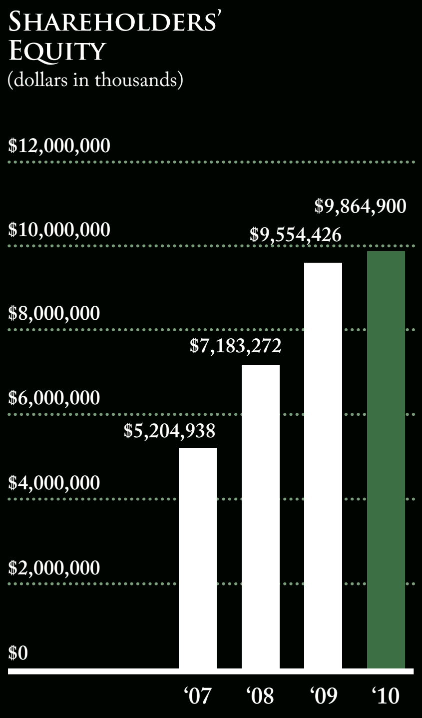
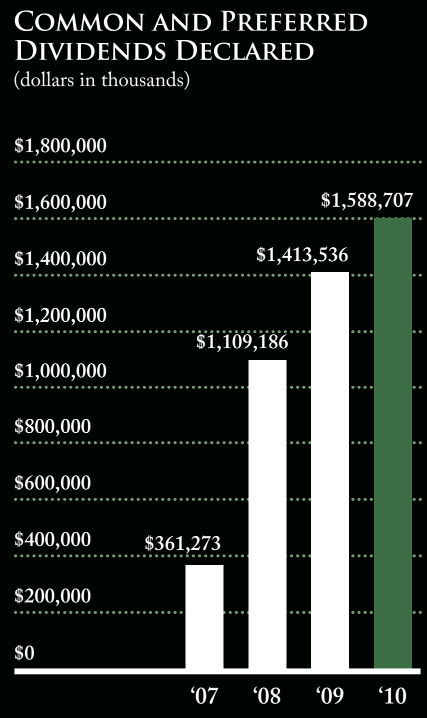
Annaly Capital Management, Inc.

2010 Annual Report





During 2010, Annaly continued to meet its business objective of generating net income for distribution to shareholders. We declared approximately $1.6 billion in total dividends, or $2.65 per common share, to our investors.

Corporate Profile

Annaly and its wholly-owned subsidiaries manage assets for and provide services to institutional and individual investors worldwide. Our principal business objective is to generate net income for distribution to investors from our mortgage-backed securities and from dividends we receive from our subsidiaries. We have elected to be taxed as a real estate investment trust (REIT). We trade on the New York Stock Exchange under the ticker symbol NLY.

Annaly owns and manages a portfolio of primarily mortgage-backed securities. Virtually all of the investment securities we own are issued and guaranteed by US Government Agencies and carry an actual or implied AAA rating. We employ leverage to enhance our returns. Our leverage, measured as a ratio of debt-to-equity, typically is no more than 12:1.

In addition to managing a portfolio of high-quality mortgage-backed securities, we earn dividend income from our subsidiaries. We have four wholly-owned subsidiaries, Fixed Income Discount Advisory Company (FIDAC), Merganser Capital Management, Inc. (Merganser), RCap Securities, Inc. (RCap) and Shannon Funding LLC (Shannon). FIDAC, a SEC-registered investment advisor acquired by Annaly in 2004, specializes in managing interest rate and credit sensitive strategies and is a leading auction agent for liquidating CDOs. It is the external manager for Chimera Investment Corporation (NYSE: CIM) and CreXus Investment Corp. (NYSE: CXS). Merganser, a Boston-based SEC-registered investment advisor, was acquired by Annaly in 2008 and extends Annaly's platform into traditional fixed income strategies for institutional clients. RCap was formed by Annaly in 2008 and operates as a self-clearing broker-dealer. Shannon was formed by Annaly in 2010 and will provide mortgage warehouse funding to mid-tier originators in the United States.

Annaly is experienced in managing real estate assets. Our success and future growth prospects are based on the proven ability of our strong and seasoned management team to successfully take advantage of investment opportunities and deliver compelling returns in a wide range of market environments.

