

ANNALY CAPITAL MANAGEMENT INC  
Form 8-K  
February 14, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 14, 2011

Annaly Capital Management, Inc.

(Exact Name of Registrant as Specified in its Charter)

|   |                             |   |
|---|-----------------------------|---|
| <u>Maryland</u>   | <u>1-13447</u>              | <u>22-3479661</u>                       |
| State or Other Jurisdiction<br>Of Incorporation)                | (Commission<br>File Number) | (I.R.S. Employer<br>Identification No.) |
| 1211 Avenue of the Americas<br>Suite 2902<br>New York, New York |                             | <u>10036</u>                            |
| (Address of Principal<br>Executive Offices)                     |                             | (Zip Code)                              |

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

(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, 2010. The Company has not yet finalized its financial results for the fourth quarter and year ended December 31, 2010 and, accordingly, information regarding these periods is subject to adjustments that could be material.

Net income for the quarter ended December 31, 2010 of \$1.2 billion or \$1.94 per average share available to common stockholders, as compared to net income of \$729.3 million or \$1.31 per average share related to common stockholders for the quarter ended December 31, 2009, and net loss of \$14.1 million or \$0.03 per average share available to common stockholders for the quarter ended September 30, 2010.

Net income for the year ended December 31, 2010 of \$1.3 billion or \$2.12 per average share available to common stockholders, as compared to net income of \$2.0 billion or \$3.55 per average share available to common stockholders for the year ended December 31, 2009.

During the quarter ended December 31, 2010, the Company disposed of \$3.1 billion of mortgage-backed securities and agency debentures, resulting in a realized gain of \$33.8 million. During the quarter ended December 31, 2009, the Company disposed of \$3.0 billion of mortgage-backed securities and agency debentures, resulting in a realized gain of \$91.2 million. During the quarter ended September 30, 2010, the Company disposed of \$3.1 billion of mortgage-backed securities and agency debentures, resulting in a realized gain of \$62.0 million.

During the year ended December 31, 2010, the Company disposed of \$10.6 billion of mortgage-backed securities and agency debentures, resulting in a realized gain of \$181.8 million. During the year ended December 31, 2009, the Company disposed of \$4.6 billion of mortgage-backed securities and agency debentures, resulting in a realized gain of \$99.1 million.

Common dividends declared for the quarter ended December 31, 2010, were \$0.64 per share as compared to \$0.75 per share for the quarter ended December 31, 2009, and \$0.68 per share for the quarter ended September 30, 2010. Common dividends declared for the year ended December 31, 2010, were \$2.65 per share, as compared to \$2.54 per share for the year ended December 31, 2009. The Company distributes dividends based on its current estimate of taxable earnings per common share, not GAAP earnings. Taxable and GAAP earnings will typically differ due to items such as non-taxable unrealized and realized gains and losses, differences in premium amortization and discount accretion, and non-deductible general and administrative expenses.

The annualized dividend yield on the Company's common stock for the quarter ended December 31, 2010, based on the December 31, 2010 closing price of \$17.92, was 14.29%. The dividend yield on the Company's common stock for the year ended December 31, 2010, based on the December 31, 2010 closing price of \$17.92, was 14.79%.

On a GAAP basis, the Company provided an annualized return on average equity of 49.87% for the quarter ended December 31, 2010, as compared to an annualized return on average equity of 30.73% for the quarter ended December 31, 2009, and an annualized loss on average equity of 0.58% for the quarter ended September 30, 2010. Without the effect of the unrealized gains or losses on interest rate swaps, the Company provided an annualized return on average equity of 15.52% for the quarter ended December 31, 2010, as compared to an annualized return on average equity of 21.78% for the quarter ended December 31, 2009, and an annualized return on average equity of 17.96% for the quarter ended September 30, 2010. On a GAAP basis, the Company provided a return on average equity of 13.06% for the year ended December 31, 2010, as compared to a return on average equity of 22.69% for the year ended December 31, 2009. Without the effect of the unrealized gains or losses on interest rate swaps, the Company provided a return on average equity of 16.35% for the year ended

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December 31, 2010, as compared to a return on average equity of 18.65% for the year ended December 31, 2009.

