

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

ANNALY CAPITAL MANAGEMENT INC  
Form 10-Q  
November 07, 2007

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, 2007

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 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

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:

# Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

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 6, 2007
Common Stock, \$.01 par value	401,809,203

## ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

### FORM 10-Q

#### TABLE OF CONTENTS

#### Part I. FINANCIAL INFORMATION

##### Item 1. Financial Statements:

Consolidated Statements of Financial Condition at September 30, 2007 (Unaudited) and December 31, 2006 (Derived from the audited consolidated statement of financial condition at December 31, 2006) 1

Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited) for the quarters and nine months ended September 30, 2007 and 2006 2

Consolidated Statement of Stockholders' Equity (Unaudited) for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 3

Consolidated Statements of Cash Flows (Unaudited) for the quarters and nine months ended September 30, 2007 and 2006 4

Notes to Consolidated Financial Statements (Unaudited) 5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 18

Item 3. Quantitative and Qualitative Disclosures about Market Risk 36

Item 4. Controls and Procedures 37

#### Part II. OTHER INFORMATION

Item 1. Legal Proceedings 38

Item 1A. Risk Factors 38

Item 6. Exhibits 39

SIGNATURES 40

CERTIFICATIONS 41

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

F-4

PART I.

ITEM 1.

FINANCIAL STATEMENTS

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except for share data)

	(unaudited)	
	September 30, 2007	December 31, 2007
	-----	
<b>ASSETS</b>		
-----		
Cash and cash equivalents	\$ 90,028	\$ 30,028
Mortgage-Backed Securities, at fair value	44,641,352	44,641,352
Agency debentures, at fair value	249,281	249,281
Trading securities, at fair value	10,987	10,987
Receivable for Mortgage-Backed Securities sold	516,140	516,140
Accrued interest receivable	235,787	235,787
Receivable for advisory and service fees	2,933	2,933
Intangible for customer relationships, net	10,178	10,178
Goodwill	22,966	22,966
Interest rate swaps, at fair value	-	-
Other assets	3,026	3,026
	-----	
Total assets	\$ 45,782,678	\$ 45,782,678
	=====	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
-----		
<b>Liabilities:</b>		
Repurchase agreements	\$ 40,140,113	\$ 40,140,113
Payable for Investment Securities purchased	1,169,324	1,169,324
Trading securities sold, not yet purchased, at fair value	26,823	26,823
Accrued interest payable	148,462	148,462
Dividends payable	85,932	85,932
Accounts payable	25,237	25,237
Interest rate swaps, at fair value	142,061	142,061
	-----	
Total liabilities	41,737,952	41,737,952
	-----	
Minority interest in equity of consolidated affiliate	1,329	1,329
	-----	
6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 authorized, issued and outstanding	111,466	111,466
	-----	
<b>Stockholders' Equity:</b>		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,637,500 shares authorized, 7,412,500 shares issued and outstanding	177,088	177,088
Common stock: par value \$.01 per share; 487,762,500 shares		

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

authorized, 330,509,203 and 205,345,591 shares issued and outstanding, respectively	3,305	
Additional paid-in capital	4,270,330	2
Accumulated other comprehensive loss	(385,960)	
Accumulated deficit	(132,832)	
	-----	
Total stockholders' equity	3,931,931	2
	-----	
Total liabilities, minority interest, Series B Cumulative Convertible Preferred Stock and stockholders' equity	\$ 45,782,678	\$ 30
	=====	

(1) Derived from the audited consolidated statement of financial condition at December 31, 2006.

See notes to consolidated financial statements.

1

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

	For the Quarter Ended September 30, 2007	For the Quarter Ended September 30, 2006
	-----	
Interest income	\$ 628,696	\$ 339,737
Interest expense	519,118	295,726
	-----	
Net interest income	109,578	44,011
	-----	
Other income (loss):		
Investment advisory and service fees	5,464	4,966
Gain (loss) on sale of Investment Securities	3,795	(446)
Gain on termination of interest rate swaps	2,029	8,414
Income from trading securities	8,288	612
Loss on other-than-temporarily impaired securities	-	-
	-----	
Total other income (loss)	19,576	13,546
	-----	
Expenses:		
Distribution fees	1,100	724
General and administrative expenses	17,334	11,682
	-----	
Total expenses	18,434	12,406
	-----	

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Impairment of intangible for customer relationships	-	-
Income before income taxes and minority interest	110,720	45,151
Income taxes	2,327	2,273
Income before minority interest	108,393	42,878
Minority interest	106	28
Net Income	\$ 108,287	\$ 42,850
Dividends on preferred stock	5,373	5,373
Net income available to common shareholders	\$ 102,914	\$ 37,477
Net income available to common shareholders per average common share:		
Basic	\$ 0.33	\$ 0.21
Diluted	\$ 0.32	\$ 0.20
Weighted average number of common shares outstanding:		
Basic	315,969,814	181,767,106
Diluted	324,614,534	189,952,159
Net income	\$ 108,287	\$ 42,850
Comprehensive income (loss):		
Unrealized gain (loss) on available-for sale securities	320,102	400,261
Unrealized loss on interest rate swaps	(232,598)	(127,354)
Reclassification adjustment for net (gains) losses included in net income or loss	(5,824)	(7,968)
Other comprehensive income (loss)	81,680	264,939
Comprehensive income (loss)	\$ 189,967	\$ 307,789

See notes to consolidated financial statements.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

FOR THE QUARTERS ENDED MARCH 31, JUNE 30, AND SEPTEMBER 30, 2007  
(dollars in thousands, except per share data)  
(UNAUDITED)

	Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulat Other Comprehens Loss
BALANCE, JANUARY 1, 2007	\$ 177,088	\$ 2,053	\$ 2,615,016	(\$76,1
Net income	-	-	-	
Other comprehensive income	-	-	-	16,0
Comprehensive income	-	-	-	
Exercise of stock options	-	-	417	
Stock option expense	-	-	311	
Net proceeds from common stock follow-on offerings	-	576	736,673	
Preferred Series A Cumulative Redeemable Preferred Stock dividends declared, \$0.492188 per share	-	-	-	
Preferred Series B Cumulative Convertible Preferred Stock dividends declared, \$0.375 per share	-	-	-	
Common dividends declared, \$0.20 per share	-	-	-	
BALANCE, MARCH 31, 2007	\$ 177,088	\$ 2,629	\$ 3,352,417	(\$60,0
Net income	-	-	-	
Other comprehensive income	-	-	-	(407,6
Comprehensive loss	-	-	-	
Exercise of stock options	-	-	64	
Stock option expense	-	-	362	
Offering cost for common stock follow-on offering	-	-	(178)	
Net proceeds from ATM programs	-	46	65,862	
Proceeds from dividend reinvestment and share purchase program	-	19	29,437	
Preferred Series A Cumulative Redeemable Preferred Stock dividends declared, \$0.492188 per share	-	-	-	
Preferred Series B Cumulative Convertible Preferred Stock dividends declared, \$0.375 per share	-	-	-	
Common dividends declared, \$0.24 per share	-	-	-	
BALANCE, JUNE 30, 2007	\$ 177,088	\$ 2,694	\$ 3,447,964	(\$467,6
Net income	-	-	-	
Other comprehensive income	-	-	-	81,6
Comprehensive income	-	-	-	
Exercise of stock options	-	-	23	
Stock option expense	-	-	339	
Net proceeds common stock follow-on offering	-	540	720,027	
Net proceeds from ATM programs	-	10	15,001	
Proceeds from dividend reinvestment and share purchase program	-	61	86,976	
Preferred Series A Cumulative Redeemable Preferred Stock dividends declared, \$0.492188 per share	-	-	-	
Preferred Series B Cumulative Convertible Preferred Stock dividends	-	-	-	

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

declared, \$0.375 per share  
Common dividends declared, \$0.26 per share

BALANCE, September 30, 2007

	-	-	-
	\$ 177,088	\$ 3,305	\$ 4,270,330
			(\$385,9

See notes to consolidated financial statements.

3

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in thousands)  
(UNAUDITED)

	For the Quarter Ended September 30, 2007	For the Quarter Ended September 30, 2006
Cash flows from operating activities:		
Net income	\$ 108,287	\$ 42,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of Mortgage Backed Securities premiums and discounts, net	16,895	14,941
Amortization of intangibles	336	564
Amortization of trading securities premiums and discounts, net	(3)	(4)
(Gain) loss on sale of Investment Securities	(3,795)	446
Gain on termination of interest rate swaps	(2,029)	(8,414)
Stock option expense	339	324
Net realized (gain) loss on trading investments	(1,596)	19
Unrealized appreciation on trading investments	(6,071)	(187)
Market value adjustment on long-term repurchase agreements	-	-
Loss on other-than-temporarily impaired securities	-	-
Impairment of intangible for customer relationships	-	-
Increase in accrued interest receivable	(37,982)	(20,236)
Decrease (increase) in other assets	120	(1,133)
Purchase of trading investments	-	(36,995)
Proceeds from sale of trading securities	1,130	43,448
Purchase of trading securities sold, not yet purchased	(4,854)	-
Proceeds from securities sold, not yet purchased	1,628	-
Decrease (increase) in advisory and service fees receivable	21	(10)
Increase in interest payable	44,006	24,447
Increase in accounts payable	10,717	6,388
Principal payments on trading securities	-	51
Net cash provided by operating activities	127,149	66,499
Cash flows from investing activities:		
Purchase of Mortgage-Backed Securities	(8,616,269)	(5,944,272)
Proceeds from termination of interest rate swaps	2,029	8,414
Proceeds from sale of Investment Securities	1,190,908	482,108
Principal receipts on Mortgage-Backed Securities	1,701,529	1,303,756
Purchase of agency debentures	(201,675)	-

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Net cash used in investing activities	(5,923,478)	(4,149,994)
Cash flows from financing activities:		
Proceeds from repurchase agreements	108,110,752	76,940,538
Principal payments on repurchase agreements	(103,064,495)	(73,295,822)
Proceeds from exercise of stock options	23	46
Net proceeds from follow-on common stock offerings	720,567	476,675
Net proceeds from dividend reinvestment and share purchase program	87,037	-
Net proceeds from ATM programs	15,011	-
Net proceeds from Series B preferred stock offering	-	(5)
Minority interest	(4,294)	28
Dividends paid	(70,025)	(24,970)
Net cash provided by financing activities	5,794,576	4,096,490
Net (decrease) increase in cash and cash equivalents	(1,753)	12,995
Cash and cash equivalents, beginning of the period	91,781	53,849
Cash and cash equivalents, end of period	\$ 90,028	\$ 66,844
Supplemental disclosure of cash flow information:		
Interest paid	\$ 475,112	\$ 271,279
Taxes paid	\$ 2,557	\$ 2,320
Noncash financing and investing activities:		
Net change in unrealized loss on available-for-sale securities and interest rate swaps, net of reclassification adjustment	\$ 81,680	\$ 264,939
Dividends declared, not yet paid	\$ 85,932	\$ 30,403
See notes to consolidated financial statements.		

4

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE QUARTER ENDED SEPTEMBER 30, 2007 AND 2006  
 (UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Annaly Capital Management, Inc. (the "Company") was incorporated in Maryland on November 25, 1996. The Company changed its name from Annaly Mortgage Management, Inc. to Annaly Capital Management, Inc. effective August 2, 2006. The Company commenced its operations of purchasing and managing an investment portfolio of mortgage-backed securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. An initial public offering was completed on October 14, 1997. The Company is a real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended. The Company acquired Fixed Income Discount Advisory Company ("FIDAC") on June 4, 2004. FIDAC is a registered investment advisor and is a taxable REIT subsidiary



## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

of the Company. At September 30, 2007, the Company had a majority equity investment of 99% in an affiliated investment fund (the "Fund").

A summary of the Company's significant accounting policies follows:

**Basis of Presentation** - The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP"). The consolidated interim financial statements are unaudited; however, in the opinion of the Company's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the financial positions, results of operations, and cash flows have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of the Company, FIDAC and the Fund. All intercompany balances and transactions have been eliminated. The minority shareholder interest in the Fund is reflected as minority interest in the consolidated financial statements.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on deposit and money market funds.