An Economic Engine

CAPITAL INVESTMENT

HOUSEHOLD FORMATION

DIVIDENDS STIMULATE ECONOMIC ACTIVITY

TAX EFFICIENCY

Dear Fellow Shareholders,

As I've discussed in some of my earnings call remarks, Annaly is like an economic engine. The most important component of our shareholders' total return is our dividend – since 1997, we have declared $5.5 billion dollars in total dividends to our shareholders – and these dividends are re-circulated back into the economy, as part of our shareholders' wealth formation and consumption and as revenue in local, state and Federal tax coffers.

As a REIT, Annaly is a tax-efficient way for investors to access the income-producing benefits of the residential real estate market but, perhaps more importantly for our country, Annaly has become the largest pure play public market financier of residential mortgages in the United States, enabling almost a million households to finance their homes.

None of this happens by chance; it is the result of preparation, experience and planning. Every day we are reminded of how important these things are. As I write my annual letter, all eyes are turned to Japan, a country that was considered the best-prepared in the world to contend with earthquakes or tsunamis. In fact, every September 1, the anniversary of the great Tokyo quake of 1923, the nation marks Disaster Prevention Day by practicing evacuation drills. And then on Friday March 11, 2011, an 8.9 magnitude temblor hit the northeastern coastal areas, unleashing an unprecedented combination of powerful natural disasters. "Japan was ready for an earthquake, but not this earthquake," said the headline in the *Washington Post* the next day. As Japan has grimly reminded us, the best-laid plans can't prevent certain disasters from happening, but I believe that it will help that proud nation recover.

With this in mind, I want to talk about how we are preparing our company to compete in the years ahead. Annaly may have managed through a kitchen-sink's worth of challenging market events, but there is one thing you can be sure of – there will be more to come. The family of companies that you see in the organizational chart on the following page is a reflection of how we are preparing for that. Annaly's subsidiaries – FIDAC, Merganser, RCap and, soon, Shannon – make us a stronger, smarter, more resourceful company. We benefit from the business diversification and investment opportunities in asset management and capital markets, and we derive invaluable perspective and market intelligence from our subsidiaries and the businesses they manage, which include Chimera and CreXus. We will continue to grow and expand this platform for the long-term benefit of our shareholders.

I started my career in the financial markets over thirty years ago, and my experience ranges from the back-office to the front-office to everything in between. I've managed balance sheets and P&Ls, serviced clients, negotiated contracts, filed trade tickets and set up IT systems, everything from the ridiculous to the sublime, and I've seen a lot of markets. I've also learned from good people along the way. The same can be said for each member of the team that manages Annaly. Since our inception, we have had to draw on every aspect of our collective experience in order to navigate through often treacherous market conditions.

This experience and preparation is a critical component of how we protect what makes Annaly so special – the impact we have on our shareholders' lives. Annaly, and the REIT model, is a shining example of the power of dividends as a driver of economic activity and how the private market is part of the solution to the future of housing finance in America.

We are building a company that is designed to perform in a wide range of market conditions and a changing domestic mortgage finance system. Fortune favors the prepared.

Prodesse Non Nocere.

Michael A. J. Farrell
March 17, 2011

The Annaly Family of Companies

ANNALY CAPITAL MANAGEMENT, INC.

NYSE:NLY (1997)

SHANNON FUNDING LLC
Mortgage Warehouse Lender
Formed 2010

RCap SECURITIES INC.
FINRA Broker-Dealer
Formed 2008

FIDAC AN ANNALY COMPANY
SEC RIA
Formed 1994

Merganser
SEC RIA
Institutional Money Manager
Formed 1985

FIDAC Serves as
External Manager to:

CHIMERA INVESTMENT CORPORATION
NYSE:CIM (2007)

CREXUS Investment Corp.
NYSE:CXS (2009)

Annaly, its subsidiaries and affiliates are involved in residential and commercial mortgages and securities, government and corporate credit markets, structured products, equity and debt capital markets and securities lending. This diversity sets Annaly apart in the mortgage REIT sector.

FIDAC is a SEC-registered investment advisor that manages residential and commercial mortgage loans and securities and provides other financial services. FIDAC serves as the external manager for Chimera and CreXus.

Merganser is a SEC-registered investment advisor serving the fixed-income needs of institutional clients including pension, public operating, Taft-Hartley and endowment funds. In addition to offering cash enhancement, short-term bond, intermediate bond and core bond strategies, Merganser develops customized product portfolios for its clients.

RCap is a FINRA-regulated self-clearing broker-dealer operating a matched book, securities lending and repurchase business of predominantly US Agency mortgage-backed securities and Treasury securities.

Shannon is a wholly-owned subsidiary of Annaly. It intends to provide mortgage warehouse funding to mid-tier originators in the United States.

