,395)
Proceeds from U.S. Treasury securities	3,159,253	21,683,636
Payments on U.S. Treasury securities	(3,920,425)	(22,157,117)
Net payments on derivatives	(90,440)	(1,490)
Net change in:		
Due to / from brokers	8,596	-
Other assets	3,439	(14,779)
Accrued interest and dividends receivable	(16,035)	22,616
Receivable for investment advisory income	341	4,913
Accrued interest payable	25,032	(11,147)
Accounts payable and other liabilities	13,801	26,250
Net cash provided by (used in) operating activities	4,300,469	(3,882,254)

Cash flows from investing activities:

Payments on purchases of Agency mortgage-backed securities and debentures	(9,367,034)	(17,699,472)
Proceeds from sales of Agency mortgage-backed securities and debentures	6,155,091	15,484,409
Principal payments on Agency mortgage-backed securities	1,675,575	8,514,074
Proceeds from Agency debentures called	-	847,205
Payments on purchases of corporate debt	(28,705)	(3,483)
Principal payments on corporate debt	1,051	911
Origination of commercial real estate investments, net	(125,949)	-
Proceeds from sales of commercial real estate held for sale	20,740	-
Principal payments on commercial real estate investments	69,795	-
Proceeds from derivatives	-	7,465
Net cash provided by (used in) investing activities	(1,599,436)	7,151,109

Statements continued on following page.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Financial Statements

Cash flows from financing activities:		
Proceeds from repurchase agreements	49,726,537	101,631,583
Principal payments on repurchase agreements	(52,010,534)	(103,063,408)
Proceeds from issuance of securitized debt	260,700	-
Payment of deferred financing cost	(4,288)	-
Proceeds from exercise of stock options	-	265
Net proceeds from direct purchases and dividend reinvestments	607	761
Payments on participation sold	(72)	-
Net payment on share repurchase	-	(141,149)
Dividends paid	(302,222)	(450,146)
Net cash provided by (used in) financing activities	(2,329,272)	(2,022,094)
Net (decrease) increase in cash and cash equivalents	371,761	1,246,761
Cash and cash equivalents, beginning of period	552,436	615,789
Cash and cash equivalents, end of period	\$924,197	\$1,862,550
	-	-
Supplemental disclosure of cash flow information:		
Interest received	\$769,627	\$1,188,202
Dividends received	\$13,045	\$7,097
Investment advisory income received	\$6,464	\$18,321
Interest paid (excluding interest paid on interest rate swaps)	\$118,131	\$184,426
Net interest paid on interest rate swaps	\$250,571	\$226,463
Taxes paid	\$2,137	\$2,382
Noncash investing activities:		
Receivable for investments sold	\$19,116	\$1,292,478
Payable for investments purchased	\$1,898,507	\$3,203,461
Net change in unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment	\$660,454	\$(1,049,994)
Noncash financing activities:		
Dividends declared, not yet paid	\$284,247	\$426,173
Contingent beneficial conversion feature on 4% Convertible Senior Notes	\$4,186	\$3,963

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

Item 1. Notes to Consolidated Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. DESCRIPTION OF BUSINESS

Annaly Capital Management, Inc. (the “Company” or “Annaly”) is a Maryland corporation that commenced operations on February 18, 1997. The Company owns a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate loans. The Company’s principal business objective is to generate net income for distribution to its stockholders from its investments.

The Company’s business operations are primarily comprised of the following:

-