**Mortgage-Backed Securities and Agency Debentures** - The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities"). The Company also invests in agency debentures issued by Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Federal National Mortgage Association ("FNMA"). The Mortgage-Backed Securities and agency debentures are collectively referred to herein as "Investment Securities."

**Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, ("SFAS 115")** requires the Company to classify its Investment Securities as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Accordingly, SFAS 115 requires the Company to classify all of its Investment Securities as available-for-sale. All assets classified as available-for-sale are reported at estimated fair value, based on market prices from independent sources, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been lower than carrying value, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Unrealized losses on Investment Securities that are considered other than temporary, as measured by the amount of decline in fair value attributable to other-than-temporary factors, are recognized in income and the carrying value of the Investment Securities is adjusted.

Interest income is accrued based on the outstanding principal amount of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized into interest income over the projected lives of the securities using the interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus prepayment speeds, and current market conditions.

Investment Securities transactions are recorded on the trade date. Purchases of newly-issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on sale of Investment Securities are determined based on the specific identification method.

Derivative Financial Instruments/Hedging Activity - The Company hedges interest rate risk through the use of derivative financial instruments such as interest rate caps and interest rate swaps ("Hedging Instruments"). The Company accounts for Hedging Instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), as amended and interpreted. The Company carries all Hedging Instruments at their fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. As the Company's interest rate swaps are designated as cash flow hedges under SFAS 133, the change in the fair value of any such derivative is recorded in other comprehensive income or loss for hedges that qualify as effective. At September 30, 2007, the Company did not have any interest rate caps. The ineffective amount of all Hedging Instruments, if any, is recognized in earnings each quarter. To date, the Company has not recognized any change in the value of its interest rate swaps in earnings as a result of the hedge or a portion thereof being ineffective.

Upon entering into hedging transactions, the Company documents the relationship between the Hedging Instruments and the hedged liability. The Company also documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is "highly effective," as defined by SFAS 133. The Company discontinues hedge accounting on a prospective basis with changes in the estimated fair value reflected in earnings when (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including hedged items such as forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a Hedging Instrument is no longer appropriate.

When the Company enters into an interest rate swap, it agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on the London Interbank Offered Rate ("LIBOR"). The Company's interest rate swaps are designated as cash flow hedges against the benchmark interest rate risk associated with the Company's borrowings.

All changes in the unrealized gains and losses on any interest rate swap are recorded in accumulated other comprehensive income or loss and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. If it becomes probable that the forecasted transaction, which

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

in this case refers to interest payments to be made under the Company's short-term borrowing agreements, will not occur by the end of the originally specified time period, as documented at the inception of the hedging relationship, then the related gain or loss in accumulated other comprehensive income or loss would be reclassified to income or loss.

Realized gains and losses resulting from the termination of an interest rate swap are initially recorded in accumulated other comprehensive income or loss as a separate component of stockholders' equity. The gain or loss from a terminated interest rate swap remains in accumulated other comprehensive income or loss until the forecasted interest payments affect earnings. If it becomes probable that the forecasted interest payments will not occur, then the entire gain or loss would be recognized in earnings.

6

Credit Risk - The Company has limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities issued by FHLMC, FNMA, or GNMA. The payment of principal and interest on the FHLMC and FNMA Mortgage-Backed Securities are guaranteed by those respective agencies, and the payment of principal and interest on the GNMA Mortgage-Backed Securities are backed by the full faith and credit of the U.S. government. All of the Company's Investment Securities have an actual or implied "AAA" rating.

Trading Securities and Trading Securities sold, not yet purchased - Trading securities and trading securities sold, not yet purchased are presented in the consolidated statements of financial condition as a result of consolidating the financial statements of the Fund, and are carried at fair value. The realized and unrealized gains and losses, as well as other income or loss from trading securities, are recorded in the income from trading securities balance in the accompanying consolidated statements of operations.

Trading securities sold, not yet purchased, represent obligations of the Fund to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices.

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The estimated fair value of Investment Securities and interest rate swaps is equal to their carrying value presented in the consolidated statements of financial condition. The estimated fair value of trading securities and trading securities sold, not yet purchased, is equal to their carrying value. The estimated fair value of cash and cash equivalents, accrued interest receivable, receivable for securities sold, receivable for advisory and service fees, repurchase agreements with maturities shorter than one year, and payable for Mortgage-Backed Securities purchased, dividends payable, accounts payable, and accrued interest payable, generally approximates cost, due to the short term nature of these financial instruments.

Repurchase Agreements - The Company finances the acquisition of its Investment Securities through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

Cumulative Convertible Preferred Stock - The Company classifies its Series B Cumulative Convertible Preferred Stock in the consolidated statements of financial condition using the guidance in SEC Accounting Series Release No. 268,

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Presentation in Financial Statements of "Redeemable Preferred Stocks," and Emerging Issues Task Force ("EITF") Topic D-98, Classification and Measurement of Redeemable Securities. The Series B Cumulative Convertible Preferred Stock contains fundamental change provisions that allow the holder to redeem the preferred stock for cash if certain events occur. As redemption under these provisions is not solely within the Company's control, the Company has classified the Series B Cumulative Convertible Preferred Stock as temporary equity in the accompanying consolidated statements of financial condition.

The Company has analyzed whether the embedded conversion option should be bifurcated under the guidance in SFAS 133 and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, and has determined that bifurcation is not necessary.

Income Taxes - The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), with respect thereto. Accordingly, the Company will not be subjected to federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met. The Company and FIDAC have made a joint election to treat FIDAC as a taxable REIT subsidiary. As such, FIDAC is taxable as a domestic C corporation and subject to federal and state and local income taxes based upon its taxable income.

Use of Estimates - The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7

Intangible assets - The Company's acquisition of FIDAC was accounted for using the purchase method. Under the purchase method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. In addition, the cost of FIDAC was allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired was recognized as goodwill. Intangible assets are periodically (but not less frequently than annually) reviewed for potential impairment. Intangible assets with an estimated useful life are expected to amortize over an 8.0 year weighted average time period.

Stock Based Compensation - On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004) - Share-Based Payment ("SFAS 123R"). SFAS 123R, which replaced SFAS 123, requires the Company to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The compensation cost should be reassessed based on the fair value of the equity instruments issued. The Company adopted SFAS 123R effective January 1, 2006 under the modified prospective transition method. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted or modified on or after January 1, 2006 and for the unvested portion of all outstanding awards that remain outstanding at the date of adoption.

The Company elected to recognize compensation expense on a straight-line

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

basis over the requisite service period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award). The Company estimated fair value using the Black-Scholes valuation model. The Company granted 687,250 options during the nine months ended September 30, 2007.

Recent Accounting Pronouncements- In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Instruments ("SFAS 155"), an amendment of FASB Statements No. 133 and 140. Among other things, SFAS 155: (i) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 was effective for all financial instruments acquired or issued by the Company after January 1, 2007. Securitized interests which only contain an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets and for which the investor does not control the right to accelerate the settlement of such financial assets are excluded under a scope exception adopted by the FASB. None of the Company's assets were subject to SFAS 155 as a result of this scope exception. Therefore, the Company has continued to record changes in the market value of its investment securities through Other Comprehensive Income, a component of stockholders' equity. Therefore, the adoption of SFAS 155 did not have any impact on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"), and related implementation issues. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a threshold and measurement attributes for recognition in the financial statements of an asset or liability resulting from a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for the Company on January 1, 2007. There was no impact to the Company's financial statements from implementing this new standard.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category (which require significant management judgment), including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS 157 is effective for the Company on January 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS 157 may have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities- Including an amendment of FASB

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date FAS 159 is effective for the Company commencing January 1, 2008. The Company is currently evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements.

In June, 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 07-1, Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting for Parent Companies and Equity Method Investors for Investments in Investment Companies. This SOP provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the Guide). Entities that are within the scope of the Guide are required, among other things, to carry their investments at fair value, with changes in fair value included in earnings. In October 2007, the FASB decided to indefinitely defer the effective date of SOP 07-1.

Proposed FASB Staff Position - The FASB issued a proposed FSP FAS 140-d relating to FASB Statement No. 140, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions to address questions where assets purchased from a particular counterparty and financed through a repurchase agreement with the same counterparty can be considered and accounted for as separate transactions. Currently, the Company records such assets and the related financing on a gross basis in the consolidated statement of financial condition, and the corresponding interest income and interest expense in the Company's consolidated statement of operations and comprehensive income (loss). For assets representing available-for-sale investment securities, as in the Company's case, any change in fair value is reported through other comprehensive income under SFAS 115, with the exception of impairment losses, which are recorded in the consolidated statement of operations and comprehensive (loss) income as realized losses.

FASB's staff position requires that all of the following criteria be met in order to continue the application of SFAS 140 as described above: (1) the initial transfer of and repurchase financing cannot be contractually contingent; (2) the repurchase financing entered into between the parties provides full recourse to the transferee and the repurchase price is fixed; (3) the financial asset has an active market and the transfer is executed at market rates; (4) the borrower maintains the right to the collateral and the lender cannot re-pledge the asset prior to settlement of the repurchase agreement; and (4) the repurchase agreement and financial asset do not mature simultaneously.

At this time, the Company believes that its purchases and subsequent financing through repurchase agreements with the same counterparty meet the criteria enumerated in the proposed FSP FAS 140 for treatment as a non-linked transfer and repurchase under SFAS No. 140 and the Company believes that if the FSP is ultimately issued in substantially its current form, there will be no effect on the manner in which the Company records such assets, their financings, and the corresponding interest income and interest expense. FSP FAS 140 may be subject to significant changes prior to finalization, which may impact the Company's current assessment of its impact upon adoption.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

The following tables present the Company's available-for-sale Mortgage-Backed Securities portfolio as of September 30, 2007 and December 31, 2006, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortga Backe Securi
September 30, 2007				
(dollars in thousands)				
Mortgage-Backed Securities, gross	\$ 16,455,757	\$ 27,823,348	\$ 368,715	\$ 44,647,820
Unamortized discount	(31,150)	(45,024)	(539)	(76,713)
Unamortized premium	103,321	201,464	2,399	307,184
Amortized cost	16,527,928	27,979,788	370,575	44,878,291
Gross unrealized gains	32,837	34,963	214	68,014
Gross unrealized losses	(112,814)	(189,709)	(2,430)	(304,953)
Estimated fair value	\$ 16,447,951	\$ 27,825,042	\$ 368,359	\$ 44,641,352
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Adjustable rate	\$ 13,001,149	\$ 28,276	(\$73,364)	\$ 12,956,061
Fixed rate	31,877,142	39,738	(231,589)	31,685,291
Total	\$ 44,878,291	\$ 68,014	(\$304,953)	\$ 44,641,352
December 31, 2006				
(dollars in thousands)				
Mortgage-Backed Securities, gross	\$ 10,675,235	\$ 19,085,218	\$ 324,338	\$ 30,084,791
Unamortized discount	(21,332)	(56,517)	(204)	(78,053)
Unamortized premium	82,707	133,164	3,271	219,142
Amortized cost	10,736,610	19,161,865	327,405	30,225,880
Gross unrealized gains	35,174	74,498	366	110,038
Gross unrealized losses	(73,125)	(92,548)	(2,736)	(168,409)
Estimated fair value	\$ 10,698,659	\$ 19,143,815	\$ 325,035	\$ 30,167,509
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estim Fair V
Adjustable rate	\$ 8,546,363	\$ 12,764	(\$61,483)	\$ 8,497,644
Fixed rate	21,679,517	97,274	(106,926)	21,669,855

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Total \$ 30,225,880 \$ 110,038 (\$168,409) \$ 30,167,

10

Actual maturities of Mortgage-Backed Securities are generally shorter than stated contractual maturities. Actual maturities of the Company's Mortgage-Backed Securities are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal. The following table summarizes the Company's Mortgage-Backed Securities on September 30, 2007 and December 31, 2006 according to their estimated weighted-average life classifications:

Weighted-Average Life	September 30, 2007		December 31, 2006	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
(dollars in thousands)				
Less than one year	\$ 259,129	\$ 261,424	\$ 379,967	\$ 382,268
Greater than one year and less than five years	23,350,639	23,480,096	21,788,975	21,851,659
Greater than or equal to five years	21,031,584	21,136,771	7,998,567	7,991,953
Total	\$44,641,352	\$ 44,878,291	\$30,167,509	\$30,225,880

The weighted-average lives of the Mortgage-Backed Securities at September 30, 2007 and December 31, 2006 in the table above are based upon data provided through subscription-based financial information services, assuming constant principal prepayment rates to the reset date of each security. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, mortgage rate of the outstanding loans, loan age, margin and volatility.

