

ANNALY CAPITAL MANAGEMENT INC
Form 8-K
February 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported):
February 8, 2010

ANNALY CAPITAL MANAGEMENT, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or Other Jurisdiction
of Incorporation)

1-13447
(Commission
File Number)

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)

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

No Change
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01. Other Events

The following is a summary of Annaly Capital Management, Inc.'s (the "Company") Generally Accepted Accounting Principles ("GAAP") earnings for the quarter and year ended December 31, 2009. The Company has not yet finalized its financial results for the fourth quarter and year ended December 31, 2009 and, accordingly, information regarding these periods is subject to adjustments that could be material.

Net income for the quarter ended December 31, 2009, was \$729.3 million or \$1.31 per average share available to common shareholders, as compared to a net loss of \$507.0 million or \$0.95 per average share related to common shareholders for the quarter ended December 31, 2008, and net income of \$285.2 million or \$0.51 per average share available to common shareholders for the quarter ended September 30, 2009.

Net income for the year ended December 31, 2009, was \$2.0 billion or \$3.55 per average share available to common shareholders, as compared to net income of \$346.2 million or \$0.64 per average share available to common shareholders for the year ended December 31, 2008.

During the quarter ended December 31, 2009, the Company sold \$3.0 billion of Mortgage-Backed Securities, resulting in a realized gain of \$91.2 million. During the quarter ended December 31, 2008, the Company sold \$4.3 billion of Mortgage-Backed Securities, resulting in a realized loss of \$468,000. During the quarter ended September 30, 2009, the Company sold \$194.3 million of Mortgage-Backed Securities, resulting in a realized gain of \$591,000.

During the year ended December 31, 2009, the Company sold \$4.6 billion of Mortgage-Backed Securities, resulting in a realized gain of \$99.1 million. During the year ended December 31, 2008, the Company sold \$15.1 billion of Mortgage-Backed Securities, resulting in a realized gain of \$10.7 million.

Common dividends declared for the quarter ended December 31, 2009, were \$0.75 per share, as compared to \$0.50 per share for the quarter ended December 31, 2008, and \$0.69 per share for the quarter ended September 30, 2009. The annualized dividend yield on the Company's common stock for the quarter ended December 31, 2009, based on the December 31, 2009 closing price of \$17.35, was 17.29% . The Company provided an annualized return on average equity of 30.73% for the quarter ended December 31, 2009, as compared to an annualized loss on average equity of 28.12% for the quarter ended December 31, 2008, and an annualized return on average equity of 12.60% for the quarter ended September 30, 2009.

Common dividends declared for the year ended December 31, 2009, were \$2.54 per share, as compared to \$2.08 per share for the year ended December 31, 2008. The annualized dividend yield on the Company's common stock for the year ended December 31, 2009, based on the December 31, 2009 closing price of \$17.35, was 14.64% . The Company provided a return on average equity of 22.69% for the year ended December 31, 2009, as compared to a return on average equity of 5.18% for the year ended December 31, 2008.

For the quarter ended December 31, 2009, the annualized yield on average earning assets was 4.84% and the annualized cost of funds on the average repurchase balance was 2.05%, which resulted in an average interest rate spread of 2.79% . This is a 108 basis point

increase over the 1.71% annualized interest rate spread for the quarter ended December 31, 2008, and a 14 basis point increase over the 2.65% average interest rate spread for the quarter ended September 30, 2009.

For the year ended December 31, 2009, the yield on average earning assets was 4.99% and the cost of funds on the average repurchase balance was 2.47%, which resulted in an average interest rate spread of 2.52% . This is a 71 basis point increase over the 1.81% interest rate spread for the year ended December 31, 2008.

At December 31, 2009, the weighted average yield on assets was 4.51% and the weighted average cost of funds, including the effect of interest rate swaps, was 2.11%, which resulted in an interest rate spread of 2.40% . Leverage at December 31, 2009, was 5.7:1 compared to 6.4:1 at December 31, 2008, and 6.0:1 at September 30, 2009.