10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2010

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	**22-3479661**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification Number)**

1211 Avenue of the Americas, Suite 2902	
New York, New York	**10036**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $.01 per share	**New York Stock Exchange**
7.875% Series A Cumulative Redeemable Preferred Stock	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

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 X_ No____

Indicate by check mark whether the Registrant (1) has filed all 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 X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X 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 Act). Yes __ No X .

At June 30, 2010, the aggregate market value of the voting stock held by non-affiliates of the Registrant was $9,536,990,800.

The number of shares of the Registrant's Common Stock outstanding on February 24, 2011 was 804,165,257.

Documents Incorporated by Reference

The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2010. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

ANNALY CAPITAL MANAGEMENT, INC.
2010 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual 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 the Private Securities Litigation Reform Act of 1995. 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 the yield curve,
- changes in prepayment rates,
- the availability of mortgage-backed securities and other securities for purchase,
- the availability of financing and, if available, the terms of any financing,
- changes in the market value of our assets,
- changes in business conditions and the general economy,
- our ability to consummate any contemplated investment opportunities,
- risks associated with the investment advisory business of our wholly owned subsidiaries, including:
    - the removal by clients of assets managed,
    - their regulatory requirements, and
    - competition in the investment advisory business,
- risks associated with the broker-dealer business of our subsidiary,
- changes in government regulations affecting our business, and
- our ability to maintain our qualification as a REIT for federal income tax purposes.

No forward-looking statements can be guaranteed and actual future results may vary materially and we caution you not to place undue reliance on these forward-looking statements. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the information under the caption "Risk Factors" described in this Form 10-K. 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.

PART I

ITEM 1. BUSINESS

All references to "we," "us," or "our" mean Annaly Capital Management, Inc. and all entities owned by us, except where it is made clear that the term means only the parent company. The following defines certain of the commonly used terms in this annual report on Form 10-K: Agency mortgage-backed securities refers to residential mortgage-backed securities that are issued or guaranteed by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae; Investment Securities refers to Agency mortgage-backed securities, Agency debentures, corporate debt securities and reverse repurchase agreement loans; and Interest Earning Assets refers to Investment Securities, securities borrowed and U.S. Treasury Securities.

THE COMPANY

Background

We own, manage, and finance a portfolio of real estate related investments, including mortgage pass-through certificates, collateralized mortgage obligations (or CMOs), Agency callable debentures, and other securities representing interests in or obligations backed by pools of mortgage loans. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our Interest Earning Assets and the cost of borrowings to finance our acquisition of Interest Earning Assets and from dividends we receive from our subsidiaries. Our wholly-owned subsidiaries offer diversified real estate, asset management and other financial services. We are a Maryland corporation that commenced operations on February 18, 1997. We are self-advised and self-managed. We acquired Fixed Income Discount Advisory Company (or FIDAC) on June 4, 2004 and Merganser Capital Management, Inc. (or Merganser) on October 31, 2008. FIDAC and Merganser manage a number of investment vehicles and separate accounts for which they earn fee income. Our subsidiary, RCap Securities Inc. (or RCap), operates as a broker-dealer, and was granted membership in the Financial Industry Regulatory Authority (or FINRA) in January 2009.

We have elected and believe that we are organized and have operated in a manner that qualifies us to be taxed as a real estate investment trust (or REIT) under the Internal Revenue Code of 1986, as amended (or the Code). If we qualify for taxation as a REIT, we generally will not be subject to federal income tax on our taxable income that is distributed to our stockholders. Therefore, substantially all of our assets, other than FIDAC, Merganser and RCap, which are our taxable REIT subsidiaries, consist of qualified REIT real estate assets (of the type described in Section 856(c)(5)(B) of the Code). We have financed our purchases of Agency mortgage-backed securities and Agency debentures with the net proceeds of equity offerings and borrowings under repurchase agreements whose interest rates adjust based on changes in short-term market interest rates.

Assets

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 (or 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 but 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.

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, substantially all of the mortgage-backed securities that we have acquired have been backed by single-family residential mortgage loans.

To date, substantially all of the mortgage-backed securities that we have acquired have been Agency mortgage-backed securities which, although not rated, carry an implied "AAA" rating. Agency mortgage-backed securities consist of agency pass-through certificates and CMOs issued or guaranteed by an Agency. Pass-through certificates provide for a pass-through of the monthly interest and principal payments made by the borrowers on the underlying mortgage loans. CMOs divide a pool of mortgage loans into multiple tranches with different principal and interest payment characteristics.

