

ANNALY CAPITAL MANAGEMENT INC  
Form 10-Q  
November 05, 2010

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: SEPTEMBER 30, 2010

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 November 5, 2010
Common Stock, \$.01 par value	621,878,208

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

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## Part I

## Item 1. Financial Statements

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

	September 30, 2010 (Unaudited)	December 31, 2009(1)
<b>ASSETS</b>		
Cash and cash equivalents	\$289,486	\$1,504,568
U.S. Treasury securities, at fair value	754,993	-
Reverse repurchase agreements with affiliate	-	328,757
Reverse repurchase agreements	757,722	425,000
Mortgage-Backed Securities, at fair value	76,174,141	64,805,725
Agency debentures, at fair value	2,046,371	915,752
Investment with affiliates	245,659	242,198
Securities borrowed	251,242	29,077
Receivable for Mortgage Backed Securities Sold	1,637,542	732,134
Accrued interest and dividends receivable	345,153	318,919
Receivable from Prime Broker	3,272	3,272
Receivable for advisory and service fees	15,138	12,566
Intangible for customer relationships, net	9,590	10,491
Goodwill	27,917	27,917
Interest rate swaps, at fair value	-	5,417
Other derivative contracts, at fair value	186	-
Other assets	26,351	14,397
Total assets	\$82,584,763	\$69,376,190
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Repurchase agreements	\$61,040,668	\$54,598,129
Payable for Mortgage-Backed Securities and Agency debentures purchased	8,165,941	4,083,786
Convertible Senior Notes	600,000	-
U.S. Treasury Securities sold, not yet purchased, at fair value	691,593	-
Accrued interest payable	113,837	89,460
Dividends payable	422,036	414,851
Securities loaned	251,332	29,057
Accounts payable and other liabilities	51,440	10,005
Interest rate swaps, at fair value	1,604,639	533,362
Total liabilities	72,941,486	59,758,650
6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized, 2,306,537 and 2,604,614 shares issued and outstanding, respectively	55,891	63,114
Commitments and contingencies	-	-

Stockholders' Equity:

7.875% Series A Cumulative Redeemable Preferred Stock:

7,412,500 authorized, 7,412,500 shares issued and outstanding	177,088	177,088
Common stock, par value \$.01 per share, 987,987,500 shares authorized, 620,640,708 and 553,134,877 shares issued and outstanding, respectively	6,206	5,531
Additional paid-in capital	8,994,954	7,817,454
Accumulated other comprehensive income	1,877,537	1,891,317
Accumulated deficit	(1,468,399 )	(336,964 )
Total stockholders' equity	9,587,386	9,554,426

Total liabilities, Series B Cumulative Convertible

Preferred Stock and stockholders' equity	\$82,584,763	\$69,376,190
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(1) Derived from the audited consolidated financial statements at December 31, 2009.

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(dollars in thousands, except per share amounts)  
(Unaudited)

	For the Quarter Ended September 30, 2010	For the Quarter Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Interest income				
Mortgage-Backed Securities and agency debentures	\$700,964	\$744,523	\$1,997,681	\$ 2,170,939
Securities loaned	1,261	-	2,575	-
U.S. Treasury Securities	751	-	791	-
Total interest income	702,976	744,523	2,001,047	2,170,939
Interest expense				
Repurchase agreements	105,393	124,653	294,457	474,235
Interest rate swaps	188,636	183,124	545,009	534,763
Convertible Senior Notes	7,033	-	17,194	-
Securities borrowed	1,047	-	2,176	-
U.S. Treasury Securities sold, not yet purchased	459	-	483	-
Total interest expense	302,568	307,777	859,319	1,008,998
Net interest income	400,408	436,746	1,141,728	1,161,941
Other (loss) income				
Investment advisory and service fees	15,343	14,620	41,752	34,117
Gain on sale of Mortgage-Backed Securities and agency debentures	61,986	591	147,989	7,978
Dividend income	8,097	5,398	23,391	9,537
Unrealized (loss) gain on interest rate swaps	(448,253 )	(128,687 )	(1,158,023 )	137,065
Net gain on trading securities	1,082	-	1,159	-
Income from underwriting	915	-	1,415	-
Total other (loss) income	(360,830 )	(108,078 )	(942,317 )	188,697
Expenses				
Distribution fees	-	478	360	1,338
General and administrative expenses	43,430	33,344	124,991	93,272
Total expenses	43,430	33,822	125,351	94,610
(Loss) income before income from equity method investments and income taxes	(3,852 )	294,846	74,060	1,256,028