The following table presents the gross unrealized losses, and estimated fair value of the Company's Mortgage-Backed Securities by length of time that such securities have been in a continuous unrealized loss position at September 30, 2007 and December 31, 2006.

Unrealized Loss Position For:				
Less than 12 Months		12 Months or More		To
Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
(dollars in thousands)				



## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

September 30, 2007	\$21,713,362	(\$165,689)	\$6,949,847	(\$139,264)	\$28,663,209
December 31, 2006	\$6,324,266	(\$30,244)	\$6,817,677	(\$138,165)	\$13,141,933

The decline in value of these securities is solely due to market conditions and not the quality of the assets. All of the Mortgage-Backed Securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered other-than-temporarily impaired since the Company currently has the ability and intent to hold the investments to maturity or for a period of time, sufficient for a forecasted market price recovery up to or beyond the cost of the investments. Also, the Company is guaranteed payment of the principal amount of the securities.

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every nine months) and lifetime caps. The weighted average lifetime cap was 10.02% at September 30, 2007 and 9.8% at December 31, 2006.

During the quarter and nine months ended September 30, 2007 the Company realized \$3.8 million and \$17.2 million in net gains, respectively, from sales of Investment Securities. During the quarter and nine months ended September 30, 2006, the Company realized \$446,000 and \$8.7 million, respectively, in net losses from sales of Mortgage-Backed Securities, respectively.

11

### 3. REPURCHASE AGREEMENTS

The Company had outstanding \$40.1 billion and \$27.5 billion of repurchase agreements with weighted average borrowing rates of 4.99% and 5.14%, with the effect of interest rate swaps and weighted average remaining maturities of 250 days and 125 days as of September 30, 2007 and December 31, 2006, respectively. Investment Securities pledged as collateral under these repurchase agreements had an estimated fair value of \$41.2 billion at September 30, 2007 and \$28.6 billion at December 31, 2006.

At September 30, 2007 and December 31, 2006, the repurchase agreements had the following remaining maturities:

	September 30, 2007	December 31, 2006
	(dollars in thousands)	
	-----	-----
Within 30 days	\$31,141,427	\$22,778,703
30 to 59 days	3,214,590	2,285,317
60 to 89 days	784,096	200,000
90 to 119 days	-	-
Over 120 days	5,000,000	2,250,000
	-----	-----
Total	\$40,140,113	\$27,514,020
	=====	=====

The Company did not have an amount at risk greater than 10% of the equity of the Company with any individual counterparty as of September 30, 2007.

The Company had an amount at risk greater than 10% of the equity of the Company with the following counterparty at December 31, 2006.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

	Amount at risk(1) (dollars in thousands)	Weighted average days to maturity
UBS Securities LLC	\$179,959	121

(1) Equal to the sum of fair value of securities sold plus accrued interest income minus the sum of repurchase agreements plus accrued interest expense.

As of September 30, 2007, the Company has entered into repurchase agreements which provide the counterparty with the right to call the balance prior to maturity date. These repurchase agreements totaled \$5.0 billion and the redemption value of the option to call was estimated at a loss of \$44.4 million. Management has determined that the call option is not required to be bifurcated under the provisions of SFAS 133 as it is deemed clearly and closely related to the debt instrument, therefore the option value is not recorded in the consolidated financial statements.

The current situation in the sub-prime mortgage sector, and the current weakness in the broader mortgage market, could adversely affect one or more of the Company's lenders and could cause one or more of the Company's lenders to be unwilling or unable to provide it with additional financing. This could potentially increase the Company's financing costs and reduce liquidity. If one or more major market participants fails, it could negatively impact the marketability of all fixed income securities, including government mortgage securities, and this could negatively impact the value of the securities in the Company's portfolio, thus reducing its net book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide it with additional financing, the Company could be forced to sell our Investment Securities at an inopportune time when prices are depressed. Even with the current situation in the sub-prime mortgage sector, the Company does not anticipate having difficulty converting its assets to cash or extending financing term, due to the fact that its investment securities have an actual or implied "AAA" rating and principal payment is guaranteed.

12

#### 4. INTEREST RATE SWAPS

In connection with the Company's interest rate risk management strategy, the Company hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. As of September 30, 2007, such instruments are comprised of interest rate swaps, which in effect modify the cash flows on repurchase agreements. The use of interest rate swaps creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its Mortgage-Backed Securities pledged as collateral for swaps. The Company does not anticipate any defaults by its counterparties.

The Company's swaps are used to lock-in the fixed rate related to a portion of its current and anticipated future 30-day term repurchase agreements.

The table below provides information about the Company's swaps outstanding at September 30, 2007.

Notional Amount (dollars in	Weighted Average Pay	Weighted Average	Net Estimated Fair Value/Carrying Value
--------------------------------	-------------------------	---------------------	--

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

thousands)	Rate	Receive Rate	(dollars in thousands)
\$14,660,850	5.15%	5.59%	(\$142,061)

### 5. PREFERRED STOCK AND COMMON STOCK

#### (A) Common Stock Issuances

On July 12, 2007, the Company entered into an underwriting agreement pursuant to which it sold 54,050,000 shares of its common stock for proceeds net of underwriting fees of approximately \$720.8 million. This transaction settled on July 17, 2007.

On March 7, 2007, the Company entered into an underwriting agreement pursuant to which it sold 57,500,500 shares of its common stock for proceeds net of underwriting fees of approximately \$737.4 million. This transaction settled on March 13, 2007.

On August 3, 2006, the Company entered into an ATM Equity Offering(sm) Sales Agreement with Merrill Lynch & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, relating to the sale of shares of its common stock from time to time through Merrill Lynch. Sales of the shares, if any, will be made by means of ordinary brokers' transaction on the New York Stock Exchange. During the quarter and nine months ended September 30, 2007, 994,800 and 4,524,100 shares of the Company's common stock were issued pursuant to this program, totaling \$15.0 million and \$66.2 million in net proceeds, respectively.

On August 3, 2006, the Company entered into an ATM Equity Sales Agreement with UBS Securities LLC, relating to the sale of shares of its common stock from time to time through UBS Securities. Sales of the shares, if any, will be made by means of ordinary brokers' transaction on the New York Stock Exchange. During nine months ended September 30, 2007, 1,051,900 shares of the Company's common stock were issued pursuant to this program, totaling \$14.7 million in net proceeds. During the quarter ended September 30, 2007, the company did not issue common stock pursuant to this program.

During the quarter ended and nine months ended September 30, 2007, the Company raised \$87.0 million and \$116.5 million by issuing 6,077,055 and 7,988,374 shares, respectively, through the Direct Purchase and Dividend Reinvestment Program. There were no such transactions during the quarter and nine months ended September 30, 2006.

During the quarter ended September 30, 2007, 2,000 options were exercised under the Long-Term Stock Incentive Plan, or Incentive Plan, for an aggregate exercise price of \$23,000 and there were no options exercised during the quarter ended September 30, 2006. During the nine months ended September 30, 2007 and September 30, 2006, 49,238 options were exercised for an aggregate exercise price of \$504,000, and 22,160 shares for an aggregate exercise price of \$205,000, respectively.

#### (B) Preferred Stock

At September 30, 2007, the Company had issued and outstanding 7,412,500 shares of Series A Cumulative Redeemable Preferred Stock, with a par value \$0.01 per share and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series A preferred stockholders

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

must be paid a dividend at a rate of 7.875% per year on the \$25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series A preferred stock is redeemable at \$25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on April 5, 2009 (subject to the Company's right under limited circumstances to redeem the Series A preferred stock earlier in order to preserve its qualification as a REIT). The Series A preferred stock is senior to the Company's common stock and is on parity with the Series B preferred stock with respect to dividends and distributions, including distributions upon liquidation, dissolution or winding up. The Series A preferred stock generally does not have any voting rights, except if the Company fails to pay dividends on the Series A preferred stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series A preferred stock, together with the Series B preferred stock, will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series A preferred stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series A preferred stock and Series B preferred stock. Through September 30, 2007, the Company had declared and paid all required quarterly dividends on the Series A preferred stock.

At September 30, 2007, the Company also had issued and outstanding 4,600,000 shares of Series B Cumulative Convertible Preferred Stock, with a par value \$0.01 per share and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series B preferred stockholders must be paid a dividend at a rate of 6% per year on the \$25.00 liquidation preference before the common stock is entitled to receive any dividends.

The Series B preferred stock is not redeemable. The Series B preferred stock is convertible into shares of common stock at a conversion rate that adjusts from time to time upon the occurrence of certain events, including if the Company distributes to its common shareholders in any calendar quarter cash dividends in excess of \$0.11 per share. Initially, the conversion rate was 1.7730 shares of common shares per \$25 liquidation preference. Commencing April 5, 2011, the Company has a right in certain circumstances to convert each Series B preferred stock into a number of common shares based upon the then prevailing conversion rate. The Series B preferred stock is also convertible into common shares at the option of the Series B preferred shareholder at any time at the then prevailing conversion rate. The Series B preferred stock is senior to the Company's common stock and is on parity with the Series A preferred stock with respect to dividends and distributions, including distributions upon liquidation, dissolution or winding up. The Series B preferred stock generally does not have any voting rights, except if the Company fails to pay dividends on the Series B preferred stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B preferred stock, together with the Series A preferred stock, will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B preferred stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series B preferred stock and Series A preferred stock. Through September 30, 2007, the Company had declared and paid all required quarterly dividends on the Series B preferred stock.

### (C) Distributions to Shareholders

During the quarter ended September 30, 2007, the Company declared dividends to common shareholders totaling \$85.9 million or \$0.26 per share, which were paid to shareholders on October 29, 2007. During the quarter ended September 30, 2007, the Company declared dividends to Series A Preferred shareholders totaling

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

approximately \$3.6 million or \$0.492188 per share, and Series B shareholders totaling approximately \$1.7 million or \$0.375 per share, which were paid by the Company on September 28, 2007 and distributed to shareholders on October 1, 2007.

### 6. NET INCOME PER COMMON SHARE

The following table presents a reconciliation of the net income and shares used in calculating basic and diluted earnings per share for the quarters and nine months ended September 30, 2007 and 2006.

14

	For the Quarters Ended		For the Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	(dollars in thousands)			
Net income	\$ 108,287	\$ 42,850	\$ 261,452	\$ 40,477
Less: Preferred stock dividends	5,373	5,373	16,119	14,188
Net income available to common shareholders, prior to adjustment for Series B dividends, if necessary	\$ 102,914	\$ 37,477	\$ 245,333	\$ 26,289
Add: Preferred Series B dividends, if Series B shares are dilutive	1,725	1,725	5,175	3,244
Net income available to common shareholders	\$ 104,639	\$ 39,202	\$ 250,508	\$ 29,533
Weighted average shares of common stock outstanding-basic	315,970	181,767	266,511	155,057
Add: Effect of dilutive stock options Series B Cumulative Convertible Preferred Stock	8,645	8,185	8,636	5,150
Weighted average shares of common stock outstanding-diluted	324,615	189,952	275,147	160,207

Options to purchase 2,471,375 shares of common stock were outstanding and considered anti-dilutive as their exercise price exceeded the average stock price for the quarter and nine months ended September 30, 2007. Options to purchase 1,942,275 shares of common stock were outstanding and considered anti-dilutive as their exercise price exceeded the average stock price for the quarter and nine months ended September 30, 2006.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

### 7. LONG-TERM STOCK INCENTIVE PLAN

The Company has adopted a long-term stock incentive plan for executive officers, key employees and non-employee directors (the "Incentive Plan"). The Incentive Plan authorizes the Compensation Committee of the board of directors to grant awards, including non-qualified options as well as incentive stock options as defined under Section 422 of the Code. The Incentive Plan authorizes the granting of options or other awards for an aggregate of the greater of 500,000 shares or 9.5% of the diluted outstanding shares of the Company's common stock, up to ceiling of 8,932,921 shares. Stock options are issued at the current market price on the date of grant, subject to an immediate or four year vesting in four equal installments with a contractual term of 5 or 10 years. The grant date fair value is calculated using the Black-Scholes option valuation model.

