

ANNALY CAPITAL MANAGEMENT INC
Form 10-Q
November 06, 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: SEPTEMBER 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:

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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, 2012
Common Stock, \$.01 par value	974,964,290

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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)

	September 30, 2012 (Unaudited)	December 31, 2011(1)
ASSETS		
Cash and cash equivalents	\$ 2,264,854	\$ 994,198
Reverse repurchase agreements	1,612,384	860,866
Investments, at fair value:		
U.S. Treasury Securities (including pledged assets of \$2,242,039 and \$352,820, respectively)	2,242,039	928,547
Securities borrowed	1,602,692	928,732
Agency mortgage-backed securities (including pledged assets of \$105,841,340 and \$90,406,535, respectively)	129,597,714	104,251,055
Agency debentures (including pledged assets of \$774,437 and \$567,383, respectively)	2,935,538	889,580
Investments in affiliates	224,899	211,970
Equity securities	-	3,891
Corporate debt, held for investment	64,928	52,073
Receivable for investments sold	470,266	-
Accrued interest and dividends receivable	434,026	409,023
Receivable from Prime Broker	3,272	3,272
Receivable for advisory and service fees (including from affiliates of \$16,451 and \$16,245, respectively)	20,271	19,550
Intangible for customer relationships (net of accumulated amortization of \$7,177 and \$5,432, respectively)	9,146	10,807
Goodwill	55,417	42,030
Other derivative contracts, at fair value	559	113
Other assets	38,595	24,295
Total assets	\$ 141,576,600	\$ 109,630,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury Securities sold, not yet purchased, at fair value	\$ 1,418,750	\$ 826,912
Repurchase agreements	101,033,146	84,097,885
Securities loaned, at fair value	1,248,968	804,901
Payable for investments purchased	16,107,038	4,315,796
Convertible Senior Notes	999,749	539,913
Accrued interest payable	181,502	138,965
Dividends payable	487,237	552,806
Interest rate swaps, at fair value	2,926,461	2,552,687
Accounts payable and other liabilities	83,086	7,223
Total liabilities	124,485,937	93,837,088

6.00% Series B Cumulative Convertible Preferred Stock:

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4,600,000 shares authorized, 0 and 1,331,849 shares issued and outstanding, respectively	-	32,272
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	-
7.50% Series D Cumulative Redeemable Preferred Stock: 18,400,000 and 0 authorized, issued and outstanding, respectively	445,457	-
Common stock, par value \$0.01 per share, 1,956,937,500 and 1,987,987,500 authorized, respectively, 974,799,779 and 970,161,647 issued and outstanding, respectively	9,748	9,702
Additional paid-in capital	15,144,200	15,068,870
Accumulated other comprehensive income (loss)	4,069,607	3,008,988
Accumulated deficit	(3,045,951)	(2,504,006)
Total stockholders' equity	17,090,663	15,760,642
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity	\$ 141,576,600	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Investments	\$754,096	\$926,558	\$2,481,284	\$2,713,141
U.S. Treasury Securities	4,588	2,302	13,403	13,624
Securities loaned	2,581	1,942	7,797	5,153
Total interest income	761,265	930,802	2,502,484	2,731,918
Interest expense:				
Repurchase agreements	158,150	109,014	411,643	311,780
Convertible Senior Notes	18,026	8,798	51,718	22,465
U.S. Treasury Securities sold, not yet purchased	3,739	2,109	12,184	11,867
Securities borrowed	1,978	1,496	6,136	4,081
Total interest expense	181,893	121,417	481,681	350,193
Net interest income	579,372	809,385	2,020,803	2,381,725
Other income (loss):				
Investment advisory and other fee income	21,034	20,828	63,729	58,745
Net gains (losses) on disposition of investments	142,172	91,668	317,308	126,189
Net loss on extinguishment of Convertible Senior Notes	(87,328)	-	(87,328)	-
Dividend income from affiliates	7,097	8,706	21,239	23,233
Net gains (losses) on trading assets	1,368	1,942	7,729	15,042
Net unrealized gain (losses) on interest-only Agency mortgage-backed securities	(33,563)	(39,321)	(28,789)	(39,045)
Income from underwriting	-	2,772	-	5,599
Subtotal	50,780	86,595	293,888	189,763
Realized gains (losses) on interest rate swaps(1)	(224,272)	(231,849)	(665,614)	(654,757)
Realized gains (losses) on termination of interest rate swaps	-	-	(2,385)	-
Unrealized gains (losses) on interest rate swaps	(104,197)	(1,505,333)	(373,773)	(1,802,968)
Subtotal	(328,469)	(1,737,182)	(1,041,772)	(2,457,725)
Total other income (loss)	(277,689)	(1,650,587)	(747,884)	(2,267,962)
Expenses:				
Compensation expense	52,310	57,629	164,860	151,911
Other general and administrative expenses	10,694	7,565	30,615	22,339
Total expenses	63,004	65,194	195,475	174,250
Income (loss) before income taxes and income from equity method investment in affiliate	238,679	(906,396)	1,077,444	(60,487)