At December 31, 2010, approximately 13% of our Investment Securities were adjustable-rate pass-through certificates, approximately 86% of our Investment Securities were fixed-rate pass-through certificates, CMOs or fixed-rate corporate loans, and approximately 1% of our Investment Securities were CMO floaters or floating-rate corporate loans. Our adjustable-rate pass-through certificates are backed by adjustable-rate mortgage loans and have coupon rates which adjust over time, subject to interest rate caps and lag periods, in conjunction with changes in short-term interest rates. Our fixed-rate pass-through certificates are backed by fixed-rate mortgage loans and have coupon rates which do not adjust over time. CMO floaters are tranches of mortgage-backed securities where the interest rate adjusts in conjunction with changes in short-term interest rates. CMO floaters may be backed by fixed-rate mortgage loans or, less often, by adjustable-rate mortgage loans. In this Form 10-K, except where the context indicates otherwise, we use the term "adjustable-rate interest-earning assets" to refer to adjustable-rate pass-through certificates, CMO floaters, Agency debentures and corporate debt. At December 31, 2010, the weighted average yield on our portfolio of earning assets was 3.80% and the weighted average term to next rate adjustment on adjustable rate securities was 39 months.

We may also invest in Agency debentures, which consist of debentures issued by the Federal Home Loan Bank (FHLB), Freddie Mac and Freddie Mac. We intend to continue to invest in adjustable-rate pass-through certificates, fixed-rate mortgage-backed securities, CMO floaters, and Agency debentures. We may also invest on a limited basis in derivative securities which 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. We have not and will not invest in real estate mortgage investment conduit (REMIC) residuals and other CMO residuals.

Borrowings

We attempt to structure our collateralized borrowings to have interest rate adjustment indices and interest rate adjustment periods that, on an aggregate basis, correspond generally to the interest rate adjustment indices and periods of our adjustable-rate interest-earning assets. However, periodic rate adjustments on our collateralized borrowings are generally more frequent than rate adjustments on our Investment Securities. At December 31, 2010, the weighted average cost of funds for all of our collateralized borrowings was 1.84%, with the effect of swaps, the weighted average original term to maturity was 253 days, and the weighted average term to next rate adjustment of these collateralized borrowings was 127 days.

We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary, as it currently does because of market conditions, 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. For purposes of calculating this ratio, our equity is equal to the value of our investment portfolio on a mark-to-market basis, less the book value of our obligations under repurchase agreements and other collateralized borrowings and convertible senior notes. At December 31, 2010, our ratio of debt-to-equity was 6.7:1.

During the quarter ended March 31, 2010, we issued $600.0 million in aggregate principal amount of our 4% convertible senior notes due 2015 (Convertible Senior Notes) for net proceeds following underwriting expenses of approximately $582.0 million. Interest on the notes is paid semi-annually at a rate of 4% per year and the notes will mature on February 15, 2015 unless earlier repurchased or converted. As of December 1, 2010 the notes were convertible into shares of common stock at a conversion rate of 54.1089 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $18.4812 per share of common stock, subject to adjustment in certain circumstances.

Hedging

To the extent consistent with our election to qualify as a REIT, we enter into hedging transactions to attempt to protect our Agency mortgage-backed securities and Agency debentures and related borrowings against the effects of major interest rate changes. This hedging is used to mitigate declines in the market value of our Agency mortgage-backed securities and Agency debentures during periods of increasing or decreasing interest rates and to limit or cap the interest rates on our borrowings. These transactions are entered into solely for the purpose of hedging interest rate or prepayment risk and not for speculative purposes. In connection with our interest rate risk management strategy, we hedge a portion of our interest rate risk by entering into derivative financial instrument contracts. As of December 31, 2010, we had $27.1 billion in interest rate swaps, which in effect modify the cash flows on repurchase agreements.

Our Subsidiaries

FIDAC, an investment advisor registered with the SEC, is a fixed-income investment management company specializing in managing fixed income investments in residential mortgage-backed securities, commercial mortgage-backed securities and collateralized debt obligations for various investment vehicles and separate accounts. FIDAC also has experience in managing and structuring debt financing associated with various asset classes and serves as a liquidation agent of collateralized debt obligations. FIDAC commenced active investment management operations in 1994. At December 31, 2010, FIDAC was the adviser or sub-adviser for investment vehicles and separate accounts. The team managing Annaly perform the same roles at FIDAC.