The following table sets forth activity relating to the Company's stock options awards:

	For the nine months ended September 2007		
	Number of Shares	Weighted Average Exercise Price	Number of Shares
Options outstanding at the beginning of period	2,984,995	\$ 15.10	2,333,593
Granted	687,250	15.69	737,250
Exercised	(49,238)	10.25	(22,160)
Forfeited	(174,240)	16.64	(60,000)
Expired	(5,000)	20.35	(3,688)
Options outstanding at end of period	3,443,767	\$ 15.23	2,984,995
Options exercisable at end of period	1,292,504	\$ 14.98	1,298,496

15

The weighted average remaining contractual term was approximately 7.2 years for all outstanding stock options and approximately 5.6 years for stock options exercisable as of September 30, 2007. As of September 30, 2007, there was approximately \$2.9 million of total unrecognized compensation cost related to nonvested share-based compensation awards. That cost is expected to be recognized over a weighted average period of 2.7 years.

The following table summarizes information about stock options outstanding at September 30, 2007:

Range of Exercise	Total Options	Weighted Average Exercise Price on Total	Weighted Average Remaining Contractual Life (Years) on Total	Total Options	Weighted Average Exercise Price on	Weighted Average Remaining Contractual Life (Years)

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Prices	Outstanding	Outstanding	Outstanding	Exercisable	Exercisable	on Exercisable
\$ 7.94-\$19.99	3,438,767	\$ 15.22	7.2	1,287,504	\$ 14.96	5.
\$20.00-\$29.99	5,000	20.70	0.7	5,000	20.70	0.
	-----					
	3,443,767	\$ 15.23	7.2	1,292,504	\$ 14.98	5.
	=====					

### 8. INCOME TAXES

As a REIT, the Company is not subject to federal income tax on earnings distributed to its shareholders. Most states recognize REIT status as well. The Company has decided to distribute the majority of its income and retain a portion of the permanent difference between book and taxable income arising from Section 162(m) of the Code pertaining to employee remuneration.

During the quarter and nine months ended September 30, 2007, the Company recorded a reduction in the expense of \$628,000 and an expense of \$297,000, respectively, of income tax expense for income attributable to FIDAC, its taxable REIT subsidiary, and the portion of earnings retained based on Section 162(m) limitations. During the quarter and nine months ended September 30, 2007, the Company recorded approximately \$3.0 million and \$5.5 million, respectively, of income tax expense for a portion of earnings retained based on Section 162(m) limitations. The statutory combined federal, state, and city corporate tax rate is 45%. This amount is applied to the amount of estimated REIT taxable income retained (if any, and only up to 10% of ordinary income as all capital gain income is distributed) and to taxable income earned at the taxable subsidiaries. Thus, as a REIT, the Company's effective tax rate is significantly less as it is allowed to deduct dividend distributions.

During the quarter and nine months ended September 30, 2006, the Company recorded \$517,000 and \$2.9 million of income tax expense for income attributable to FIDAC and the portion of earnings retained based on Code Section 162(m) limitations. During the quarter and nine months ended September 30, 2006, the Company recorded \$1.8 million and \$3.3 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations, respectively.

### 9. LEASE COMMITMENTS

The Company has a noncancelable lease for office space, which commenced in May 2002 and expires in December 2009. The Company's aggregate future minimum lease payments are as follows:

	Total per Year (dollars in thousands)
2007 (remainder)	\$ 133
2008	532
2009	532
	-----
Total remaining lease payments	\$ 1,197
	=====

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

### 10. INTEREST RATE RISK

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Investment Securities and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Investment Securities pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels. Liquidation of collateral at losses could have an adverse accounting impact.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. The Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in the portfolio of Investment Securities by entering into interest rate agreements such as interest rate caps and interest rate swaps. As of September 30, 2007, the Company entered into interest rate swaps to pay a fixed rate and receive a floating rate of interest, with total notional amount of \$14.7 billion.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on Mortgage-Backed Securities. The Company will seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. To date, the aggregate premium exceeds the aggregate discount on the Mortgage-Backed Securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce net income compared to what net income would be absent such prepayments.

### 11. CONTINGENCIES

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial statements.

Chimera Investment Corporation, or Chimera, has filed a registration statement on Form S-11 with the Securities and Exchange Commission for an initial public offering of the common stock of Chimera. Chimera is a newly-formed specialty finance company that will invest in residential mortgage loans, residential mortgage-backed securities, real estate-related securities and various other asset classes. Chimera will be externally managed by FIDAC. Concurrent with the public offering pursuant to Chimera's registration statement, the Company expects to acquire 9.8% of Chimera's outstanding shares of common stock at the initial public offering price after giving effect to the shares issued in the offering, excluding shares sold pursuant to the underwriters' exercise of their overallotment option. There can be no assurance that the Chimera transaction will take place or if it will take place in the manner described.

### 12. SUBSEQUENT EVENTS

On October 12, 2007, the Company entered into an underwriting agreement pursuant to which it sold 71,300,000 shares of its common stock for proceeds net of underwriting fees of approximately \$1.0 billion. This transaction settled on



# Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

October 17, 2007.

17

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Special Note Regarding Forward-Looking Statements

Certain statements contained in this quarterly report, and certain statements contained in our future filings with the Securities and Exchange Commission (the "SEC" or the "Commission"), in our press releases or in our other public or shareholder communications may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, which are based on various assumptions, (some of which are beyond our control) may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates, changes in yield curve, changes in prepayment rates, the availability of mortgage-backed securities for purchase, the availability of financing, and, if available, the terms of any financings, changes in the market value of our assets, changes in business conditions and the general economy, and risks associated with the investment advisory business of FIDAC, including the removal by FIDAC's clients of assets FIDAC manages, FIDAC's regulatory requirements, and competition in the investment advisory business, changes in governmental regulations affecting our business, and our ability to maintain our classification as a REIT for federal income tax purposes. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. We do not undertake and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### Overview

We are a REIT that owns and manages a portfolio of mortgage-backed securities. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our investment securities and the costs of borrowing to finance our acquisition of investment securities and from dividends we receive from FIDAC. FIDAC is our wholly-owned taxable REIT subsidiary, and is a registered investment advisor that generates advisory and service fee income. We also have a majority interest in an investment fund.

We are primarily engaged in the business of investing, on a leveraged basis, in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities"). We also invest in Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Federal National Mortgage Association ("FNMA") debentures. The Mortgage-Backed Securities and agency debentures are collectively referred to herein as "Investment Securities."

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Under our capital investment policy, at least 75% of our total assets must be comprised of high-quality mortgage-backed securities and short-term investments. High quality securities means securities that (1) are rated within one of the two highest rating categories by at least one of the nationally recognized rating agencies, (2) are unrated but are guaranteed by the United States government or an agency of the United States government, or (3) are unrated but we determine them to be of comparable quality to rated high-quality mortgage-backed securities.

The remainder of our assets, comprising not more than 25% of our total assets, may consist of other qualified REIT real estate assets which are unrated or rated less than high quality, but which are at least "investment grade" (rated "BBB" or better by Standard & Poor's Corporation ("S&P") or the equivalent by another nationally recognized rating agency) or, if not rated, we determine them to be of comparable credit quality to an investment which is rated "BBB" or better. In addition, we may directly or indirectly invest part of this remaining 25% of our assets in other types of securities, including without limitation, unrated debt, equity or derivative securities, to the extent consistent with our REIT qualification requirements. The derivative securities in which we invest may include securities representing the right to receive interest only or a disproportionately large amount of interest, as well as inverse floaters, which may have imbedded leverage as part of their structural characteristics.

18

We may acquire Mortgage-Backed Securities backed by single-family residential mortgage loans as well as securities backed by loans on multi-family, commercial or other real estate-related properties. To date, all of the Mortgage-Backed Securities that we have acquired have been backed by single-family residential mortgage loans.

We have elected to be taxed as a REIT for federal income tax purposes. Pursuant to the current federal tax regulations, one of the requirements of maintaining our status as a REIT is that we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) to our stockholders, subject to certain adjustments.

The results of our operations are affected by various factors, many of which are beyond our control. Our results of operations primarily depend on, among other things, our net interest income, the market value of our assets and the supply of and demand for such assets. Our net interest income, which reflects the amortization of purchase premiums and accretion of discounts, varies primarily as a result of changes in interest rates, borrowing costs and prepayment speeds, the behavior of which involves various risks and uncertainties. Prepayment speeds, as reflected by the Constant Prepayment Rate, or CPR, and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Mortgage-Backed Securities portfolio increase, related purchase premium amortization increases, thereby reducing the net yield on such assets. The CPR on our Mortgage Backed-Securities portfolio averaged 14% and 16% for the quarters ended September 30, 2007 and 2006, respectively. Since changes in interest rates may significantly affect our activities, our operating results depend, in large part, upon our ability to effectively manage interest rate risks and prepayment risks while maintaining our status as a REIT.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

The current situation in the sub-prime mortgage sector, and the current weakness in the broader mortgage market, could adversely affect one or more of the Company's lenders and could cause one or more of the Company's lenders to be unwilling or unable to provide it with additional financing. This could potentially increase the Company's financing costs and reduce liquidity. If one or more major market participants fails, it could negatively impact the marketability of all fixed income securities, including government mortgage securities, and this could negatively impact the value of the securities in the Company's portfolio, thus reducing its net book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide it with additional financing, the Company could be forced to sell our Investment Securities at an inopportune time when prices are depressed. Even with the current situation in the sub-prime mortgage sector, the Company does not anticipate having difficulty converting its assets to cash or extending financing term, due to the fact that its investment securities have an actual or implied "AAA" rating and principal payment is guaranteed.

19

The table below provides quarterly information regarding our average balances, interest income, yield on assets, average repurchase agreement balances, interest expense, cost of funds, net interest income and net interest rate spreads for the quarterly periods presented.

	Average Investment Securities Held (1)	Total Interest Income	Yield on Average Investment Securities	Average Repurchase Agreements	Interest Expense	Average of Fu
-----						
(ratios for the quarters have been annualized, dollars in thous						
Quarter Ended						
September 30, 2007	\$ 43,075,489	\$ 628,696	5.84%	\$40,201,513	\$ 519,118	
Quarter Ended						
June 30, 2007	\$ 38,822,274	\$ 556,262	5.73%	\$36,560,359	\$ 468,748	
Quarter Ended						
March 31, 2007	\$ 31,682,974	\$ 449,564	5.68%	\$29,834,208	\$ 380,164	
Quarter Ended						
December 31, 2006	\$ 28,888,956	\$ 407,092	5.64%	\$27,118,402	\$ 349,302	
Quarter Ended						
September 30, 2006	\$ 24,976,876	\$ 339,737	5.44%	\$23,120,247	\$ 295,726	

(1) Does not reflect unrealized gains/(losses).

The following table presents the average CPR experienced on our Mortgage-Backed Securities portfolio, on an annualized basis, for the quarterly periods presented.

Quarter Ended	CPR
-----	---
September 30, 2007	14%
June 30, 2007	15%
March 31, 2007	17%

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

December 31, 2006	15%
September 30, 2006	16%

We believe that the CPR in future periods will depend, in part, on changes in and the level of market interest rates across the yield curve, with higher CPRs expected during periods of declining interest rates and lower CPRs expected during periods of rising interest rates.

We continue to explore alternative business strategies, alternative investments and other strategic initiatives to complement our core business strategy of investing, on a leveraged basis, in high quality Investment Securities. No assurance, however, can be provided that any such strategic initiative will or will not be implemented in the future.

