

ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
November 08, 2011

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, 2011

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 1-13447

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

MARYLAND

(State or other jurisdiction of incorporation or
organization)

22-3479661

(IRS Employer Identification No.)

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

10036
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at November 8, 2011
Common Stock, \$.01 par value	970,083,961

ANNALY CAPITAL MANAGEMENT, INC.

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PART I

Part I

Item 1. Financial Statements

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

ASSETS	September 30, 2011 (Unaudited)	December 31, 2010(1)
Cash and cash equivalents	\$ 3,473,866	\$282,626
Reverse repurchase agreements	360,315	1,006,163
Investments, at fair value:		
U.S. Treasury Securities (including pledged assets of \$158,556 and \$660,823, respectively)	172,892	1,100,447
Securities borrowed	1,052,810	216,676
Agency Mortgage-Backed Securities (including pledged assets of \$92,974,164 and \$67,787,023, respectively)	106,588,710	78,440,330
Agency debentures (including pledged assets of \$488,063 and \$1,068,869, respectively)	824,092	1,108,261
Investments in affiliates	209,374	252,863
Equity securities	3,929	-
Corporate debt, held for investment	27,988	21,683
Receivable for investments sold	402,817	151,460
Accrued interest and dividends receivable	410,862	345,250
Receivable from Prime Broker	3,272	3,272
Receivable for advisory and service fees	19,656	16,172
Intangible for customer relationships, net	11,531	9,290
Goodwill	42,030	42,030
Interest rate swaps, at fair value	-	2,561
Other derivative contracts, at fair value	1,450	2,607
Other assets	26,112	24,899
Total assets	\$ 113,631,706	\$83,026,590
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury Securities sold, not yet purchased, at fair value	\$ 549,505	\$909,462
Repurchase agreements	86,495,905	65,533,537
Securities loaned, at fair value	907,061	217,841
Payable for investments purchased	5,852,986	4,575,026
Convertible Senior Notes	557,045	600,000
Accrued interest payable	128,371	115,766
Dividends payable	581,752	404,220
Interest rate swaps, at fair value	2,540,558	754,439
Other derivative contracts, at fair value	-	2,446
Accounts payable and other liabilities	74,837	8,921
Total liabilities	97,688,020	73,121,658
6.00% Series B Cumulative Convertible Preferred Stock:	33,664	40,032

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4,600,000 shares authorized, 1,389,249 and 1,652,047 shares issued and outstanding, respectively

Stockholders' Equity:

7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 authorized, issued and outstanding	177,088	177,088
Common stock, par value \$0.01 per share, 1,987,987,500 authorized, 969,913,060 and 631,594,205 issued and outstanding, respectively	9,699	6,316
Additional paid-in capital	15,042,361	9,175,245
Accumulated other comprehensive income (loss)	3,073,488	1,164,642
Accumulated deficit	(2,392,614)	(658,391)
Total stockholders' equity	15,910,022	9,864,900
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity	\$ 113,631,706	\$83,026,590

(1) Derived from the audited consolidated financial statements at December 31, 2010.
See notes to consolidated financial statements.

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

	For the Quarters Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Interest income:				
Investments	\$926,558	\$700,964	\$2,713,141	\$1,997,681
U.S. Treasury Securities	2,302	751	13,624	791
Securities loaned	1,942	1,261	5,153	2,575
Total interest income	930,802	702,976	2,731,918	2,001,047
Interest expense:				
Repurchase agreements	109,014	105,393	311,780	294,457
Convertible Senior Notes	8,798	7,033	22,465	17,194
U.S. Treasury Securities sold, not yet purchased	2,109	459	11,867	483
Securities borrowed	1,496	1,047	4,081	2,176
Total interest expense	121,417	113,932	350,193	314,310
Net interest income	809,385	589,044	2,381,725	1,686,737
Other income (loss):				
Investment advisory and other fee income	20,828	15,343	58,745	41,752
Net gains (losses) on sales of Agency mortgage-backed securities and debentures	91,668	61,986	126,189	147,989
Dividend income	8,706	8,097	23,233	23,391
Net gains (losses) on trading assets	1,942	1,082	15,042	1,159
Net unrealized gain (losses) on interest-only Agency mortgage-backed securities	(39,321)	-	(39,045)	-
Income (expense) from underwriting	2,772	915	5,599	1,415
Subtotal	86,595	87,423	189,763	215,706
Realized gains (losses) on interest rate swaps(1)	(231,849)	(188,636)	(654,757)	(545,009)
Unrealized gains (losses) on interest rate swaps	(1,505,333)	(448,253)	(1,802,968)	(1,158,023)
Subtotal	(1,737,182)	(636,889)	(2,457,725)	(1,703,032)
Total other income (loss)	(1,650,587)	(549,466)	(2,267,962)	(1,487,326)
Expenses:				
Distribution fees	-	-	-	360
General and administrative expenses	65,194	43,430	174,250	124,991
Total expenses	65,194	43,430	174,250	125,351
Income (loss) before income taxes and income from equity method investment in affiliate	(906,396)	(3,852)	(60,487)	74,060
Income taxes	(15,417)	(11,076)	(41,754)	(27,227)