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Income from equity method investment	868	-	1,943	-
Income taxes	(11,076 )	(9,657 )	(27,227 )	(23,892 )
Net (loss) income	(14,060 )	285,189	48,776	1,232,136
Dividends on preferred stock	4,515	4,625	13,765	13,876
Net (loss) income (related) available to common shareholders	\$(18,575 )	\$280,564	\$35,011	\$ 1,218,260
Net (loss) income (related) available per share to common shareholders:				
Basic	\$(0.03 )	\$0.51	\$0.06	\$ 2.24
Diluted	\$(0.03 )	\$0.51	\$0.06	\$ 2.22
Weighted average number of common shares outstanding:				
Basic	611,904,518	547,611,480	575,742,043	544,970,392
Diluted	611,904,518	553,376,285	575,958,563	550,913,871
Net (loss) income	\$(14,060 )	\$285,189	\$48,776	\$ 1,232,136
Other comprehensive (loss) income:				
Unrealized (loss) gain on available-for-sale securities	(619,080 )	542,396	52,880	1,538,587
Unrealized gain on interest rate swaps	18,402	56,055	81,329	177,155
Reclassification adjustment for net gains included in net income	(61,986 )	(591 )	(147,989 )	(7,978 )
Other comprehensive (loss) income	(662,664 )	597,860	(13,780 )	1,707,764
Comprehensive (loss) income	\$(676,724 )	\$883,049	\$34,996	\$ 2,939,900

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
NINE MONTHS ENDED SEPTEMBER 30, 2010  
(dollars in thousands, except per share data)  
(Unaudited)

	Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
BALANCE, DECEMBER 31, 2009	\$177,088	\$5,531	\$7,817,454	\$ 1,891,317	\$ (336,964 )	\$9,554,426
Net income	-	-	-	-	48,776	-
Other comprehensive loss	-	-	-	(13,780 )	-	-
Comprehensive income	-	-	-	-	-	34,996
Net proceeds from follow-on offering	-	600	1,046,793	-	-	1,047,393
Exercise of stock options	-	2	2,841	-	-	2,843
Stock option expense and long-term compensation expense	-	-	3,562	-	-	3,562
Conversion of Series B cumulative preferred stock	-	7	7,215	-	-	7,222
Net proceeds from direct purchase and dividend reinvestment	-	66	117,089	-	-	117,155
Preferred Series A dividends declared \$1.4766 per share	-	-	-	-	(10,945 )	(10,945 )
Preferred Series B dividends declared \$1.125 per share	-	-	-	-	(2,820 )	(2,820 )
Common dividends declared \$2.01 per share	-	-	-	-	(1,166,446 )	(1,166,446 )
BALANCE, SEPTEMBER 30, 2010	\$177,088	\$6,206	\$8,994,954	\$ 1,877,537	\$ (1,468,399 )	\$9,587,386

See notes to consolidated  
financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)  
(Unaudited)