For the quarter ended December 31, 2010, the annualized yield on average interest-earning assets was 3.65% and the annualized cost of funds on average interest-bearing liabilities was 1.80%, which resulted in an average interest rate spread of 1.85%. This was a 94 basis point decrease from the 2.79% annualized interest rate spread for the quarter ended December 31, 2009, and a 26 basis point decrease from the 2.11% average interest rate spread for the quarter ended September 30, 2010. At December 31, 2010, the weighted average yield on interest-earning assets was 3.80% and the weighted average cost of funds on interest-bearing liabilities, including the effect of interest rate swaps, was 1.84%, which resulted in an interest rate spread of 1.96%. Leverage at December 31, 2010, was 6.7:1 compared to 5.7:1 at December 31, 2009, and 6.4:1 at September 30, 2010.

Fixed-rate mortgage-backed securities and agency debentures comprised 86% of the Company's portfolio at December 31, 2010. The balance of the mortgage-backed securities and agency debentures was comprised of 13% adjustable-rate mortgage-backed securities and 1% LIBOR floating-rate collateralized mortgage obligations. At December 31, 2010, the Company had entered into interest rate swaps with a notional amount of \$27.1 billion, or 36% of the mortgage-backed securities and agency debentures portfolio. Changes in the unrealized gains or losses on the interest rate swaps are reflected in the Company's consolidated statement of operations. 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, 2010, substantially all of the Company's Investment Securities were Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities and agency debentures, which carry an actual or implied AAA rating.

The following table summarizes portfolio information for the Company:

|  | December 31,<br>2010 | December 31,<br>2009 | September 30,<br>2010 |
|--|----------------------|----------------------|-----------------------|
| Leverage at period-end   | 6.7:1                | 5.7:1                | 6.4:1                 |
| Fixed-rate mortgage-backed securities and agency debentures as a percentage of portfolio                   | 86%                  | 74%                  | 84%                   |
| Adjustable-rate mortgage-backed securities and agency debentures as a percentage of portfolio              | 13%                  | 21%                  | 14%                   |
| Floating-rate mortgage-backed securities and agency debentures as a percentage of portfolio                | 1%                   | 5%                   | 2%                    |
| Notional amount of interest rate swaps as a percentage of mortgage-backed securities and agency debentures | 36%                  | 34%                  | 35%                   |
| Annualized yield on average interest-earning assets during the quarter                                     | 3.65%                | 4.84%                | 4.06%                 |
| Annualized cost of funds on average interest-bearing liabilities during the quarter                        | 1.80%                | 2.05%                | 1.95%                 |
| Annualized interest rate spread during the quarter   | 1.85%                | 2.79%                | 2.11%                 |
| Weighted average yield on interest-earning assets at period-end  | 3.80%                | 4.51%                | 3.86%                 |
| Weighted average cost of funds on interest-bearing liabilities at period-end                               | 1.84%                | 2.11%                | 1.94%                 |
| Interest rate spread at period-end   | 1.96%                | 2.40%                | 1.92%                 |
| Weighted average receive rate on interest rate swaps at period-end   | 0.28%                | 0.25%                | 0.31%                 |
| Weighted average pay rate on interest rate swaps at period-end   | 3.21%                | 3.85%                | 3.34%                 |

The Constant Prepayment Rate was 23% during the fourth quarter of 2010, as compared to 19% during the fourth quarter of 2009, and 20% during the third quarter of 2010. The weighted average purchase price of the Company's mortgage-backed securities and agency debentures was 102.1% at December 31, 2010. The net amortization of premiums and accretion of discounts on mortgage-backed securities and agency debentures for the quarters ended December 31, 2010, December 31, 2009, and September 30, 2010 was \$207.4 million, \$79.2

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million, and \$155.9 million, respectively. The total net premium and discount balance at December 31, 2010, December 31, 2009, and September 30, 2010, was \$2.3 billion, \$1.2 billion, and \$2.3 billion, respectively.

General and administrative expenses as a percentage of average assets were 0.22%, 0.21% and 0.22% for the quarters ended December 31, 2010, December 31, 2009, and September 30, 2010, respectively. At December 31, 2010, December 31, 2009, and September 30, 2010, the Company had a common stock book value per share of \$15.34, \$16.95 and \$15.16, respectively.