Merganser, an investment advisor registered with the SEC, has expertise in a variety of fixed income strategies and focuses on managing each portfolio based on each client's specific investment principles. Merganser serves a diverse group of clients in a variety of disciplines nationwide including pension, public, operating, Taft-Hartley and endowment funds as well as defined contribution plans. Merganser's investment team maintains a careful balance of risk management and performance by employing fundamental security analysis and by trading in an environment supported by state-of-the-art technology, infrastructure and operations.

RCap operates as a broker-dealer and was granted membership in the Financial Industry Regulatory Authority (or FINRA) in January 2009.

Compliance with REIT and Investment Company Requirements

We constantly monitor our investments and the income from these investments and, to the extent we enter into hedging transactions, we monitor income from our hedging transactions as well, so as to ensure at all times that we maintain our qualification as a REIT and our exemption from registration under the Investment Company Act of 1940, as amended.

Executive Officers of the Company

The following table sets forth certain information as of February 24, 2011 concerning our executive officers:

Name	Age	Position held with the Company
Michael A.J. Farrell	59	Chairman of the Board, Chief Executive Officer and President
Wellington J. Denahan-Norris	47	Vice Chairman of the Board, Chief Investment Officer and Chief Operating Officer
Kathryn F. Fagan	44	Chief Financial Officer and Treasurer

R. Nicholas Singh	51	Chief Legal Officer, Secretary and Chief Compliance Officer
James P. Fortescue	37	Managing Director, Head of Liabilities and Chief of Staff
Kristopher Konrad	36	Managing Director and Head Portfolio Manager
Rose-Marie Lyght	37	Managing Director and Chief Investment Officer of FIDAC
Jeremy Diamond	47	Managing Director and Head of Research and Corporate Communications
Ronald Kazel	43	Managing Director and Head of Asset Management Group
Matthew Lambiase	44	Managing Director and Co-Head of Business Development
Kevin Keyes	43	Managing Director and Chief Strategy Officer

Mr. Farrell and Ms. Denahan-Norris have had years of experience in the investment banking and investment management industries where, in various capacities, they have each managed portfolios of mortgage-backed securities, arranged collateralized borrowings and utilized hedging techniques to mitigate interest rate and other risk within fixed-income portfolios. Ms. Fagan is a certified public accountant and, prior to becoming our Chief Financial Officer and Treasurer, served as Chief Financial Officer and Controller of a publicly owned savings and loan association. Mr. Singh joined Annaly in February 2005. Mr. Fortescue joined Annaly in 1997. Mr. Konrad joined Annaly in 1997. Ms. Lyght joined Annaly in April 1999. Mr. Diamond joined Annaly in March 2002. Mr. Kazel joined Annaly in December 2001. Mr. Lambiase joined Annaly in 2004. Mr. Keyes joined Annaly in September 2009. Prior to that he was a Managing Director at Merrill Lynch. We and our subsidiaries had 114 full-time employees at December 31, 2010.

Distributions

To maintain our qualification as a REIT, we must distribute substantially all of our taxable income to our stockholders each year. We have done this in the past and intend to continue to do so in the future. We also have declared and paid regular quarterly dividends in the past and intend to do so in the future. We have adopted a dividend reinvestment plan to enable holders of common stock to reinvest dividends automatically in additional shares of common stock.

BUSINESS STRATEGY

General

Our principal business objective is to generate income for distribution to our stockholders, primarily from the net cash flows on our Investment Securities. Our net cash flows result primarily from the difference between the interest income on our Investment Securities and borrowing costs of our repurchase agreements, and from dividends we receive from our subsidiaries. To achieve our business objective and generate dividend yields, our strategy is:

- to acquire Investment Securities that we believe:
  - we have the necessary expertise to evaluate and manage;
  - we can readily finance;
  - are consistent with our balance sheet guidelines and risk management objectives; and
  - provide attractive investment returns in a range of scenarios;

- to finance purchases of mortgage-backed securities with the proceeds of equity and debt offerings and, to the extent permitted by our capital investment policy, to utilize leverage to increase potential returns to stockholders through borrowings;

- to attempt to structure our borrowings to have interest rate adjustment indices and interest rate adjustment periods that, on an aggregate basis, generally correspond to the interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities;

- to seek to minimize prepayment risk by structuring a diversified portfolio with a variety of prepayment characteristics and through other means; and

- to issue new equity or debt and increase the size of our balance sheet when opportunities in the market for mortgage-backed securities are likely to allow growth in earnings per share.