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Income taxes	(13,921)	(15,417)	(42,039)	(41,754)
Income from equity method investment in affiliate	-	-	-	1,140
Net income (loss)	224,758	(921,813)	1,035,405	(101,101)
Dividends on preferred stock	9,367	4,172	19,813	12,706
Net income (loss) available (related) to common shareholders	\$215,391	\$(925,985)	\$1,015,592	\$(113,807)
Net income (loss) available (related) per share to common shareholders:				
Basic	\$0.22	\$(0.98)	\$1.04	\$(0.14)
Diluted	\$0.22	\$(0.98)	\$1.00	\$(0.14)
Weighted average number of common shares outstanding:				
Basic	974,729,078	948,545,975	973,674,586	841,912,810
Diluted	997,007,829	948,545,975	1,035,365,251	841,912,810

Statement continued on following page

Statement continued from previous page

Dividends Declared Per Share of Common Stock	\$0.50	\$0.60	\$1.60	\$1.87
Net income (loss)	\$224,758	\$(921,813)	\$1,035,405	\$(101,101)
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	798,269	1,115,325	1,377,737	2,020,737
Unrealized losses on interest rate swaps	-	-	-	14,298
Reclassification adjustment for net (gains) losses included in net income (loss)	(141,982)	(91,668)	(317,118)	(126,189)
Other comprehensive income (loss)	656,287	1,023,657	1,060,619	1,908,846
Comprehensive income (loss)	\$881,045	\$101,844	\$2,096,024	\$1,807,745

(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	7.50% Series D 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)	-	-	-	-	-	-	(101,101)	(101,101)
Other comprehensive income (loss)	-	-	-	-	-	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
Net proceeds from follow-on offering	-	-	-	3,105	5,348,741	-	-	5,351,846
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)

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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
BALANCE, DECEMBER 31, 2011	\$ 177,088	-	-	\$9,702	\$15,068,870	\$3,008,988	\$(2,504,006)	\$15,760,642
Net income (loss)	-	-	-	-	-	-	1,035,405	1,035,405
Other comprehensive income (loss)	-	-	-	-	-	1,060,619	-	1,060,619
Exercise of stock options	-	-	-	5	6,056	-	-	6,061
Stock option expense and long-term compensation expense	-	-	-	-	3,857	-	-	3,857
Conversion of Series B cumulative preferred stock	-	-	-	40	32,232	-	-	32,272
Net proceeds from direct purchase and dividend reinvestment	-	-	-	1	1,978	-	-	1,979
Contingent beneficial conversion feature on 4% Convertible Senior Notes	-	-	-	-	19,738	-	-	19,738
Equity component on 5% Convertible Senior Notes	-	-	-	-	11,717	-	-	11,717
Offering expenses	-	-	-	-	(248)	-	-	(248)
Net proceeds from 7.625% Series C Redeemable Preferred Stock offering	-	290,514	-	-	-	-	-	290,514
Net proceeds from 7.50% Series D Cumulative	-	-	445,457	-	-	-	-	445,457

Redeemable Preferred Stock offering Extinguishment of convertible debt	-	-	-	-				
Preferred Series A dividends declared \$1.477 per share	-	-	-	-	-	-	(10,945)	(10,945)
Preferred Series B dividends declared \$0.375 per share	-	-	-	-	-	-	(289)	(289)
Preferred Series C dividends declared \$0.715 per share	-	-	-	-	-	-	(8,579)	(8,579)
Common dividends declared, \$1.60 per share	-	-	-	-	-	-	(1,557,537)	(1,557,537)
 BALANCE, SEPTEMBER 30, 2012	 \$177,088	 \$290,514	 \$445,457	 \$9,748	 \$15,144,200	 \$4,069,607	 \$(3,045,951)	 \$17,090,663

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	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Cash flows from operating activities:				
Net income (loss)	\$224,758	\$(921,813)	\$1,035,405	\$(101,101)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of investment premiums and discounts, net	455,493	200,942	1,038,598	502,186
Amortization of intangibles	634	676	1,858	1,511
Amortization of deferred expenses	2,189	900	4,927	2,700
Amortization of contingent beneficial conversion feature and equity component on convertible senior notes	1,438	1,898	15,498	1,898
Net (gains) losses on disposal of investments	(142,172)	(91,668)	(317,308)	(126,189)
Net loss on extinguishment of 4% Convertible Senior Notes	87,328	-	87,328	-
Stock option and long-term compensation expense	997	1,403	3,857	3,862
Unrealized (gains) losses on interest rate swaps	104,197	1,505,333	373,773	1,802,968
Net unrealized (gains) losses on interest-only Agency mortgage-backed securities	33,563	39,321		