

ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
August 07, 2012

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: JUNE 30, 2012

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 August 7, 2012
Common Stock, \$.01 par value	974,721,170

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PART I. FINANCIAL INFORMATION

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	June 30, 2012 (Unaudited)	December 31, 2011(1)
Cash and cash equivalents	\$924,374	\$994,198
Reverse repurchase agreements	2,025,471	860,866
Investments, at fair value:		
U.S. Treasury Securities (including pledged assets of \$113,441 and \$352,820, respectively)	1,998,363	928,547
Securities borrowed	1,465,327	928,732
Agency mortgage-backed securities (including pledged assets of \$101,951,118 and \$90,406,535, respectively)	118,500,649	104,251,055
Agency debentures (including pledged assets of \$183,960 and \$567,383, respectively)	1,250,506	889,580
Investments in affiliates	203,057	211,970
Equity securities	-	3,891
Corporate debt, held for investment	60,638	52,073
Receivable for investments sold	1,320,996	-
Accrued interest and dividends receivable	420,390	409,023
Receivable from Prime Broker	3,272	3,272
Receivable for advisory and service fees (including from affiliates of \$17,434 and \$16,245, respectively)	20,743	19,550
Intangible for customer relationships (net of accumulated amortization of \$6,609 million and \$5,432, respectively)	9,714	10,807
Goodwill	55,417	42,030
Other derivative contracts, at fair value	3,717	113
Other assets	41,937	24,295
Total assets	\$128,304,571	\$109,630,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury Securities sold, not yet purchased, at fair value	\$1,884,922	\$826,912
Repurchase agreements	96,760,797	84,097,885
Securities loaned, at fair value	1,113,107	804,901
Payable for investments purchased	7,387,410	4,315,796
Convertible Senior Notes	1,245,915	539,913
Accrued interest payable	174,819	138,965
Dividends payable	535,898	552,806
Interest rate swaps, at fair value	2,822,264	2,552,687
Accounts payable and other liabilities	94,853	7,223
Total liabilities	112,019,985	93,837,088
6.00% Series B Cumulative Convertible Preferred Stock:	-	32,272

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4,600,000 shares authorized, 0 and 1,331,849 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
7.625% Series C Cumulative Redeemable Preferred Stock: 12,650,000 and 0 authorized, respectively, 12,000,000 and 0 issued and outstanding, respectively	290,514	-
Common stock, par value \$0.01 per share, 1,975,337,500 and 1,987,987,500 authorized, respectively, 974,684,401 and 970,161,647 issued and outstanding, respectively	9,747	9,702
Additional paid-in capital	15,168,020	15,068,870
Accumulated other comprehensive income (loss)	3,413,320	3,008,988
Accumulated deficit	(2,774,103)	(2,504,006)
Total stockholders' equity	16,284,586	15,760,642
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity	\$ 128,304,571	\$ 109,630,002

(1) Derived from the audited consolidated financial statements at December 31, 2011.

See notes to consolidated financial statements.