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Income from equity method investment in affiliate	-	868	1,140	1,943
Net income (loss)	(921,813)	(14,060)	(101,101)	48,776
Dividends on preferred stock	4,172	4,515	12,706	13,765
Net income (loss) available (related) to common shareholders	\$(925,985)	\$(18,575)	\$(113,807)	\$35,011
Net income (loss) available (related) per share to common shareholders:				
Basic	\$(0.98)	\$(0.03)	\$(0.14)	\$0.06
Diluted	\$(0.98)	\$(0.03)	\$(0.14)	\$0.06
Weighted average number of common shares outstanding:				
Basic	948,545,975	611,904,518	841,912,810	575,742,043
Diluted	948,545,975	611,904,518	841,912,810	575,958,563
Net income (loss)	\$(921,813)	\$(14,060)	\$(101,101)	48,776
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	1,115,325	(619,080)	2,020,737	52,880
Unrealized losses on interest rate swaps	-	18,402	14,298	81,329
Reclassification adjustment for net (gains) losses included in net income (loss)	(91,668)	(61,986)	(126,189)	(147,989)
Other comprehensive income (loss)	1,023,657	(662,664)	1,908,846	(13,780)
Comprehensive income (loss)	\$101,844	\$(676,724)	\$1,807,745	\$34,996

(1) Interest expense related to the Company's interest rate swaps is recorded in Realized losses on interest rate swaps on the Consolidated Statements of Operations and Comprehensive Income (Loss).

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)
(Unaudited)

	Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
BALANCE, December 31, 2009	\$177,088	\$5,531	\$7,817,454	\$ 1,891,317	\$(336,964)	\$9,554,426
Net income	-	-	-	-	48,776	48,776
Other comprehensive income	-	-	-	(13,780)	-	(13,780)
Net proceeds from follow-on offering	-	600	1,046,793	-	-	1,047,393
Exercise of stock options	-	2	2,841	-	-	2,843
Stock option expense and long-term compensation expense	-	-	3,562	-	-	3,562
Conversion of Series B cumulative preferred stock	-	7	7,215	-	-	7,222
Net proceeds from direct purchase and dividend reinvestment	-	66	117,089	-	-	117,155
Preferred Series A dividends declared \$1.477 per share	-	-	-	-	(10,945)	(10,945)
Preferred Series B dividends declared \$1.125 per share	-	-	-	-	(2,820)	(2,820)
Common dividends declared, \$2.01 per share	-	-	-	-	(1,166,446)	(1,166,446)
BALANCE, September 30, 2010	\$177,088	\$6,206	\$8,994,954	\$ 1,877,537	\$(1,468,399)	\$9,587,386
BALANCE, December 31, 2010	\$177,088	\$6,316	\$9,175,245	\$ 1,164,642	\$(658,391)	\$9,864,900
Net loss	-	-	-	-	(101,101)	(101,101)
Other comprehensive income	-	-	-	1,908,846	-	1,908,846
Exercise of stock options	-	6	7,858	-	-	7,864
Stock option expense and long-term compensation expense	-	4	3,858	-	-	3,862
Conversion of Series B cumulative preferred stock	-	7	6,361	-	-	6,368
Net proceeds from direct purchase and dividend reinvestment	-	261	455,445	-	-	455,706
	-	3,105	5,348,741	-	-	5,351,846

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Net proceeds from follow-on offerings						
Contingent beneficial conversion feature on Convertible Senior Notes	-	-	44,853	-	-	44,853
Preferred Series A dividends declared \$1.477 per share	-	-	-	-	(10,945)	(10,945)
Preferred Series B dividends declared \$1.125 per share	-	-	-	-	(1,761)	(1,761)
Common dividends declared, \$1.87 per share	-	-	-	-	(1,620,416)	(1,620,416)
 BALANCE, September 30, 2011	 \$177,088	 \$9,699	 \$15,042,361	 \$ 3,073,488	 \$(2,392,614)	 \$15,910,022

See notes to consolidated financial statements.