For the purposes of computing ratios relating to equity measures, throughout this report, equity includes Series B preferred stock, which has been treated under GAAP as temporary equity.

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported in our financial statements. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material effect on our financial statements. The following is a summary of our policies most affected by management's judgments, estimates and assumptions.

**Market Valuation of Investment Securities:** All assets classified as available-for-sale are reported at fair value, based on market prices. Although we generally intend to hold most of our Investment Securities until maturity, we may, from time to time, sell any of our Investment Securities as part our overall management of our portfolio. Accordingly, we are required to classify all of our Investment Securities as available-for-sale. Our policy is to obtain market values from independent sources. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Investments with unrealized losses are not considered other-than-temporarily impaired if the Company has the ability and intent to hold the investments for a period of time, to maturity if necessary, sufficient for a forecasted market price recovery up to or beyond the cost of the investments. Unrealized losses on Investment Securities that are considered other than temporary, as measured by the amount of decline in fair value attributable to factors other than temporary, are recognized in income and the cost basis of the Investment Securities is adjusted.

**Interest income:** Interest income is accrued based on the outstanding principal amount of the Investment Securities and their contractual terms.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Premiums and discounts associated with the purchase of the Investment Securities are amortized or accreted into interest income over the projected lives of the securities using the interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, Wall Street consensus prepayment speeds, and current market conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

**Repurchase Agreements:** We finance the acquisition of our Investment Securities through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

**Income Taxes:** We have elected to be taxed as a REIT and intend to comply with the provisions of the Internal Revenue Code of 1986, as amended (or the Code), with respect thereto. Accordingly, the Company will not be subjected to federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met. The Company and FIDAC have made a joint election to treat FIDAC as a taxable REIT subsidiary. As such, FIDAC is taxable as a domestic C corporation and subject to federal and state and local income taxes based upon its taxable income.

**Impairment of Intangibles:** The Company's acquisition of FIDAC was accounted for using the purchase method. The cost of FIDAC was allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of cost over the fair value of the net assets acquired was recognized as goodwill. Intangible assets are periodically reviewed for potential impairment. This evaluation requires significant judgment.

**Results of Operations:** For the Quarters and Nine Months Ended September 30, 2007 and 2006

### Net Income Summary

For the quarter ended September 30, 2007, our net income was \$108.3 million, or \$0.33 basic net income per average share available to common shareholders, as compared to net income of \$42.9 million, or \$0.21 net income per average share available to common shareholders, for the quarter ended September 30, 2006. We attribute the increase in total net income for the quarter ended September 30, 2007 from the quarter ended September 30, 2006 to the increased asset base, and the increase in interest rate spread. Average Investment Securities for the quarter ended September 30, 2007 totaled \$43.1 billion, as compared to \$25.0 billion for the quarter ended September 30, 2006. The interest rate spread increased to 0.67% for the quarter ended September 30, 2007 from 0.32% for the quarter ended September 30, 2006. The increase in yield on Investment Securities to 5.84% for the quarter ended September 30, 2007 from 5.44% for the quarter ended September 30, 2006 was only partially offset by the increase in cost of funding to 5.17% for the quarter ended September 30, 2007 from 5.12% for the quarter ended September 30, 2006. For the quarter ended September 30, 2007, net investment advisory and service fees totaled \$4.4 million, as compared to \$4.3 million for the quarter ended September 30, 2006. For the quarter ended September 30, 2007, the net gain on sale of Investment Securities and termination of interest rate swaps was \$5.8 million as compared to an \$8.0 million net gain on sale of Mortgage-Backed Securities for the quarter ended September 30, 2006. Gross income from trading securities totaled \$8.3 million for the quarter ended September 30, 2007 and \$612,000 for the quarter ended September 30, 2006. There was no loss on other-than-temporarily impaired securities for the quarters ended September 30, 2007 and 2006. For the quarter ended September 30, 2007, general and administrative expenses totaled

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

\$17.3 million, as compared to \$11.7 million for the quarter ended September 30, 2006.

21

Dividends for the quarter ended September 30, 2007 were \$0.26 per share of common stock, or \$85.9 million in total, \$0.492188 per share of Series A preferred stock, or \$3.6 million in total, and \$0.375 per share of Series B preferred stock or \$1.7 million in total. Dividends per share for the quarter ended September 30, 2006 were \$0.14 per share of common stock, or \$28.7 million in total, \$0.492188 per share of Series A preferred stock, or \$3.6 million in total, and \$0.375 per share of Series B preferred stock, or \$1.7 million in total. The Series B Cumulative preferred stock has been treated under GAAP as temporary equity. For the purpose of computing ratios relating to equity measures, the Series B Preferred Stock has been included in equity. Our return on average equity was 12.09% for the quarter ended September 30, 2007 compared to 7.72% for the quarter ended September 30, 2006.

For the nine months ended September 30, 2007, our net income was \$261.5 million, or \$0.92 basic net income per average share related to common shareholders, as compared to net income of \$40.5 million, or \$0.17 net income per average share available to common shareholders for the nine months ended September 30, 2006. We attribute the increase in net income of \$221.0 million for the nine months ended September 30, 2007 when compared to the nine months ended September 30, 2006 to the increased interest earning assets, increased interest rate spread, and the net gains on sales of Investment Securities. Average Investment Securities for the nine months ended September 30, 2007 totaled \$37.9 billion, as compared to \$21.1 billion for the nine months ended September 30, 2006. Net interest spread for the nine months ended September 30, 2007 increased to 0.62%, from 0.32% for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, net interest income was \$266.5 million, as compared to \$109.1 million for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, gain on sale of Mortgage-Backed Securities was \$17.2 million, as compared to a \$8.7 million loss for the quarter ended September 30, 2006. Losses on other-than-temporarily impaired securities totaled \$1.2 million and there were no losses of impairment of intangibles for the nine months ended September 30, 2007. Losses on other-than-temporarily impaired securities totaled \$46.8 million and impairment of intangibles totaled \$2.5 million for the nine months ended September 30, 2006. Dividends per share for the nine months ended September 30, 2007, were \$0.70 per share of common stock, or \$203.2 million in total, \$1.476564 per share of Series A preferred stock or \$10.9 million in total, and \$1.125 per share of Series B preferred stock, or \$5.2 million in total. Dividends per share for the nine months ended September 30, 2006 were \$0.38 per share of common stock, or \$63.6 million in total and \$1.476564 per share of Series A preferred stock, or \$10.9 million in total, and \$0.704167 per shares of Series B preferred stock, or \$3.2 million in total. Our return on average equity was 10.53% for the nine months ended September 30, 2007 and 2.93% for the nine months ended September 30, 2006.

22

Net Income Summary  
(dollars in thousands, except for per share data)

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

(ratios for the quarters have been annualized)

	Quarter Ended September 30, 2007	Quarter Ended September 30, 2006	Nine Months Ended September 30, 2007
Interest income	\$ 628,696	\$ 339,737	\$ 1,634,522
Interest expense	519,118	295,726	1,368,030
Net interest income	109,578	44,011	266,492
Other income (loss):			
Investment advisory and service fees	5,464	4,966	16,392
Gain (loss) on sale of Investment Securities	3,795	(446)	17,233
Gain on termination of interest rate swaps	2,029	8,414	2,096
Income from trading securities	8,288	612	11,960
Loss on other-than-temporarily impaired securities	-	-	(1,189)
Total other income (loss)	19,576	13,546	46,492
Expenses:			
Distribution fees	1,100	724	2,865
General and administrative expenses	17,334	11,682	42,492
Total expenses	18,434	12,406	45,357
Impairment of intangible for customer relationships	-	-	-
Income before income taxes and minority interest	110,720	45,151	267,627
Income taxes	2,327	2,273	5,770
Income before minority interest	108,393	42,878	261,857
Minority interest	106	28	405
Net Income	108,287	42,850	261,452
Dividends on preferred stock	5,373	5,373	16,119
Net income available to common shareholders	\$ 102,914	\$ 37,477	\$ 245,333
Weighted average number of basic common shares outstanding	315,969,814	181,767,106	266,510,879
Weighted average number of diluted common shares outstanding	324,614,534	189,952,159	275,146,595

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Basic net income per average common share	\$ 0.33	\$ 0.21	\$ 0.92
Diluted net income per average common share	\$ 0.32	\$ 0.20	\$ 0.91
Average total assets	\$ 42,485,071	\$ 26,199,087	\$ 38,817,661
Average equity	\$ 3,582,578	\$ 2,219,286	\$ 3,309,425
Return on average total assets	1.02%	0.65%	0.90%
Return on average equity	12.09%	7.72%	10.53%

23

### Interest Income and Average Earning Asset Yield

We had average earning assets of \$43.1 billion and \$25.0 billion for the quarters ended September 30, 2007 and 2006, respectively. Our primary source of income for the quarters ended September 30, 2007 and 2006 was interest income. Our interest income was \$628.7 million for the quarter ended September 30, 2007 and \$339.7 million for the quarter ended September 30, 2006. The yield on average Investment Securities increased by 40 basis points, from 5.44% for the quarter ended September 30, 2006 to 5.84%, for the quarter ended September 30, 2007. Our average Investment Securities increased by \$18.1 billion and interest income increased by \$289.0 million for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006. The average coupon rate at September 30, 2007 was 5.94% as compared to 5.74% at September 30, 2006. The prepayment speeds decreased to 14% CPR for the quarter ended September 30, 2007 from 16% CPR for the quarter ended September 30, 2006. The increase in coupon rates and reduction in prepayment speeds resulted in an increase in yield.

We had average earning assets of \$37.9 billion and \$21.1 billion for the nine months ended September 30, 2007 and 2006, respectively. Average earning assets is the average of the current par of the portfolio during the measurement period. Our interest income was \$1.6 billion for the nine months ended September 30, 2007 and \$814.8 million for the nine months ended September 30, 2006. The yield on average Investment Securities increased from 5.15% for the nine months ended September 30, 2006, to 5.76% for the nine months ended September 30, 2007. Our average earning asset balance increased by \$16.8 billion and interest income increased by \$819.7 million for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. The average prepayment speeds decreased to 15% CPR for the nine months ended September 30, 2007 from 18% CPR for the nine months ended September 30, 2006. The increase in interest income for the nine months ended September 30, 2007, when compared to the nine months ended September 30, 2006, resulted from the increased asset base and the increase in weighted average yield.

### Interest Expense and the Cost of Funds

Our largest expense is the cost of borrowed funds. We had average borrowed funds of \$40.2 billion and total interest expense of \$519.1 million for the quarter ended September 30, 2007. We had average borrowed funds of \$23.1 billion and total interest expense of \$295.7 million for the quarter ended September 30, 2006. Our average cost of funds was 5.17% for the quarter ended September 30, 2007 and 5.12% for the quarter ended September 30, 2006. The cost of funds rate increased by 5 basis points and the average borrowed funds increased by \$17.1 billion for the quarter ended September 30, 2007 when compared to the quarter ended September 30, 2006. Interest expense for the quarter increased over the quarter ended September 30, 2006 by \$223.4 million due to the substantial



## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

increase in the average repurchase balance and the increase in the cost of funds rate. Since a substantial portion of our repurchase agreements are short term, changes in market rates are directly reflected in our interest expense. Our average cost of funds was 0.20% below average one-month LIBOR and 0.14% below average six-month LIBOR for the quarter ended September 30, 2007. Our average cost of funds was 0.17% below average one-month LIBOR and 0.31% below average six-month LIBOR for the quarter ended September 30, 2006.

24

The table below shows our average borrowed funds, interest expense, and average cost of funds as compared to average one-month and average six-month LIBOR for the quarters ended September 30, 2007, June 30, 2007, March 31, 2007, the year ended December 31, 2006 and the four quarters in 2006.