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

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Investments	\$876,229	\$948,703	\$1,727,188	\$1,786,583
U.S. Treasury Securities	7,397	6,497	8,815	11,322
Securities loaned	2,698	1,868	5,216	3,211
Total interest income	886,324	957,068	1,741,219	1,801,116
Interest expense:				
Repurchase agreements	139,579	100,164	253,493	202,766
Convertible Senior Notes	18,965	6,900	33,692	13,667
U.S. Treasury Securities sold, not yet purchased	5,801	4,772	8,445	9,758
Securities borrowed	2,098	1,484	4,158	2,585
Total interest expense	166,443	113,320	299,788	228,776
Net interest income	719,881	843,748	1,441,431	1,572,340
Other income (loss):				
Investment advisory and other fee income	21,929	20,710	42,695	37,917
Net gains (losses) on sales of Agency mortgage-backed securities and debentures	94,837	7,336	175,136	34,521
Dividend income from affiliates	6,621	8,230	14,142	14,527
Net gains (losses) on trading assets	1,105	(5,712)	6,361	13,100
Net unrealized gain (losses) on interest-only Agency mortgage-backed securities	(26,103)	276	4,774	276
Income (expense) from underwriting	(8)	(77)	(16)	2,827
Subtotal	98,381	30,763	243,092	103,168
Realized gains (losses) on interest rate swaps(1)	(222,002)	(216,760)	(441,342)	(422,908)
Realized gains (losses) on termination of interest rate swaps	-	-	(2,385)	-
Unrealized gains (losses) on interest rate swaps	(611,215)	(466,943)	(269,576)	(297,635)
Subtotal	(833,217)	(683,703)	(713,303)	(720,543)
Total other income (loss)	(734,836)	(652,940)	(470,211)	(617,375)
Expenses:				
Compensation expense	53,536	49,752	112,550	94,282
Other general and administrative expenses	11,012	7,477	19,905	14,774
Total expenses	64,548	57,229	132,455	109,056
Income (loss) before income taxes and income from equity method investment in affiliate	(79,503)	133,579	838,765	845,909

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Income taxes	(11,656)	(12,762)	(28,118)	(26,337)
Loss from equity method investment in affiliate	-	-	-	1,140
Net income (loss)	(91,159)	120,817	810,647	820,712
Dividends on preferred stock	6,508	4,267	10,446	8,534
Net income (loss) available (related) to common shareholders	\$(97,667)	\$116,550	\$800,201	\$812,178
Net income (loss) available (related) per share to common shareholders:				
Basic	\$(0.10)	\$0.14	\$0.82	\$1.03
Diluted	\$(0.10)	\$0.14	\$0.78	\$1.00
Weighted average number of common shares outstanding:				
Basic	974,555,392	822,623,370	973,141,546	787,172,527
Diluted	974,555,392	827,754,731	1,052,888,301	827,622,301
Dividends Declared Per Share of Common Stock	\$0.55	\$0.65	\$1.10	\$1.27
Net income (loss)	\$(91,159)	\$120,817	810,647	\$820,712
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	741,727	1,047,639	579,468	905,412
Unrealized losses on interest rate swaps	-	-	-	14,298
Reclassification adjustment for net (gains) losses included in net income (loss)	(94,837)	(7,336)	(175,136)	(34,521)
Other comprehensive income (loss)	646,890	1,040,303	404,332	885,189
Comprehensive income (loss)	\$555,731	\$1,161,120	\$1,214,979	\$1,705,901

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

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)

	7.875% Series A Cumulative Redeemable Preferred Stock	7.625% Series C Cumulative Redeemable Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
BALANCE, DECEMBER 31, 2010	\$ 177,088	-	\$ 6,316	\$ 9,175,245	\$ 1,164,642	\$ (658,391)	\$ 9,864,900
Net income (loss)	-	-	-	-	-	820,712	820,712
Other comprehensive income (loss)	-	-	-	-	885,189	-	885,189
Exercise of stock options	-	-	5	6,107	-	-	6,112
Stock option expense and long-term compensation expense	-	-	3	2,456	-	-	2,459
Conversion of Series B cumulative preferred stock	-	-	-	73	-	-	73
Net proceeds from direct purchase and dividend reinvestment	-	-	261	455,445	-	-	455,706
Net proceeds from follow-on offering	-	-	1,725	2,939,686	-	-	2,941,411
Preferred Series A dividends declared \$0.984 per share	-	-	-	-	-	(7,298)	(7,298)
Preferred Series B dividends declared \$0.750 per share	-	-	-	-	-	(1,237)	(1,237)
Common dividends declared, \$1.27 per share	-	-	-	-	-	(1,038,665)	(1,038,665)
BALANCE, JUNE 30, 2011	\$ 177,088	-	\$ 8,310	\$ 12,579,012	\$ 2,049,831	\$ (884,879)	\$ 13,929,362