At December 31, 2010, Annaly's wholly-owned registered investment advisors had under management approximately \$12.4 billion in net assets and \$20.1 billion in gross assets, as compared to \$11.5 billion in net assets and \$19.1 billion in gross assets at December 31, 2009 and \$12.1 billion in net assets and \$19.8 billion in gross assets at September 30, 2010. For the quarter ended December 31, 2010, the investment advisors earned investment advisory and service fees, net of fees paid to distributors, of \$16.3 million, as compared to \$14.4 million for the quarter ended December 31, 2009 and \$15.3 million for the quarter ended September 30, 2010.

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

|   | December<br>31,<br>2010<br>(Unaudited) | September<br>30,<br>2010<br>(Unaudited) | June 30,<br>2010<br>(Unaudited) | March 31,<br>2010<br>(Unaudited) | December<br>31,<br>2009(1) |
|---|--|---|---------------------------------|----------------------------------|----------------------------|
| <b>ASSETS</b>   |  |   |                                 |                                  |                            |
| Cash and cash equivalents   | \$ 282,626                             | \$ 289,486                              | \$ 327,979                      | \$ 905,955                       | \$ 1,504,568               |
| U.S. Treasury Securities, at fair value   | 1,100,447                              | 754,993                                 | 87,352                          |                                  |                            |
| Reverse repurchase agreements with affiliate  |  |   | 82,678                          | 255,580                          | 328,757                    |
| Reverse repurchase agreements   | 1,006,163                              | 757,722                                 | 226,098                         | 276,586                          | 425,000                    |
| Securities borrowed   | 216,676                                | 251,242                                 | 242,242                         | 60,132                           | 29,077                     |
| Mortgage-Backed Securities, at fair value   | 78,440,330                             | 76,174,141                              | 69,422,400                      | 67,239,930                       | 64,805,725                 |
| Agency debentures, at fair value  | 1,108,261                              | 2,046,371                               | 2,390,429                       | 2,931,945                        | 915,752                    |
| Corporate debt  | 21,683                                 |   |                                 |                                  |                            |
| Investments with affiliates   | 252,863                                | 245,659                                 | 230,268                         | 242,788                          | 242,198                    |
| Receivable for Mortgage-Backed Securities sold  | 151,460                                | 1,637,542                               | 78,581                          | 359,636                          | 732,134                    |
| Accrued interest and dividends receivable   | 345,250                                | 345,153                                 | 322,853                         | 327,666                          | 318,919                    |
| Receivable from Prime Broker  | 3,272                                  | 3,272                                   | 3,272                           | 3,272                            | 3,272                      |
| Receivable for advisory and service fees  | 16,172                                 | 15,138                                  | 13,359                          | 11,714                           | 12,566                     |
| Intangible for customer relationships, net  | 9,290                                  | 9,590                                   | 9,891                           | 10,191                           | 10,491                     |
| Goodwill  | 42,030                                 | 27,917                                  | 27,917                          | 27,917                           | 27,917                     |
| Interest rate swaps, at fair value  | 2,561                                  |   |                                 |                                  | 5,417                      |
| Other derivative contracts, at fair value   | 2,607                                  | 186                                     |                                 |                                  |                            |
| Other assets  | 24,899                                 | 26,351                                  | 42,665                          | 65,850                           | 14,397                     |
| <b>Total assets</b>   | <b>\$ 83,026,590</b>                   | <b>\$ 82,584,763</b>                    | <b>\$ 73,507,984</b>            | <b>\$ 72,719,162</b>             | <b>\$ 69,376,190</b>       |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |  |   |                                 |                                  |                            |
| Liabilities:  |  |   |                                 |                                  |                            |
| U.S. Treasury Securities sold, not yet purchased, at fair value   | \$ 909,462                             | \$ 691,593                              | \$ 26,207                       | \$                               | \$                         |
| Repurchase agreements   | 65,533,537                             | 61,040,668                              | 56,386,835                      | 53,784,480                       | 54,598,129                 |
| Securities loaned   | 217,841                                | 251,332                                 | 242,242                         | 60,377                           | 29,057                     |
| Payable for Mortgage-Backed Securities and agency debentures purchased  | 4,575,026                              | 8,165,941                               | 4,867,945                       | 7,498,712                        | 4,083,786                  |
| Convertible Senior Notes  | 600,000                                | 600,000                                 | 600,000                         | 600,000                          |                            |
| Accrued interest payable  | 115,766                                | 113,837                                 | 99,366                          | 88,346                           | 89,460                     |
| Dividends payable   | 404,220                                | 422,036                                 | 380,636                         | 363,785                          | 414,851                    |
| Accounts payable and other liabilities  | 8,921                                  | 51,440                                  | 33,815                          | 70,290                           | 10,005                     |
| Interest rate swaps, at fair value  | 754,439                                | 1,604,639                               | 1,174,788                       | 608,688                          | 533,362                    |
| Other derivative contracts, at fair value   | 2,446                                  |   | 216                             |                                  |                            |
| <b>Total liabilities</b>  | <b>73,121,658</b>                      | <b>72,941,486</b>                       | <b>63,812,050</b>               | <b>63,074,678</b>                | <b>59,758,650</b>          |
| 6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized, 1,652,047, 2,306,537, 2,603,969, 2,603,969, and 2,604,614 shares issued and outstanding, respectively |  |   |                                 |                                  |                            |
|   | 40,032                                 | 55,891                                  | 63,098                          | 63,098                           | 63,114                     |