Fixed-rate securities comprised 74% of the Company's portfolio at December 31, 2009. The balance of the portfolio was comprised of 21% adjustable-rate mortgages and 5% LIBOR floating-rate collateralized mortgage obligations. At December 31, 2009, the Company had entered into interest rate swaps with a notional amount of \$21.5 billion, or 34% of the portfolio. The purpose of the swaps is to mitigate the risk of rising interest rates that affect the Company's cost of funds. Since the Company receives a floating rate on the notional amount of the swaps, the effect of the swaps is to lock in a spread relative to the cost of financing. As of December 31, 2009, all of the Company's Investment Securities were Fannie Mae, Freddie Mac and Ginnie Mae Mortgage-Backed Securities, which carry an actual or implied "AAA" rating.

The following table summarizes portfolio information for the Company:

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Leverage at period-end | 5.7:1 | 6.4 |
| Fixed-rate investment securities as a percentage of portfolio | 74% | 64 |
| Adjustable-rate investment securities as a percentage of portfolio | 21% | 28 |
| Floating-rate investment securities as a percentage of portfolio | 5% | 8 |
| Notional amount of interest rate swaps as a percentage of portfolio | 34% | 32 |
| Annualized yield on average earning assets during the quarter | 4.84% | 5.50 |
| Annualized cost of funds on average repurchase balance during the quarter | 2.05% | 3.79 |
| Annualized interest rate spread during the quarter | 2.79% | 1.71 |
| Weighted average yield on assets at period-end | 4.51% | 5.03 |
| Weighted average cost of funds at period-end | 2.11% | 4.08 |
| Interest rate spread at period-end | 2.40% | 0.95 |
| Weighted average receive rate on interest rate swaps at period-end | 0.25% | 1.18 |
| Weighted average pay rate on interest rate swaps at period-end | 3.85% | 4.66 |

The Constant Prepayment Rate was 19% during the fourth quarter of 2009, as compared to 10% during the fourth quarter of 2008, and 21% during the third quarter of 2009. The weighted average cost basis of the Company's Investment Securities was 101.5 at December 31, 2009. The net amortization of premiums and accretion of discounts on Investment Securities for the quarters ended December 31, 2009, December 31, 2008, and September 30, 2009, was \$79.2 million, \$26.8 million, and \$75.1 million, respectively. The total net premium remaining unamortized at December 31, 2009, December 31, 2008, and September 30, 2009, was \$1.2 billion, \$555.0 million, and \$1.1 billion, respectively.

General and administrative expenses as a percentage of average assets were 0.21%, 0.18% and 0.19% for the quarters ended December 31, 2009, December 31, 2008, and September 30, 2009, respectively. At December 31, 2009, December 31, 2008, and September 30, 2009, the Company had a common stock book value per share of \$16.95, \$12.94 and \$16.52, respectively.

At December 31, 2009, Annaly's wholly-owned registered investment advisors had under management approximately \$11.5 billion in net assets and \$19.1 billion in gross assets, as compared to \$7.0 billion in net assets and \$15.3 billion in gross assets at December 31, 2008 and \$11.3 billion in net assets and \$22.6 billion in gross assets at September 30, 2009. For the quarter ended December 31, 2009, the investment advisors earned investment advisory and service fees, net of fees paid to distributors, of \$14.4 million, as compared to \$6.9 million for the quarter ended December 31, 2008 and \$14.1 million for the quarter ended September 30, 2009.