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

(dollars in thousands)

(Unaudited)

	For the Quarters Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Cash flows from operating activities:				
Net income (loss)	\$(921,813	) \$(14,060	) \$(101,101	) 48,776
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of Investment premiums and discounts, net	200,942	155,868	502,186	457,052
Amortization of intangibles	676	407	1,511	1,220
Amortization of deferred expenses	900	900	2,700	2,250
Amortization of contingent beneficial conversion feature on convertible senior notes	1,898	-	1,898	-
(Gains) losses on sales of Agency mortgage-backed securities and debentures	(91,668	) (61,986	) (126,189	) (147,989
Stock option and long-term compensation expense	1,403	1,196	3,862	3,562
Unrealized (gains) losses on equity securities	63	-	63	-
Unrealized (gains) losses on interest rate swaps	1,505,333	448,253	1,802,968	1,158,023
Unrealized (gains) losses on interest-only Agency mortgage-backed securities	39,321	-	39,045	-
Net (gains) losses on trading securities	(1,942	) (1,082	) (15,042	) (1,159
Gain on investment in affiliate, equity method	-	(97	) (98	) (312
Proceeds from repurchase agreements from Broker Dealer	157,069,300	365,003,080	720,578,286	936,383,970
Payments on repurchase agreements from Broker Dealer	(156,683,356)	(364,576,286)	(719,466,382)	(930,904,601)
Proceeds from reverse repurchase agreements to Broker Dealer	27,610,583	20,927,968	132,302,897	29,891,027
Payments on reverse repurchase agreements to Broker Dealer	(27,359,741	) (21,376,914	) (131,634,729)	) (30,153,996
Proceeds from reverse repurchase agreements to Shannon	58,848	-	65,893	-
Payments on reverse repurchase agreements to Shannon	(76,140	) -	(88,213) -
Proceeds from securities borrowed	12,445,883	877,755	14,898,651	1,989,846
Payments on securities borrowed	(12,978,764	) (886,755	) (15,734,785	) (2,212,011
Proceeds from securities loaned	12,398,720	996,966	14,902,887	2,366,791
Payments on securities loaned	(11,938,989	) (987,876	) (14,213,667	) (2,144,516
Proceeds from U.S. Treasury Securities	(5,303,369	) 3,075,309	(18,193,311	) 3,451,909
Payments on U.S. Treasury Securities	5,716,809	(3,075,325) 18,514,722) (3,511,758
Net payments on derivatives	(1,771) (1,527) (4,545) (2,545
Net change in:				

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Other assets	(4,795)	15,308	(4,110)	3,477
Accrued interest and dividend receivable	(22,148)	(22,272)	(62,792) (24,303
Advisory and service fees receivable	10		(1,779	)	(3,484	) (2,573
Interest payable	5,618		14,471		12,605	24,376
Accounts payable and other liabilities	(4,058	)	17,536		65,916	41,347
Net cash provided by (used in) operating activities	1,667,753		529,058		4,047,642	6,717,863
Cash flows from investing activities:						
Payments on purchases of Agency mortgage-backed securities and debentures	(17,054,754	)	(12,662,901	)	(49,344,466	) (38,779,302
Proceeds from sales of Agency mortgage-backed securities and debentures	3,568,718		1,284,437		9,001,949	5,516,172
Principal payments on Agency mortgage-backed securities	5,074,528		5,569,728		14,429,098	22,307,773
Proceeds from Agency debentures called	288,925		349,875		906,523	1,223,875
Payments on purchase of corporate debt	-		-		(7,425) -
Principal payments on corporate debt	-		-		1,155	-
Net gains (losses) on other derivative securities						