BALANCE, DECEMBER 31, 2011	\$ 177,088	-	\$ 9,702	\$ 15,068,870	\$ 3,008,988	\$ (2,504,006)	\$ 15,760,642
Net income (loss)	-	-	-	-	-	810,647	810,647
Other comprehensive income (loss)	-	-	-	-	404,332	-	404,332
Exercise of stock options	-	-	4	5,387	-	-	5,391
Stock option expense and long-term compensation expense	-	-	-	2,860	-	-	2,860
Conversion of Series B cumulative preferred stock	-	-	40	32,232	-	-	32,272
Net proceeds from direct purchase and dividend reinvestment	-	-	1	844	-	-	845
Contingent beneficial conversion feature on 4%	-	-	-	-	-	-	-
Convertible Senior Notes	-	-	-	46,341	-	-	46,341
Equity component on 5% Convertible Senior Notes	-	-	-	11,717	-	-	11,717
Offering expenses	-	-	-	(231)	-	-	(231)
Net proceeds from 7.625% Series C Cumulative Redeemable Preferred Stock offering	-	290,514	-	-	-	-	290,514
Preferred Series A dividends declared \$0.984 per share	-	-	-	-	-	(7,298)	(7,298)
Preferred Series B dividends declared \$0.375 per share	-	-	-	-	-	(289)	(289)
Preferred Series C dividends declared \$0.238 per share	-	-	-	-	-	(2,859)	(2,859)
Common dividends declared, \$1.10 per	-	-	-	-	-	(1,070,298)	(1,070,298)

share

BALANCE, JUNE

30, 2012	\$ 177,088	\$ 290,514	\$ 9,747	\$ 15,168,020	\$ 3,413,320	\$ (2,774,103)	\$ 16,284,586
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See notes to consolidated financial statements.

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

(dollars in thousands)

(Unaudited)

	For the Quarters Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cash flows from operating activities:				
Net income (loss)	\$(91,159	) \$120,817	\$810,647	\$820,712
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of Investment premiums and discounts, net	302,769	126,501	583,105	301,244
Amortization of intangibles	633	469	1,224	835
Amortization of deferred expenses	1,838	900	2,738	1,800
Amortization of contingent beneficial conversion feature and equity component on convertible senior notes	6,232	-	14,060	-
Net (gains) losses on sales of Agency mortgage-backed securities and debentures	(94,837	) (7,336	) (175,136	) (34,521
Stock option and long-term compensation expense	1,011	1,197	2,860	2,459
Unrealized (gains) losses on interest rate swaps	611,215	466,943	269,576	297,635
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	26,103	(276	) (4,774	) (276
Net (gains) losses on trading assets	(1,105	) 5,712	(3,976	) (13,100
Gain on investment in affiliate, equity method	-	-	-	(98
Proceeds from repurchase agreements from RCap	213,985,974	260,778,820	341,038,916	563,508,986
Payments on repurchase agreements from RCap	(214,067,318)	(264,821,370)	(336,809,273)	(562,783,026)
Proceeds from reverse repurchase agreements to RCap	130,785,187	48,545,230	185,681,953	104,692,314
Payments on reverse repurchase agreements to RCap	(130,254,085)	(47,785,998	) (186,831,887)	(104,274,988)
Proceeds from reverse repurchase agreements to Shannon	129,848	7,045	223,740	7,045
Payments on reverse repurchase agreements to Shannon	(145,820	) (12,073	) (238,411	) (12,073
Proceeds from securities borrowed	12,741,368	1,459,729	19,424,651	2,452,768
Payments on securities borrowed	(13,084,242	) (1,610,944	) (19,961,246	) (2,756,021
Proceeds from securities loaned	33,856,914	1,328,957	65,859,868	2,504,167
Payments on securities loaned	(33,620,656	) (1,241,479	) (65,551,662	) (2,274,678
Proceeds from U.S. Treasury Securities	15,289,185	4,674,592	31,097,679	12,797,913
Payments on U.S. Treasury Securities	(17,754,440)		