### Average Cost of Funds

(ratios for the quarters have been annualized, dollars in thousands)

	Average Repurchase Agreements	Interest Expense	Average Cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average of Relative to Average One-Month LIBOR
For the Quarter Ended September 30, 2007	\$40,201,513	\$ 519,118	5.17%	5.37%	5.31%	0.07%	
For the Quarter Ended June 30, 2007	\$36,560,359	\$ 468,748	5.13%	5.32%	5.37%	(0.05%)	
For the Quarter Ended March 31, 2007	\$29,834,208	\$ 380,164	5.10%	5.26%	5.30%	(0.04%)	
For the Year Ended December 31, 2006	\$21,399,130	\$1,055,013	4.93%	5.03%	5.21%	(0.18%)	
For the Quarter Ended December 31, 2006	\$27,118,402	\$ 349,302	5.15%	5.27%	5.31%	(0.04%)	
For the Quarter Ended September 30, 2006	\$23,120,247	\$ 295,726	5.12%	5.29%	5.43%	(0.14%)	
For the Quarter Ended June 30, 2006	\$20,060,978	\$ 242,473	4.83%	5.03%	5.27%	(0.24%)	
For the Quarter Ended March 31, 2006	\$15,296,893	\$ 167,512	4.38%	4.55%	4.84%	(0.29%)	

### Net Interest Income

Our net interest income, which equals interest income less interest expense, totaled \$109.6 million for the quarter ended September 30, 2007 and \$44.0 million for the quarter ended September 30, 2006. Our net interest income increased because of the increase in average Investment Securities we owned and because of an increase in interest rate spread. Our net interest rate spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 0.67% for the quarter ended September 30, 2007

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

as compared to 0.32% for the quarter ended September 30, 2006. This 35 basis point increase was a result of the yield increasing for the quarter ended September 30, 2007 to 5.84% from 5.44% for the quarter ended September 30, 2006. The increase in yield was only partially offset by the increase in cost of funds, which increased to 5.17% for the quarter ended September 30, 2007, as compared to 5.12% for the quarter ended September 30, 2006.

Our net interest income totaled \$266.5 million for the nine months ended September 30, 2007 and \$109.1 million for the nine months ended September 30, 2006. Our net interest income increased because of the increase in interest rate spread. Our net interest spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 0.62% for the nine months ended September 30, 2007 as compared to 0.32% for the nine months ended September 30, 2006.

25

The table below shows our interest income by average Investment Securities held, total interest income, yield on average interest earning assets, average balance of repurchase agreements, interest expense, average cost of funds, net interest income, and net interest rate spread for the quarter ended September 30, 2007, June 30, 2007, March 31, 2007, the year ended December 31, 2006 and the four quarters in 2006.

Net Interest Income  
(ratios for the quarters have been annualized, dollars in thousands)

	Average Investment Securities Held((1))	Total Interest Income	Yield Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense
For the Quarter Ended September 30, 2007	\$ 43,075,489	\$ 628,696	5.84%	\$40,201,513	\$ 519,118
For the Quarter Ended June 30, 2007	\$ 38,822,274	\$ 556,262	5.73%	\$36,560,359	\$ 468,748
For the Quarter Ended March 31, 2007	\$ 31,682,974	\$ 449,564	5.68%	\$29,834,208	\$ 380,164
For the Year Ended December 31, 2006	\$ 23,029,195	\$1,221,882	5.31%	\$21,399,130	\$ 1,055,013
For the Quarter Ended December 31, 2006	\$ 28,888,956	\$ 407,092	5.64%	\$27,118,402	\$ 349,302
For the Quarter Ended September 30, 2006	\$ 24,976,876	\$ 339,737	5.44%	\$23,120,247	\$ 295,726
For the Quarter Ended June 30, 2006	\$ 21,660,089	\$ 280,171	5.17%	\$20,060,978	\$ 242,473
For the Quarter Ended March 31, 2006	\$ 16,590,859	\$ 194,882	4.70%	\$15,296,893	\$ 167,512

### Investment Advisory and Service Fees

FIDAC is a registered investment advisor which specializes in managing fixed income securities. FIDAC expanded its line of business in 2006 to include

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

the management of equity securities, initially for us and an affiliated person, and collateralized debt obligations. FIDAC generally receives annual net investment advisory fees of approximately 10 to 20 basis points of the gross assets it manages, assists in managing or supervises. At September 30, 2007, FIDAC had under management approximately \$2.5 billion in net assets and \$13.9 billion in gross assets, compared to \$2.6 billion in net assets and \$14.6 billion in gross assets at September 30, 2006. Investment advisory and service fees for the quarters ended September 30, 2007 and 2006 totaled \$4.4 million and \$4.3 million respectively, net of fees paid to third parties pursuant to distribution agreements for facilitating and promoting distribution of shares of FIDAC's clients. Gross assets under management will vary from time to time because of changes in the amount of net assets FIDAC manages as well as changes in the amount of leverage used by the various funds and accounts FIDAC manages.

### Gains and Losses on Sales of Investment Securities and Interest Rate Swaps

For the quarter ended September 30, 2007, we sold Mortgage-Backed Securities with a carrying value of \$1.7 billion for an aggregate gain of \$3.8 million and terminated interest rates swap agreements with a notional amount of \$600 million for a gain of \$2.0 million. For the quarter ended September 30, 2006, we sold Mortgage-Backed Securities with a carrying value of \$483.5 for an aggregate loss of \$446,000 and terminated interest rates swap agreements with a notional amount of \$895 million for a gain of \$8.4 million. For the nine months ended September 30, 2007, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$4.4 billion for an aggregate gain of \$17.2 million and terminated interest rates swap agreements with a notional amount of \$900 million for a gain of \$2.1 million. For the nine months ended September 30, 2006, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$2.5 billion for an aggregate loss of \$8.7 million and terminated interest rates swap agreements with a notional amount of \$895 million for a gain of \$8.4 million. The difference between the sale price and the carrying value of our Mortgage-Backed Securities will be a realized gain or a realized loss, and will increase or decrease income accordingly. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to acquire new assets which our management believes might have higher risk-adjusted returns as part of our asset/liability management strategy.

26

### Income from Trading Securities

Gross income from trading securities totaled \$8.3 million for the quarter ended September 30, 2007 and \$12.0 million for the nine months ended September 30, 2007. During the quarter and nine months ended September 30, 2006, we earned \$612,000 in gross income from trading securities.

### Impairment of Intangible for Customer Relationships

During the quarter and nine months ended September 30, 2007, it was determined that there was no impairment of intangibles for customer relationships. The total impairment of intangible assets relating to customer relationships was \$2.5 million for the nine months ended September 30, 2006. There was no impairment of intangibles for customer relationships for the quarter ended September 30, 2006.

### Loss on Other-Than-Temporarily Impaired Securities

At each quarter end, we review each of our securities to determine if an

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

other-than-temporary impairment charge would be necessary. We will take these charges if we determine that we do not intend to hold securities that were in an unrealized loss position for a period of time, to maturity if necessary, sufficient for a forecasted market price recovery up to or beyond the cost of the investments. For the quarters ended September 30, 2007 and 2006 there were no losses on other-than-temporarily impaired securities. For the nine months ended September 30, 2007 and September 30, 2006 the loss on other-than-temporarily impaired securities totaled \$1.2 million and \$46.8 million, respectively.

### General and Administrative Expenses

General and administrative (or G&A) expenses were \$17.3 million for the quarter ended September 30, 2007, and \$11.7 million for the quarter ended September 30, 2006. G&A expenses as a percentage of average total assets was 0.16% and 0.18% for the quarters ended September 30, 2007 and 2006, respectively. The increase in G&A expenses of \$5.7 million for the quarter ended September 30, 2007 was primarily the result of increased compensation expense.

G&A expenses were \$42.5 million for the nine months ended September 30, 2007 and \$27.8 million for the six months ended September 30, 2006. G&A expenses as a percentage of average assets was 0.15% and 0.17% on an annualized basis for the nine months ended September 30, 2007 and 2006, respectively. G&A expenses as a percentage of average equity were 1.71% and 2.0% on an annualized basis for the nine months ended September 30, 2007 and 2006, respectively.

The table below shows our total G&A expenses as compared to average total assets and average equity for the quarter ended September 30, 2007, June 30, 2007, March 31, 2007, the year ended December 31, 2006 and the four quarters in 2006.

### G&A Expenses and Operating Expense Ratios

-----  
(ratios for the quarters have been annualized, dollars in thousands)

	Total G&A Expenses	Total G&A Expenses/Average Assets	Total G&A Expenses/Average Equity
	-----	-----	-----
For the Quarter Ended September 30, 2007	\$ 17,334	0.16%	1.94%
For the Quarter Ended June 30, 2007	\$ 12,272	0.12%	1.50%
For the Quarter Ended March 31, 2007	\$ 12,886	0.15%	1.70%
For the Year Ended December 31, 2006	\$ 40,063	0.17%	2.00%
For the Quarter Ended December 31, 2006	\$ 12,219	0.16%	1.86%
For the Quarter Ended September 30, 2006	\$ 11,682	0.18%	2.08%
For the Quarter Ended June 30, 2006	\$ 8,985	0.18%	2.19%
For the Quarter Ended March 31, 2006	\$ 7,177	0.18%	1.95%

### Net Income and Return on Average Equity

Our net income was \$108.3 million for the quarter ended September 30, 2007,

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

and \$42.9 million for the quarter ended September 30, 2006. Our return on average equity was 12.09% for the quarter ended September 30, 2007, and 7.72% for the quarter ended September 30, 2006. We attribute the majority of the increase in net income of \$65.4 million to the increase in Investment Securities and interest rate spread for the quarter ended September 30, 2007 compared to the quarter ended September 30, 2006.

Our net income was \$261.5 million for the nine months ended September 30, 2007 and \$40.5 million for the nine months ended September 30, 2006. We attribute the increase in total net income for nine months ended September 30, 2007 from the nine months ended September 30, 2006 to the increase in net interest income, the decline in realized losses and the decline in loss on other-than-temporarily impaired securities. The net interest income for the nine months ended September 30, 2007 was \$266.5 million as compared to \$109.1 million for the nine months ended September 30, 2006. The gain on sale of investment securities was \$17.2 million for the nine months ended September 30, 2007 and the loss on sale of investment securities was \$8.7 million for the nine months ended September 30, 2006. Loss on other-than-temporarily impaired securities was \$1.2 million for the nine months ended September 30, 2007 and \$46.8 million for the nine months ended September 30, 2006.

The table below shows our net interest income, net investment advisory and service fees, gain (loss) on sale of Mortgage-Backed Securities and termination of interest rate swaps, loss on other-than-temporarily impaired securities, income from equity investment, G&A expenses, income taxes, impairment of intangibles for customer relationships, minority interest, each as a percentage of average equity, and the return on average equity for the quarter ended September 30, 2007 June 30, 2007, March 31, 2007, the year ended December 31, 2006, and the four quarters in 2006.

### Components of Return on Average Equity

-----  
(ratios for the quarters have been annualized)

	Net Interest Income/ Average Equity	Net Investment Advisory and Service Fees/Average Equity	Gain/Loss on Sale of Mortgage- Backed Securities and Interest Rate Swaps/ Average Equity	Loss on other-than- temporarily impaired securities/ Average Equity	Income from equity investment/ Average Equity
	-----	-----	-----	-----	-----
For the Quarter Ended September 30, 2007	12.23%	0.49%	0.65%	-	0.93%
For the Quarter Ended June 30, 2007	10.71%	0.55%	0.89%	(0.09%)	0.03%
For the Quarter Ended March 31, 2007	9.14%	0.61%	0.82%	(0.06%)	0.45%
For the Year Ended December 31, 2006	8.32%	0.94%	0.34%	(2.61%)	0.20%
For the Quarter Ended December 31, 2006	8.81%	0.67%	1.08%	(0.84%)	0.52%
For the Quarter Ended September 30, 2006	7.93%	0.76%	1.44%	-	0.08%
For the Quarter Ended June 30, 2006	9.20%	1.08%	(0.30%)	(4.91%)	-

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

For the Quarter Ended March 31, 2006	7.45%	1.59%	(1.91%)	(7.28%)	-
	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Impairment of intangible for customer relationships/ Average Equity	Minority interest/ Average Equity	Return on Average Equity
For the Quarter Ended September 30, 2007	(1.94%)	(0.26%)	-	(0.01%)	12.09%
For the Quarter Ended June 30, 2007	(1.50%)	(0.10%)	-	-	10.49%
For the Quarter Ended March 31, 2007	(1.70%)	(0.34%)	-	(0.04%)	8.88%
For the Year Ended December 31, 2006	(2.00%)	(0.38%)	(0.12%)	(0.01%)	4.68%
For the Quarter Ended December 31, 2006	(1.86%)	(0.20%)	-	(0.05%)	8.13%
For the Quarter Ended September 30, 2006	(2.08%)	(0.41%)	-	-	7.72%
For the Quarter Ended June 30, 2006	(2.19%)	(0.33%)	(0.46%)	-	2.09%
For the Quarter Ended March 31, 2006	(1.95%)	(0.57%)	(0.31%)	-	(2.98%)

28

### Financial Condition

#### Investment Securities, Available for Sale

All of our Mortgage-Backed Securities at September 30, 2007 were adjustable-rate or fixed-rate mortgage-backed securities backed by single-family mortgage loans. All of the mortgage assets underlying these Mortgage-Backed Securities were secured with a first lien position on the underlying single-family properties. All of our mortgage-backed securities were FHLMC, FNMA or GNMA mortgage pass-through certificates or CMOs, which carry an actual or implied "AAA" rating. All of our agency debentures are callable and carry an implied "AAA" rating. We carry all of our earning assets at fair value.