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|   |                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
| 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          | 177,088          | 177,088          |
| Common stock, par value \$.01 per share, 987,987,500 authorized, 631,594,205, 620,640,708, 559,763,825, 559,668,624, and 553,134,877 issued and outstanding, respectively |                  |                  |                  |                  |                  |
|   | 6,316            | 6,206            | 5,598            | 5,597            | 5,531            |
| Additional paid-in capital  | 9,175,245        | 8,994,954        | 7,937,738        | 7,935,151        | 7,817,454        |
| Accumulated other comprehensive income  | 1,164,642        | 1,877,537        | 2,540,201        | 1,887,852        | 1,891,317        |
| Accumulated deficit   | (658,391)        | (1,468,399)      | (1,027,789)      | (424,302)        | (336,964)        |
| <b>Total stockholders equity</b>  |                  |                  |                  |                  |                  |
|   | <b>9,864,900</b> | <b>9,587,386</b> | <b>9,632,836</b> | <b>9,581,386</b> | <b>9,554,426</b> |
| Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders equity  |                  |                  |                  |                  |                  |
|   | \$ 83,026,590    | \$ 82,584,763    | \$ 73,507,984    | \$ 72,719,162    | \$ 69,376,190    |

(1) Derived from the audited financial statements at December 31, 2009.

