

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

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

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

Maryland
(State or Other Jurisdiction
of Incorporation)

1-13447
(Commission
File Number)

22-3479661
(IRS Employer
Identification No.)

1211 Avenue of the Americas
Suite 2902
New York, New York
(Address of principal executive offices)

10036
(Zip Code)

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

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

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

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

Item 8.01. Other Events

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes portfolio information for the Company:

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

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

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

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

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

	December 31, 2009 (Unaudited)	September 30, 2009 (Unaudited)	June 30, 2009 (Unaudited)	March 31, 2009 (Unaudited)
ASSETS				
Cash and cash equivalents	\$ 1,504,568	\$ 1,723,341	\$ 1,352,798	\$ 1,030,000
Reverse repurchase agreements with affiliate	328,757	226,264	170,916	45,000
Reverse repurchase agreements	425,000	100,000	-	-
Mortgage-Backed Securities, at fair value	64,805,725	66,837,761	65,165,126	58,780,000
Agency debentures, at fair value	915,752	625,615	616,893	-
Investments with affiliates	242,198	239,740	156,990	50,000
Securities borrowed	29,077	-	-	-
Receivable for Mortgage-Backed Securities sold	732,134	-	412,214	300,000
Accrued interest and dividends receivable	318,919	332,861	313,772	290,000
Receivable from Prime Broker	3,272	16,886	16,886	100,000
Receivable for advisory and service fees	12,566	12,807	10,039	-
Intangible for customer relationships	10,491	10,791	11,091	100,000
Goodwill	27,917	27,917	27,917	200,000
Interest rate swaps, at fair value	5,417	-	7,267	-
Other assets	14,397	8,695	5,346	-
Total assets	\$ 69,376,190	\$ 70,162,678	\$ 68,267,255	\$ 60,710,000
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Repurchase agreements	\$ 54,598,129	\$ 55,842,840	\$ 51,326,930	\$ 48,950,000
Payable for Investment Securities purchased	4,083,786	3,644,420	7,017,444	2,120,000
Accrued interest payable	89,460	97,693	102,662	110,000
Dividends payable	414,851	381,411	326,612	270,000
Securities Loaned	29,057	-	-	-
Accounts payable and other liabilities	10,005	37,991	40,115	200,000
Interest rate swaps, at fair value	533,362	788,065	722,700	1,010,000
Total liabilities	59,758,650	60,792,420	59,536,463	52,490,000
6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized, 2,604,614, 2,604,614, 2,604,814, 2,607,564 and 3,963,525 shares issued and outstanding, respectively	63,114	63,114	63,118	60,000
Stockholders' Equity:				
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 authorized, 7,412,500 shares issued and outstanding	177,088	177,088	177,088	170,000
Common stock, par value \$.01 per share, 987,987,500 authorized, 553,134,877, 552,778,531, 544,353,997, 544,339,785, and 541,475,366 issued and outstanding, respectively	5,531	5,528	5,444	-
Additional paid-in capital	7,817,454	7,811,356	7,668,988	7,660,000
Accumulated other comprehensive income	1,891,317	1,959,994	1,362,134	1,120,000
Accumulated deficit	(336,964)	(646,822)	(545,980)	(810,000)
Total stockholders' equity	9,554,426	9,307,144	8,667,674	8,160,000
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity	\$ 69,376,190	\$ 70,162,678	\$ 68,267,255	\$ 60,710,000

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

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

	December 31, 2009	September 30, 2009	For the quarter June 30, 2009
Interest income:			
Investments	\$ 751,560	\$ 744,523	\$ 710,
Securities loaned	103	-	
Total interest income	751,663	744,523	710,
Interest expense:			
Repurchase agreements	286,672	307,777	322,
Securities borrowed	92	-	
Total interest expense	286,764	307,777	322,
Net interest income	464,899	436,746	387,
Other income (loss)			
Investment advisory and service fees	14,835	14,620	11,
Gain (loss) on sale of Mortgage-Backed Securities	91,150	591	2,
Loss from trading securities	-	-	
Dividend income from available-for-sale equity securities	7,647	5,398	3,
Loss on receivable from Prime Broker ⁽¹⁾	(13,613)	-	
Unrealized gain (loss) on interest rate swaps	212,456	(128,687)	230,
Total other income (loss)	312,475	(108,078)	247,
Expenses			
Distribution fees	418	478	
General and administrative expenses	36,880	33,344	30,
Total expenses	37,298	33,822	30,
Income (loss) before loss on equity method investment and income taxes	740,076	294,846	604,
Loss on equity method investment	252	-	
Income taxes	10,489	9,657	7,
Net income (loss)	729,335	285,189	597,
Dividends on preferred stock	4,625	4,625	4,
Net income (loss) available (related) to common shareholders	\$ 724,710	\$ 280,564	\$ 592,
Net income (loss) available (related) per share to common shareholders:			
Basic	\$ 1.31	\$ 0.51	\$ 1

Edgar Filing: ANNALY CAPITAL MANAGEMENT INC - Form 8-K

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

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

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

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

Other comprehensive income:

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

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

SIGNATURE

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

Annaly Capital Management, Inc.

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

Date: February 8, 2010