We accrete discount balances as an increase in interest income over the life of Investment Securities purchased at a discount, and we amortize premium balances as a decrease in interest income over the life of investment securities purchased at a premium. At September 30, 2007, and December 31, 2006 we had on our balance sheet a total of \$77.5 million and \$78.4 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our investment securities acquired at a price below principal value) and a total of \$307.2 million and \$219.1 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our investment securities acquired at a price above principal value).

We received mortgage principal repayments of \$1.7 billion for the quarter

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

ended September 30, 2007 and \$1.3 billion for the quarter ended September 30, 2006. The overall prepayment speed for the quarter ended September 30, 2007 decreased to 14%, as compared to 16% for the quarter ended September 30, 2006. Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our Mortgage-Backed Securities, all other factors being equal, our net interest income would decrease during the life of these Mortgage-Backed Securities as we would be required to amortize our net premium balance over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our Mortgage-Backed Securities, all other factors being equal, our net interest income would increase during the life of these Mortgage-Backed Securities, as we would amortize our net premium balance over a longer time period.

The table below summarizes our Investment Securities at September 30, 2007, June 30, 2007, March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006 and March 31, 2006.

Investment Securities					
-----					
(dollars in thousands)					
	Principal Amount	Net Premium	Amortized Cost	Amortized Cost/Principal Amount	Fair Value
	-----	-----	-----	-----	-----
At September 30, 2007	\$44,904,820	\$229,713	\$45,134,533	100.51%	\$44,890,633
At June 30, 2007	\$39,102,277	\$211,438	\$39,313,715	100.54%	\$38,753,509
At March 31, 2007	\$39,053,196	\$195,649	\$39,248,845	100.50%	\$39,230,648
-----	-----	-----	-----	-----	-----
At December 31, 2006	\$30,134,791	\$140,709	\$30,275,500	100.47%	\$30,217,009
At September 30, 2006	\$28,297,950	\$139,717	\$28,437,667	100.49%	\$28,348,027
At June 30, 2006	\$23,822,683	\$141,671	\$23,964,354	100.59%	\$23,474,006
At March 31, 2006	\$16,288,848	\$173,428	\$16,462,276	101.06%	\$16,176,348

The tables below set forth certain characteristics of our Investment Securities at September 30, 2007, June 30, 2007, March 31, 2007, December 31, 2006, September 30, 2006, June 30, 2006 and March 31, 2006. The index level for adjustable-rate Investment Securities is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

29

### Adjustable-Rate Investment Security Characteristics

-----  
(dollars in thousands)

Principal Amount	Weighted Average Coupon Rate	Weighted Average Term to Next Adjustment	Weighted Average Lifetime Cap	Weighted Average Asset Yield
---------------------	------------------------------------	---	-------------------------------------	------------------------------------

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

At September 30, 2007	\$13,148,355	5.99%	41 months	10.02%	5.68%
At June 30, 2007	\$9,553,827	5.85%	32 months	10.11%	5.77%
At March 31, 2007	\$9,657,221	5.79%	30 months	10.05%	5.66%
At December 31, 2006	\$8,493,242	5.72%	19 months	9.76%	5.57%
At September 30, 2006	\$8,291,239	5.57%	17 months	9.64%	5.47%
At June 30, 2006	\$7,964,221	5.36%	16 months	9.75%	5.26%
At March 31, 2006	\$7,785,082	4.99%	20 months	10.27%	5.07%

Fixed-Rate Investment Security Characteristics

(dollars in thousands)

	Principal Amount	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Amount at Period End as % of Total Investment Securities
At September 30, 2007	\$31,756,465	5.93%	5.76%	70.72%
At June 30, 2007	\$29,548,450	5.87%	5.69%	75.57%
At March 31, 2007	\$29,395,975	5.85%	5.67%	75.27%
At December 31, 2006	\$21,641,549	5.83%	5.65%	71.82%
At September 30, 2006	\$20,006,711	5.82%	5.62%	70.70%
At June 30, 2006	\$15,858,461	5.73%	5.50%	66.57%
At March 31, 2006	\$8,503,766	5.43%	4.99%	52.21%

At September 30, 2007 and December 31, 2006, we held Investment Securities with coupons linked to various indices. The following tables detail the portfolio characteristics by index.

Adjustable-Rate Investment Securities by Index

September 30, 2007

	One-Month Libor	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	3-Year Treasury In
Weighted Average Term to Next Adjustment	1 mo.	34 mo.	67 mo.	1 mo.	1 mo.	30 mo.	1
Weighted Average Annual Period Cap	6.40%	3.15%	2.00%	0.02%	0.00%	1.91%	
Weighted Average Lifetime Cap at September 30, 2007	7.33%	10.65%	10.99%	9.31%	12.08%	10.85%	1
Investment Principal Value as Percentage of Investment Securities at September 30, 2007	7.46%	2.36%	14.60%	0.20%	0.23%	4.16%	

(1) Combination of indexes that account for less than 0.05% of total investment securities.



## Adjustable-Rate Investment Securities by Index

December 31, 2006

	One- Month Libor	Six- Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	Six- Month CD Rate	1-Year Treasury Index
Weighted Average Term to Next Adjustment	1 mo.	35 mo.	36 mo.	1 mo.	1 mo.	3 mo.	13 mo.
Weighted Average Annual Period Cap	6.70%	1.88%	2.00%	0.16%	0.00%	1.75%	1.00%
Weighted Average Lifetime Cap at December 31, 2006	7.32%	10.39%	10.70%	10.53%	12.07%	9.75%	10.81%
Investment Principal Value as Percentage of Investment Securities at December 31, 2006	8.29%	2.71%	9.89%	0.07%	0.41%	0.06%	6.34%

(1) Combination of indexes that account for less than 0.05% of total investment securities.

## Trading Securities and Trading Securities Sold, Not Yet Purchased

Trading securities and trading securities sold, not yet purchased, are included in the balance sheet as a result of consolidating the financial statements of an affiliated investment fund. The resulting realized and unrealized gains and losses are reflected in the statements of operations. The fair value of the trading securities was \$11.0 million and the trading securities sold, not yet purchased, was \$26.8 million at September 30, 2007. The fair value of the trading securities was \$18.4 million and the trading securities sold, not yet purchased, was \$41.9 million at December 31, 2006.

## Borrowings

To date, our debt has consisted entirely of borrowings collateralized by a pledge of our investment securities. These borrowings appear on our balance sheet as repurchase agreements. At September 30, 2007, we had established uncommitted borrowing facilities in this market with 30 lenders in amounts which we believe are in excess of our needs. All of our Investment Securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of our balance sheet.

For the quarter ended September 30, 2007, the term to maturity of our borrowings ranged from one day to three years. Additionally, we have entered into structured borrowings giving the counterparty the right to call the balance prior to maturity. The weighted average original term to maturity of our borrowings was 296 days at September 30, 2007. For the quarter ended September 30, 2006, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 108 days at September 30, 2006. At September 30, 2007, the weighted average cost of funds for all of our borrowings, after giving effect to interest rate swaps, was

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

4.99%, and the weighted average term to next rate adjustment was 250 days. At September 30, 2006, the weighted average cost of funds for all of our borrowings, after giving effect to interest rate swaps, was 5.12%, and the weighted average term to next rate adjustment was 35 days.

### Liquidity

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional investment securities and to pledge additional assets to secure existing borrowings should the value of our pledged assets decline. Potential immediate sources of liquidity for us include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of our investment securities varies. Our non-cash assets are largely actual or implied AAA assets, we have not had, nor do we anticipate having, difficulty in converting our assets to cash. Our balance sheet also generates liquidity on an on-going basis through mortgage principal repayments and net earnings held prior to payment as dividends. Should our needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, we believe that in most circumstances our investment securities could be sold to raise cash. The maintenance of liquidity is one of the goals of our capital investment policy. Under this policy, we limit asset growth in order to preserve unused borrowing capacity for liquidity management purposes.

31

Borrowings under our repurchase agreements increased by \$15.2 billion to \$40.1 billion at September 30, 2007, from \$24.9 billion at September 30, 2006. The increase in borrowings was the result of our deployment of additional capital raised during the first and third quarters of 2007, which permitted us to increase our borrowings.

We anticipate that, upon repayment of each borrowing under a repurchase agreement, we will use the collateral immediately for borrowing under a new repurchase agreement. We have not at the present time entered into any commitment agreements under which the lender would be required to enter into new repurchase agreements during a specified period of time, nor do we presently plan to have liquidity facilities with commercial banks.

Under our repurchase agreements, we may be required to pledge additional assets to our repurchase agreement counterparties (i.e., lenders) in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral (a "margin call"), which may take the form of additional securities or cash. Similarly, if the estimated fair value of investment securities increase due to changes in market interest rates or market factors, lenders may release collateral back to us. Specifically, margin calls result from a decline in the value of the our Mortgage-Backed Securities securing our repurchase agreements, prepayments on the mortgages securing such Mortgage-Backed Securities and to changes in the estimated fair value of such Mortgage-Backed Securities generally due to principal reduction of such Mortgage-Backed Securities from scheduled amortization and resulting from changes in market interest rates and other market factors. Through September 30, 2007, we did not have any margin calls on our repurchase agreements that we were not able to satisfy with either cash or additional pledged collateral. However, should prepayment speeds on the mortgages underlying our Mortgage-Backed Securities and/or market interest rates suddenly increase, margin calls on our repurchase agreements could result, causing an adverse change in our liquidity position.

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements, interest expense on repurchase agreements, the non-cancelable office lease and employment agreements at September 30, 2007.

Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(dollars in thousands)				
Repurchase agreements	\$ 35,140,113	\$ 1,700,000	\$1,700,000	\$ 1,600,000	\$ 40,140,113
Interest expense on repurchase agreements	313,505	375,720	238,626	297,964	1,225,815
Long-term operating lease obligations	532	665	-	-	1,197
Employment agreements	30,658	1,626	-	-	32,284
<b>Total</b>	<b>\$ 35,484,808</b>	<b>\$ 2,078,011</b>	<b>\$1,938,626</b>	<b>\$ 1,897,964</b>	<b>\$ 41,399,409</b>

### Stockholders' Equity

During the quarter ended September 30, 2007, we declared dividends to common shareholders totaling \$85.9 million, or \$0.26 per share, which were paid on October 29, 2007. During the quarter ended September 30, 2007, we declared and paid dividends to Series A preferred shareholders totaling \$3.6 million, or \$0.492188 per share, and Series B preferred shareholders totaling \$1.7 million, or \$0.375 per share. During the quarter ended September 30, 2006, we declared and paid dividends to common shareholders totaling \$28.7 million, or \$0.14 per share, which were paid October 27, 2006. During the quarter ended September 30, 2006, we declared and paid dividends to Series A preferred shareholders totaling \$3.6 million, or \$0.492188 per share, and Series B preferred shareholders totaling \$1.7 million, or \$0.375 per share which were paid September 30, 2006.