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

|  | For the quarters ended |                          |                  |                   |                      |
|--|------------------------|--------------------------|------------------|-------------------|----------------------|
|  | December 31,<br>2010   | September<br>30,<br>2010 | June 30,<br>2010 | March 31,<br>2010 | December 31,<br>2009 |
| <b>Interest income:</b>  |                        |                          |                  |                   |                      |
| Investment securities  | \$ 678,626             | \$ 700,964               | \$ 642,782       | \$ 653,935        | \$ 751,560           |
| Securities loaned  | 1,422                  | 1,261                    | 860              | 454               | 103                  |
| U.S. Treasury Securities   | 2,039                  | 751                      | 40               |                   |                      |
| <b>Total interest income</b>   | <b>682,087</b>         | <b>702,976</b>           | <b>643,682</b>   | <b>654,389</b>    | <b>751,663</b>       |
| <b>Interest expense:</b>   |                        |                          |                  |                   |                      |
| Repurchase agreements  | 103,514                | 105,393                  | 96,975           | 92,089            | 101,632              |
| Interest rate swaps  | 190,098                | 188,636                  | 175,535          | 180,838           | 185,040              |
| Convertible Senior Notes   | 7,034                  | 7,033                    | 6,966            | 3,195             |                      |
| Securities borrowed  | 1,201                  | 1,047                    | 742              | 387               | 92                   |
| U.S. Treasury Securities sold, not yet purchased   | 2,166                  | 459                      | 24               |                   |                      |
| <b>Total interest expense</b>  | <b>304,013</b>         | <b>302,568</b>           | <b>280,242</b>   | <b>276,509</b>    | <b>286,764</b>       |
| <b>Net interest income</b>   | <b>378,074</b>         | <b>400,408</b>           | <b>363,440</b>   | <b>377,880</b>    | <b>464,899</b>       |
| <b>Other income (loss)</b>   |                        |                          |                  |                   |                      |
| Investment advisory and service fees   | 16,321                 | 15,343                   | 13,863           | 12,546            | 14,835               |
| Gain on sale of Mortgage-Backed Securities and agency debentures                         | 33,802                 | 61,986                   | 39,041           | 46,962            | 91,150               |
| Dividend income  | 7,647                  | 8,097                    | 7,330            | 7,964             | 7,647                |
| Loss on receivable from Prime Broker <sup>(1)</sup>                                      |                        |                          |                  |                   | (13,613)             |
| Unrealized gain (loss) on interest rate swaps  | 839,191                | (448,253)                | (593,038)        | (116,732)         | 212,456              |
| Net (loss) gain on trading securities  | (3,510)                | 1,082                    | 77               |                   |                      |
| Income from underwriting   | 680                    | 915                      | 500              |                   |                      |
| <b>Total other income (loss)</b>   | <b>894,131</b>         | <b>(360,830)</b>         | <b>(532,227)</b> | <b>(49,260)</b>   | <b>312,475</b>       |
| <b>Expenses</b>  |                        |                          |                  |                   |                      |
| Distribution fees  |                        |                          |                  | 360               | 418                  |
| General and administrative expenses  | 46,496                 | 43,430                   | 41,540           | 40,021            | 36,880               |
| <b>Total expenses</b>  | <b>46,496</b>          | <b>43,430</b>            | <b>41,540</b>    | <b>40,381</b>     | <b>37,298</b>        |
| <b>Income (loss) before income (loss) from equity method investment and income taxes</b> | <b>1,225,709</b>       | <b>(3,852)</b>           | <b>(210,327)</b> | <b>288,239</b>    | <b>740,076</b>       |
| <b>Income (loss) from equity method investment</b>                                       | <b>1,002</b>           | <b>868</b>               | <b>935</b>       | <b>140</b>        | <b>(252)</b>         |
| <b>Income taxes</b>  | <b>(8,207)</b>         | <b>(11,076)</b>          | <b>(8,837)</b>   | <b>(7,314)</b>    | <b>(10,489)</b>      |
| <b>Net income (loss)</b>   | <b>1,218,504</b>       | <b>(14,060)</b>          | <b>(218,229)</b> | <b>281,065</b>    | <b>729,335</b>       |
| <b>Dividends on preferred stock</b>  | <b>4,268</b>           | <b>4,515</b>             | <b>4,625</b>     | <b>4,625</b>      | <b>4,625</b>         |

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|  |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Net income (loss) available (related) to common shareholders</b>            | \$1,214,236 | (\$18,575)  | (\$222,854) | \$276,440   | \$724,710   |
| <b>Net income (loss) available (related) per share to common shareholders:</b> |             |             |             |             |             |
| Basic  | \$1.94      | (\$0.03)    | (\$0.40)    | \$0.50      | \$1.31      |
| Diluted  | \$1.84      | (\$0.03)    | (\$0.40)    | \$0.49      | \$1.30      |
| <b>Weighted average number of common shares outstanding:</b>                   |             |             |             |             |             |
| Basic  | 625,138,510 | 611,904,518 | 559,700,836 | 554,995,092 | 552,917,499 |
| Diluted  | 662,476,638 | 611,904,518 | 559,700,836 | 575,859,564 | 559,336,066 |
| <b>Net income (loss)</b>   | \$1,218,504 | (\$14,060)  | (\$218,229) | \$281,065   | \$729,335   |
| <b>Other comprehensive (loss) income:</b>                                      |             |             |             |             |             |
| Unrealized (loss) gain on available-for-sale securities                        | (692,663)   | (619,080)   | 664,544     | 7,416       | (25,190)    |
| Unrealized gain on interest rate swaps   | 13,570      | 18,402      | 26,846      | 36,081      | 47,663      |
| Reclassification adjustment for gains included in net income                   | (33,802)    | (61,986)    | (39,041)    | (46,962)    | (91,150)    |
| Other comprehensive (loss) income  | (712,895)   | (662,664)   | 652,349     | (3,465)     | (68,677)    |
| <b>Comprehensive income (loss)</b>   | \$505,609   | (\$676,724) | \$434,120   | \$277,600   | \$660,658   |