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

| | December 31, 2009 (Unaudited) | September 30, 2009 (Unaudited) | June 30, 2009 (Unaudited) | March 31, 2009 (Unaudited) |
|---|-------------------------------------|--------------------------------------|---------------------------------|----------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,504,568 | \$ 1,723,341 | \$ 1,352,798 | \$ 1,030,000 |
| Reverse repurchase agreements with affiliate | 328,757 | 226,264 | 170,916 | 45,000 |
| Reverse repurchase agreements | 425,000 | 100,000 | - | - |
| Mortgage-Backed Securities, at fair value | 64,805,725 | 66,837,761 | 65,165,126 | 58,780,000 |
| Agency debentures, at fair value | 915,752 | 625,615 | 616,893 | - |
| Investments with affiliates | 242,198 | 239,740 | 156,990 | 50,000 |
| Securities borrowed | 29,077 | - | - | - |
| Receivable for Mortgage-Backed Securities sold | 732,134 | - | 412,214 | 300,000 |
| Accrued interest and dividends receivable | 318,919 | 332,861 | 313,772 | 290,000 |
| Receivable from Prime Broker | 3,272 | 16,886 | 16,886 | 100,000 |
| Receivable for advisory and service fees | 12,566 | 12,807 | 10,039 | - |
| Intangible for customer relationships | 10,491 | 10,791 | 11,091 | 100,000 |
| Goodwill | 27,917 | 27,917 | 27,917 | 200,000 |
| Interest rate swaps, at fair value | 5,417 | - | 7,267 | - |
| Other assets | 14,397 | 8,695 | 5,346 | - |
| Total assets | \$ 69,376,190 | \$ 70,162,678 | \$ 68,267,255 | \$ 60,710,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Liabilities: | | | | |
| Repurchase agreements | \$ 54,598,129 | \$ 55,842,840 | \$ 51,326,930 | \$ 48,950,000 |
| Payable for Investment Securities purchased | 4,083,786 | 3,644,420 | 7,017,444 | 2,120,000 |
| Accrued interest payable | 89,460 | 97,693 | 102,662 | 110,000 |
| Dividends payable | 414,851 | 381,411 | 326,612 | 270,000 |
| Securities Loaned | 29,057 | - | - | - |
| Accounts payable and other liabilities | 10,005 | 37,991 | 40,115 | 200,000 |
| Interest rate swaps, at fair value | 533,362 | 788,065 | 722,700 | 1,010,000 |
| Total liabilities | 59,758,650 | 60,792,420 | 59,536,463 | 52,490,000 |
| 6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized, 2,604,614, 2,604,614, 2,604,814, 2,607,564 and 3,963,525 shares issued and outstanding, respectively | 63,114 | 63,114 | 63,118 | 60,000 |
| 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 | 177,088 | 170,000 |
| Common stock, par value \$.01 per share, 987,987,500 authorized, 553,134,877, 552,778,531, 544,353,997, 544,339,785, and 541,475,366 issued and outstanding, respectively | 5,531 | 5,528 | 5,444 | - |
| Additional paid-in capital | 7,817,454 | 7,811,356 | 7,668,988 | 7,660,000 |
| Accumulated other comprehensive income | 1,891,317 | 1,959,994 | 1,362,134 | 1,120,000 |
| Accumulated deficit | (336,964) | (646,822) | (545,980) | (810,000) |
| Total stockholders' equity | 9,554,426 | 9,307,144 | 8,667,674 | 8,160,000 |
| Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity | \$ 69,376,190 | \$ 70,162,678 | \$ 68,267,255 | \$ 60,710,000 |

(1) Derived from the audited consolidated financial statements at December 31, 2008.

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

| | December 31, 2009 | September 30, 2009 | For the quarter June 30, 2009 |
|--|----------------------|-----------------------|-------------------------------------|
| Interest income: | | | |
| Investments | \$ 751,560 | \$ 744,523 | \$ 710,000 |
| Securities loaned | 103 | - | - |
| Total interest income | 751,663 | 744,523 | 710,000 |
| Interest expense: | | | |
| Repurchase agreements | 286,672 | 307,777 | 322,000 |
| Securities borrowed | 92 | - | - |
| Total interest expense | 286,764 | 307,777 | 322,000 |
| Net interest income | 464,899 | 436,746 | 388,000 |
| Other income (loss) | | | |
| Investment advisory and service fees | 14,835 | 14,620 | 11,000 |
| Gain (loss) on sale of Mortgage-Backed Securities | 91,150 | 591 | 2,000 |
| Loss from trading securities | - | - | - |
| Dividend income from available-for-sale equity securities | 7,647 | 5,398 | 3,000 |
| Loss on receivable from Prime Broker ⁽¹⁾ | (13,613) | - | - |
| Unrealized gain (loss) on interest rate swaps | 212,456 | (128,687) | 230,000 |
| Total other income (loss) | 312,475 | (108,078) | 247,000 |
| Expenses | | | |
| Distribution fees | 418 | 478 | - |
| General and administrative expenses | 36,880 | 33,344 | 30,000 |
| Total expenses | 37,298 | 33,822 | 30,000 |
| Income (loss) before loss on equity method investment and income taxes | 740,076 | 294,846 | 604,000 |
| Loss on equity method investment | 252 | - | - |
| Income taxes | 10,489 | 9,657 | 7,000 |
| Net income (loss) | 729,335 | 285,189 | 597,000 |
| Dividends on preferred stock | 4,625 | 4,625 | 4,000 |
| Net income (loss) available (related) to common shareholders | \$ 724,710 | \$ 280,564 | \$ 592,000 |
| Net income (loss) available (related) per share to common shareholders: | | | |
| Basic | \$ 1.31 | \$ 0.51 | \$ 1.00 |