On July 12, 2007 we entered into an underwriting agreement pursuant to which it sold 54,050,000 shares of its common stock for proceeds of \$720.8 million net of underwriting fees. This transaction settled on July 18, 2007.

32

On March 7, 2007, we entered into an underwriting agreement pursuant to which we sold 57,500,000 shares of our common stock for net proceeds following underwriting expenses of approximately \$737.4 million. This transaction settled on March 13, 2007.

On August 3, 2006, we entered into an ATM Equity Offering(sm) Sales Agreement with Merrill Lynch & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, relating to the sale of shares of our common stock from time to time through Merrill Lynch. Sales of the shares, if any, will be made by means of ordinary brokers' transaction on the New York Stock Exchange. During the quarter and nine months ended September 30, 2007, 994,800 and 4,524,100 shares of our common stock were issued pursuant to this program, totaling \$15.0 million and \$66.2 million in net proceeds, respectively.

On August 3, 2006, we entered into an ATM Equity Sales Agreement with UBS

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Securities LLC, relating to the sale of shares of our common stock from time to time through UBS Securities. Sales of the shares, if any, will be made by means of ordinary brokers' transaction on the New York Stock Exchange. During nine months ended September 30, 2007, 1,051,900 shares of our common stock were issued pursuant to this program, totaling \$14.7 million in net proceeds. During the quarter ended September 30, 2007, we did not issue common stock pursuant to this program.

During the quarter ended and nine months ended September 30, 2007, we raised \$87.0 million and \$116.5 million by issuing 6,077,055 and 7,988,374 shares, respectively, through the Direct Purchase and Dividend Reinvestment Program and there were no such transactions during the quarter and nine months ended September 30, 2006.

During the quarter ended September 30, 2007, 2,000 options were exercised under the Long-Term Stock Incentive Plan, or Incentive Plan, for an aggregate exercise price of \$23,000 and there were no options exercised during the quarter ended September 30, 2006. During the nine months ended September 30, 2007 and September 30, 2006, 49,238 options were exercised for an aggregate exercise price of \$504,000, and 22,160 shares for an aggregate exercise price of \$205,000, respectively.

With our "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders' equity under "Accumulated Other Comprehensive Income (Loss)."

The table below shows unrealized gains and losses on the Investment Securities and interest rate swaps in our portfolio.

Unrealized Gains and Losses					
-----					
(dollars in thousands)					
	At September 30, 2007	At June 30, 2007	At March 31, 2007	At December 31, 2006	At Septe 20
	-----	-----	-----	-----	-----
Unrealized gain	\$68,014	\$102,641	\$138,211	\$112,596	\$
Unrealized loss	(453,974)	(570,281)	(198,251)	(188,708)	(
	-----	-----	-----	-----	-----
Net Unrealized (loss) gain	(\$385,960)	(\$467,640)	(\$60,040)	(\$76,112)	(\$
	=====	=====	=====	=====	=====
Net unrealized losses as percentage of investment securities principal amount	(0.86%)	(1.20%)	(0.15%)	(0.25%)	
Net unrealized losses as percentage of investment securities amortized cost	(0.86%)	(1.19%)	(0.15%)	(0.25%)	

Unrealized changes in the estimated net market value of investment securities have one direct effect on our potential earnings and dividends: positive mark-to-market changes increase our equity base and allow us to increase our borrowing capacity while negative changes tend to limit borrowing capacity under our capital investment policy. A very large negative change in the net market value of our investment securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

upon sale. The net unrealized loss on available for sale securities and interest rate swaps was \$386.0 million, or 0.86% of the amortized cost of our investment securities as of September 30, 2007, and \$76.1 million, or 0.25% of the amortized cost of our investment securities as of December 31, 2006.

33

### Leverage

Our debt-to-equity ratio at September 30, 2007 and December 31, 2006 was 9.9:1 and 10.4:1 respectively. We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from this range from time to time based upon various factors, including our management's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity and over-collateralization levels required by lenders when we pledge assets to secure borrowings.

Our target debt-to-equity ratio is determined under our capital investment policy. Should our actual debt-to-equity ratio increase above the target level due to asset acquisition or market value fluctuations in assets, we cease to acquire new assets. Our management will, at that time, present a plan to our board of directors to bring us back to our target debt-to-equity ratio; in many circumstances, this would be accomplished over time by the monthly reduction of the balance of our Mortgage-Backed Securities through principal repayments.

### Asset/Liability Management and Effect of Changes in Interest Rates

We continually review our asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. Our goal is to provide attractive risk-adjusted stockholder returns while maintaining what we believe is a strong balance sheet.

We seek to manage the extent to which our net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, we have attempted to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in our portfolio of investment securities by entering into interest rate swaps. At September 30, 2007, we entered into swap agreements with a total notional amount of \$14.7 billion, pursuant to which we agreed to pay a weighted average pay rate of 5.15% and receive a floating rate based on one month LIBOR. At September 30, 2006, we entered into swap agreements with a total notional amount of \$9.2 billion, pursuant to which we agreed to pay a weighted average pay rate of 5.19% and receive a floating rate based on one month LIBOR. We may enter into similar derivative transactions in the future by entering into interest rate collars, caps or floors or purchasing interest only securities.

Changes in interest rates may also affect the rate of mortgage principal prepayments and, as a result, prepayments on mortgage-backed securities. We seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets we purchase at a premium with assets we purchase at a discount. To date, the aggregate premium exceeds the aggregate discount on our mortgage-backed securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce our net income compared to what net income would be absent such prepayments.

### Off-Balance Sheet Arrangements

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

### Capital Resources

At September 30, 2007, we had no material commitments for capital expenditures.

34

### Inflation

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors drive our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our dividends are based upon our net income as calculated for tax purposes; in each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

### Other Matters

We calculate that at least 75% of our assets were qualified REIT assets, as defined in the Code for the quarters ended September 30, 2007 and 2006. We also calculate that our revenue qualifies for the 75% source of income test and for the 95% source of income test rules for the quarters ended September 30, 2007 and 2006. Consequently, we met the REIT income and asset test. We also met all REIT requirements regarding the ownership of our common stock and the distribution of our net income. Therefore, as of September 30, 2007 and December 31, 2006, we believe that we qualified as a REIT under the Code.

We at all times intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act of 1940, or the Investment Company Act. If we were to become regulated as an investment company, then our use of leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (qualifying interests). Under current interpretation of the staff of the SEC, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in qualifying interests and at least 80% of our assets in qualifying interests plus other real estate related assets. In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, the Mortgage-Backed Securities may be treated as securities separate from the underlying mortgage loans and, thus, may not be considered qualifying interests for purposes of the 55% requirement. We calculate that as of September 30, 2007 and December 31, 2006 we were in compliance with this requirement.

35

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we are exposed is interest rate risk, which is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of our Mortgage-Backed Securities and our ability to realize gains from the sale of these assets. We may utilize a variety of financial instruments, including interest rate swaps, caps, floors, inverse floaters and other interest rate exchange contracts, in order to limit the effects of interest rates on our operations. When we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and that the losses may exceed the amount we invested in the instruments.

Our profitability and the value of our portfolio (including interest rate swaps) may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income, portfolio value should interest rates go up or down 25, 50, and 75 basis points, assuming the yield curves of the rate shocks will be parallel to each other and the current yield curve. All changes in income and value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at September 30, 2007 and various estimates regarding prepayment and all activities are made at each level of rate shock. Actual results could differ significantly from these estimates.

Change in Interest Rate	Projected Percentage Change in Net Interest Income	Projected Percentage Change in Portfolio Value
-75 Basis Points	35.66%	1.60%
-50 Basis Points	25.86%	1.34%
-25 Basis Points	19.49%	0.98%
Base Interest Rate	-	-
+25 Basis Points	4.46%	(0.08%)
+50 Basis Points	(3.13%)	(0.77%)
+75 Basis Points	(10.73%)	(1.57%)

#### ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity "gap", which is the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

36

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at September 30, 2007. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except adjustable-rate loans, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature and does include the effect of the interest rate swaps. The interest rate sensitivity of our assets and liabilities in the table could vary substantially if based on actual prepayment experience.

	Within 3 Months	4-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
	(dollars in thousands)				
Rate Sensitive Assets:					
Investment Securities (Principal)	\$4,138,639	\$1,178,746	\$2,589,175	\$36,998,260	\$44,904,820
Rate Sensitive Liabilities:					
Repurchase Agreements, with the effect of swaps	20,576,613	1,685,150	8,831,400	9,046,950	40,140,113
Interest rate sensitivity gap	(\$16,437,974)	(\$506,404)	(\$6,242,225)	\$27,951,310	\$4,764,707
Cumulative interest rate sensitivity gap	(\$16,437,974)	(\$16,944,378)	(\$23,186,603)	\$4,764,707	
Cumulative interest rate sensitivity gap as a percentage of total rate- sensitive assets	(37%)	(38%)	(52%)	11%	

Our analysis of risks is based on management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or



## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables and in this report. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

### ITEM 4. CONTROLS AND PROCEDURES

Our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act) as of the end of the period covered by this quarterly report. Based on that review and evaluation, the CEO and CFO have concluded that our current disclosure controls and procedures, as designed and implemented, (1) were effective in ensuring that information regarding the Company and its subsidiaries is made known to our management, including our CEO and CFO, by our employees, as appropriate to allow timely decisions regarding required disclosure and (2) were effective in providing reasonable assurance that information the Company must disclose in its periodic reports under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by the SEC's rules and forms. There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

37

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial statements.

### Item 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A -- Risk Factors of our annual report on Form 10-K for the year ended December 31, 2006 (the "Form 10-K"). The materialization of any risks and uncertainties identified in our forward looking statements contained in this report together with those previously disclosed in the Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Special Note Regarding Forward Looking Statements" in this quarterly report on Form 10-Q.

38

## Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

Item 6. EXHIBITS

Exhibits:

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

### EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Articles of Amendment and Restatement of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).
3.2	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-3 (Registration Statement 333-74618) filed with the Securities and Exchange Commission on June 12, 2002).
3.3	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (filed with the Securities and Exchange Commission on August 3, 2006).
3.4	Form of Articles Supplementary designating the Registrant's 7.875% Series A Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.3 to the Registrant's 8-A filed April 1, 2004).
3.5	Articles Supplementary of the Registrant's designating an additional 2,750,000 shares of the Company's 7.875% Series A Cumulative Redeemable Preferred Stock, as filed with the State Department of Assessments and Taxation of Maryland on October 15, 2004 (incorporated by reference to Exhibit 3.2 to the Registrant's 8-K filed October 4, 2004).
3.6	Articles Supplementary designating the Registrant's 6% Series B Cumulative Convertible Preferred Stock, liquidation preference \$25.00 per share (incorporated by reference to Exhibit 3.1 to the Registrant's 8-K filed April 10, 2006).
3.7	Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on August 5, 1997).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-11 (Registration No. 333-32913) filed with the Securities and Exchange Commission on September 17, 1997).
4.2	Specimen Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-74618) filed with the Securities and Exchange Commission on December 5, 2001).
4.3	Specimen Series A Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form 8-A filed with the SEC on April 1, 2004).
4.4	Specimen Series B Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 10, 2006).
31.1	Certification of Michael A.J. Farrell, Chairman, Chief Executive Officer, and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Kathryn F. Fagan, Chief Financial Officer and Treasurer of the Registrant, pursuant to 18 U.S.C. Section 1350 as

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 10-Q

- 32.1 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Certification of Michael A.J. Farrell, Chairman, Chief Executive Officer, and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Kathryn F. Fagan, Chief Financial Officer and Treasurer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

39

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 thereunto duly authorized.

ANNALY CAPITAL MANAGEMENT, INC.

Dated: November 6, 2007

By: /s/ Michael A.J. Farrell

-----  
Michael A.J. Farrell  
(Chairman of the Board, Chief Executive  
Officer, President and authorized  
officer of registrant)

Dated: November 6, 2007

By: /s/ Kathryn F. Fagan

-----  
Kathryn F. Fagan  
(Chief Financial Officer and Treasurer and  
principal financial and chief accounting  
officer)

40