	For the Quarter Ended September 30, 2010	For the Quarter Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Cash flows from operating activities:				
Net income (loss)	\$(14,060 )	\$285,189	\$48,776	\$1,232,136
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of Mortgage-Backed Securities and agency debentures premiums and discounts, net	155,868	75,072	457,052	174,502
Amortization of intangibles	407	407	1,220	1,909
Deferred expense amortization	900	-	2,250	-
Gain on sale of Mortgage-Backed Securities and agency debentures	(61,986 )	(591 )	(147,989 )	(7,978 )
Stock option and long-term compensation expense	1,196	938	3,562	2,871
Unrealized loss (gain) on interest rate swaps	448,253	128,687	1,158,023	(137,065 )
Net gains on trading securities	(1,082 )	-	(1,159 )	-
Net change in investment with affiliate, equity method	(97 )	11	(312 )	11
Increase in accrued interest and dividend receivable	(22,272 )	(25,357 )	(24,303 )	(47,542 )
Decrease (increase) in other assets	15,308	(3,455 )	3,477	(2,972 )
(Increase) in advisory and service fees receivable	(1,779 )	(2,768 )	(2,573 )	(6,704 )
Increase (decrease) in interest payable	14,471	(4,968 )	24,376	(102,291 )
Increase (decrease) in accounts payable and other liabilities	17,536	(2,124 )	41,347	29,609
Payments on repurchase agreements from Broker Dealer	(364,576,286)	(167,933,399)	(930,904,601)	(191,536,573)
Proceeds from repurchase agreements from Broker Dealer	365,003,080	172,113,103	936,383,970	199,146,573
Payments on reverse repurchase agreements from Broker Dealer	(21,376,914 )	(1,528,392 )	(30,153,996 )	(2,165,602 )
Proceeds from reverse repurchase agreements from Broker Dealer	20,927,968	1,402,637	2,9891,027	1,992,414

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Payments on securities borrowed	(886,755 )	-	(2,212,011 )	-
Proceeds from securities borrowed	877,755	-	1,989,846	-
Payments on securities loaned	(987,876 )	-	(2,144,516 )	-
Proceeds from securities loaned	996,966	-	2,366,791	-
Purchase of trading securities	(3,081,852 )	-	(3,523,995 )	-
Proceeds from sale of trading securities	3,080,309	-	3,461,601	-
Net cash provided by operating activities	529,058	4,504,990	6,717,863	8,573,298
Cash flows from investing activities:				
Purchase of Mortgage-Backed Securities	(12,662,901 )	(8,805,661 )	(35,951,636 )	(20,472,665 )
Proceeds from sale of Mortgage-Backed Securities and agency debentures	1,284,437	605,911	5,516,172	1,635,844
Principal payments of Mortgage-Backed Securities	5,569,728	4,016,331	22,307,773	10,031,023
Agency debentures called	349,875	-	1,223,875	602,000
Purchase of agency debentures	-	-	(2,827,666 )	(623,361 )
Payments on reverse repurchase agreements	-	(5,070,260 )	(4,032,426 )	(5,643,179 )
Proceeds from reverse repurchase agreements	-	5,040,667	4,291,430	6,052,222
Purchase of available-for-sale equity securities from affiliate	-	-	-	(90,078 )
Purchase of equity securities	-	(67,917 )	-	(67,917 )
Net cash used in investing activities	(5,458,861 )	(4,280,929 )	(9,472,478 )	(8,576,111 )
Cash flows from financing activities:				
Proceeds from repurchase agreements	55,726,371	80,062,824	166,732,844	262,419,462
Principal payments on repurchase agreements	(51,499,332 )	(79,726,618 )	(165,769,674)	(260,861,509)
Net proceeds from follow-on offering	1,047,393	-	1,047,393	-
Issuance of convertible notes	-	-	582,000	-
Proceeds from exercise of stock options	1,032	320	2,843	1,043
Proceeds from direct purchase and dividend reinvestment	997	141,189	117,155	141,189
Dividends paid	(385,151 )	(331,233 )	(1,173,028 )	(883,384 )
Net cash provided by financing activities	4,891,310	146,482	1,539,533	816,801
Net (decrease) increase in cash and cash equivalents	(38,493 )	370,543	(1,215,082 )	813,988
Cash and cash equivalents, beginning of period	327,979	1,352,798	1,504,568	909,353
Cash and cash equivalents, end of period	\$289,486	\$1,723,341	\$289,486	\$1,723,341
Supplemental disclosure of cash flow information:				
Interest paid	\$288,097	\$312,746	\$834,943	\$1,111,290
Taxes paid	\$11,330	\$9,616	\$27,938	\$29,264