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| | | | | | | |
|---|----|-------------|----|-------------|----|----------|
| Diluted | \$ | 1.30 | \$ | 0.51 | \$ | 1 |
| Weighted average number of common shares outstanding: | | | | | | |
| Basic | | 552,917,499 | | 547,611,480 | | 544,344, |
| Diluted | | 559,336,066 | | 553,376,285 | | 550,099, |
| Net income (loss) | | | | | | |
| | \$ | 729,335 | \$ | 285,189 | \$ | 597, |
| Other comprehensive (loss) income: | | | | | | |
| Unrealized (loss) gain on available-for-sale securities | | (25,190) | | 542,396 | | 176, |
| Unrealized gain on interest rate swaps | | 47,663 | | 56,055 | | 66, |
| Reclassification adjustment for (gains) losses included in net income | | (91,150) | | (591) | | (2, |
| Other comprehensive (loss) income | | (68,677) | | 597,860 | | 240, |
| Comprehensive income | \$ | 660,658 | \$ | 883,049 | \$ | 837, |

- (1) The Company invested \$45,000,000 in an equity fund and has redeemed \$56,000,000. Assets of the fund still remain at the prime broker, Lehman Brothers International (Europe) (in administration) (["LBIE"]), which is in bankruptcy and the ultimate recovery of such amount remains uncertain. The Company has entered into the Claims Resolution Agreement between Lehman Brothers International (Europe) (in administration) and certain eligible offerees effective December 29, 2009 with respect to these assets (the ["CRA"]). Given the great degree of uncertainty as to the status of the Company's assets, other than specific assets that remain directly in the control of LBIE that the Company has valued in accordance with the CRA, the Company has valued the assets at an 80% discount.

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

| | For the twelve months ended December 31, 2009 (Unaudited) |
|---|--|
| Interest income | |
| Investments | \$ 2,922,499 |
| Securities loaned | 103 |
| Total interest income | 2,922,602 |
| Interest expense | |
| Repurchase agreements | 1,295,670 |
| Securities borrowed | 92 |
| Total interest expense | 1,295,762 |
| Net interest income | 1,626,840 |
| Other income (loss): | |
| Investment advisory and service fees | 48,952 |
| Gain on sale of Mortgage-Backed Securities | 99,128 |
| Income from trading securities | - |
| Dividend income from available-for-sale equity securities | 17,184 |
| Loss on other-than-temporarily impaired securities | - |
| Loss on receivable from Prime Broker | (13,613) |
| Unrealized gain (loss) on interest rate swaps | 349,521 |
| Total other income (loss) | 501,172 |
| Expenses | |
| Distribution fees | 1,756 |
| General and administrative expenses | 130,152 |
| Total expenses | 131,908 |
| Income before loss on equity method investment, income taxes and noncontrolling interest | 1,996,104 |
| Loss on equity method investment | 252 |
| Income taxes | 34,381 |
| Net income | 1,961,471 |
| Noncontrolling interest | - |
| Net income attributable to controlling interest | 1,961,471 |
| Dividends on preferred stock | 18,501 |
| Net income available to common shareholders | \$ 1,942,970 |
| Net income available per share to common shareholders: | |
| Basic | \$ 3.55 |
| Diluted | \$ 3.52 |
| Weighted average number of common shares outstanding: | |
| Basic | 546,973,036 |
| Diluted | 553,130,643 |
| Net income attributable to controlling interest | \$ 1,961,471 |

Other comprehensive income:

| | |
|---|---------------------|
| Unrealized gain on available-for-sale securities | 1,513,397 |
| Unrealized gain on interest rate swaps | 224,818 |
| Reclassification adjustment for gains (losses) included in net income | (99,128) |
| Other comprehensive income | 1,639,087 |
| Comprehensive income | \$ 3,600,558 |

(1) Derived from the audited consolidated financial statements at December 31, 2008.

SIGNATURE

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

Annaly Capital Management, Inc.

By: /s/ Kathryn Fagan
Name: Kathryn Fagan
Title: Chief Financial Officer

Date: February 8, 2010