- (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**  
**(UNAUDITED)**  
**(dollars in thousands, except per share data)**

|  | <b>For the years ended</b> |                          |
|--|----------------------------|--------------------------|
|  | <b>December 31, 2010</b>   | <b>December 31, 2009</b> |
| <b>Interest income</b>   |                            |                          |
| Investment securities  | \$ 2,676,307               | \$ 2,922,499             |
| Securities loaned  | 3,997                      | 103                      |
| U.S. Treasury Securities   | 2,830                      |                          |
| <b>Total interest income</b>   | <b>2,683,134</b>           | <b>2,922,602</b>         |
| <b>Interest expense</b>  |                            |                          |
| Repurchase agreements  | 397,971                    | 575,867                  |
| Interest rate swaps  | 735,107                    | 719,803                  |
| Convertible Senior Notes   | 24,228                     |                          |
| Securities borrowed  | 3,377                      | 92                       |
| U.S. Treasury Securities sold, not yet purchased                           | 2,649                      |                          |
| <b>Total interest expense</b>  | <b>1,163,332</b>           | <b>1,295,762</b>         |
| <b>Net interest income</b>   | <b>1,519,802</b>           | <b>1,626,840</b>         |
| <b>Other (loss) income</b>   |                            |                          |
| Investment advisory and service fees                                       | 58,073                     | 48,952                   |
| Gain on sale of Mortgage-Backed Securities and agency debentures           | 181,791                    | 99,128                   |
| Dividend income  | 31,038                     | 17,184                   |
| Loss on Receivable from Prime Broker                                       |                            | (13,613)                 |
| Unrealized (loss) gain on interest rate swaps                              | (318,832)                  | 349,521                  |
| Net loss on trading securities   | (2,351)                    |                          |
| Income from underwriting   | 2,095                      |                          |
| <b>Total other (loss) income</b>   | <b>(48,186)</b>            | <b>501,172</b>           |
| <b>Expenses</b>  |                            |                          |
| Distribution fees  | 360                        | 1,756                    |
| General and administrative expenses  | 171,487                    | 130,152                  |
| <b>Total expenses</b>  | <b>171,847</b>             | <b>131,908</b>           |
| <b>Income before income from equity method investment and income taxes</b> | <b>1,299,769</b>           | <b>1,996,104</b>         |
| <b>Income (loss) from equity method investment</b>                         | <b>2,945</b>               | <b>(252)</b>             |
| <b>Income taxes</b>  | <b>(35,434)</b>            | <b>(34,381)</b>          |
| <b>Net income</b>  | <b>1,267,280</b>           | <b>1,961,471</b>         |
| <b>Dividend on preferred stock</b>   | <b>18,033</b>              | <b>18,501</b>            |
| <b>Net income available to common shareholders</b>                         | <b>\$ 1,249,247</b>        | <b>\$ 1,942,970</b>      |

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|   |    |             |    |             |
|---|----|-------------|----|-------------|
| <b>Net income available per share to common shareholders:</b> |    |             |    |             |
| Basic   | \$ | 2.12        | \$ | 3.55        |
| Diluted   | \$ | 2.04        | \$ | 3.52        |
| <b>Weighted average number of common shares outstanding:</b>  |    |             |    |             |
| Basic   |    | 588,192,659 |    | 546,973,036 |
| Diluted   |    | 625,307,174 |    | 553,130,643 |
| <b>Net income</b>   | \$ | 1,267,280   | \$ | 1,961,471   |
| <b>Other comprehensive (loss) income:</b>                     |    |             |    |             |
| Unrealized (loss) gain on available-for-sale securities       |    | (639,783)   |    | 1,513,397   |
| Unrealized gain on interest rate swaps                        |    | 94,899      |    | 224,818     |
| Reclassification adjustment for gains included in net income  |    | (181,791)   |    | (99,128)    |
| Other comprehensive (loss) income                             |    | (726,675)   |    | 1,639,087   |
| <b>Comprehensive income</b>                                   | \$ | 540,605     | \$ | 3,600,558   |

**SIGNATURES**

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

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Name: Kathryn Fagan  
Title: Chief Financial Officer

Dated: February 14, 2011

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