We believe we are able to obtain cost efficiencies through our facilities-sharing arrangement with FIDAC and RCap and by virtue of our management's experience in managing portfolios of mortgage-backed securities and arranging collateralized borrowings. We will strive to become even more cost-efficient over time by:

- seeking to raise additional capital from time to time in order to increase our ability to invest in mortgage-backed securities;

- striving to lower our effective borrowing costs by seeking direct funding with collateralized lenders, rather than using financial intermediaries, and investigating the possibility of using commercial paper and medium term note programs;

- improving the efficiency of our balance sheet structure by investigating the issuance of uncollateralized subordinated debt, preferred stock and other forms of capital; and

- utilizing information technology in our business, including improving our ability to monitor the performance of our Investment Securities and to lower our operating costs.

Mortgage-Backed Securities

General

To date, substantially all of the mortgage-backed securities that we have acquired have been Agency mortgage-backed securities which, although not rated, carry an implied "AAA" rating. Agency mortgage-backed securities are mortgage-backed securities where a government agency or federally chartered corporation, such as Freddie Mac, Fannie Mae or Ginnie Mae, guarantees payments of principal or interest on the securities. Agency mortgage-backed securities consist of agency pass-through certificates and CMOs issued or guaranteed by an agency.

Even though to date we have only acquired mortgage-backed securities with an implied "AAA" rating, under our capital investment policy, we have the ability to acquire securities of lower quality. Under our policy, at least 75% of our total assets must be high quality mortgage-backed securities and short-term investments. High quality securities are securities (1) that are rated within one of the two highest rating categories by at least one of the nationally recognized rating agencies, (2) that are unrated but are guaranteed by the United States government or an agency of the United States government, or (3) that are unrated or whose ratings have not been updated but that our management determines are of comparable quality to rated high quality mortgage-backed securities.

Under our capital investment policy, the remainder of our assets, comprising not more than 25% of total assets, may consist of mortgage-backed securities and 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 S&P or the equivalent by another nationally recognized rating organization) 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. We intend to structure our portfolio to maintain a minimum weighted average rating (including our deemed comparable ratings for unrated mortgage-backed securities) of our mortgage-backed securities of at least single "A" under the S&P rating system and at the comparable level under the other rating systems.

Our allocation of investments among the permitted investment types may vary from time-to-time based on the evaluation by our board of directors of economic and market trends and our perception of the relative values available from these types of investments, except that in no event will our investments that are not high quality exceed 25% of our total assets.

We intend to acquire only those mortgage-backed securities that we believe we have the necessary expertise to evaluate and manage, that are consistent with our balance sheet guidelines and risk management objectives and that we believe we can readily finance. Since we generally hold the mortgage-backed securities we acquire until maturity, we generally do not seek to acquire assets whose investment returns are attractive in only a limited range of scenarios. We believe that future interest rates and mortgage prepayment rates are very difficult to predict. Therefore, we seek to acquire mortgage-backed securities which we believe will provide acceptable returns over a broad range of interest rate and prepayment scenarios.

At December 31, 2010, our mortgage-backed securities consisted of pass-through certificates and CMOs issued or guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae. We have not, and will not, invest in REMIC residuals and other CMO residuals.

Description of Mortgage-Backed Securities

The mortgage-backed securities that we acquire provide funds for mortgage loans made primarily to residential homeowners. Our securities generally represent interests in pools of mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and other mortgage lenders. These pools of mortgage loans are assembled for sale to investors (like us) by various government, government-related and private organizations.

Mortgage-backed securities differ from other forms of traditional debt securities, which normally provide for periodic payments of interest in fixed amounts with principal payments at maturity or on specified call dates. Instead, mortgage-backed securities provide for a monthly payment, which consists of both interest and principal. In effect, these payments are a "pass-through" of the monthly interest and principal payments made by the individual borrower on the mortgage loans, net of any fees paid to the issuer or guarantor of the securities. Additional payments result from prepayments of principal upon the sale, refinancing or foreclosure of the underlying residential property, net of fees or costs which may be incurred. Some mortgage-backed securities, such as securities issued by Ginnie Mae, are described as "modified pass-through". These securities entitle the holder to receive all interest and principal payments owed on the mortgage pool, net of certain fees, regardless of whether the mortgagors actually make mortgage payments when due.

The investment characteristics of pass-through mortgage-backed securities differ from those of traditional fixed-income securities. The major differences include the payment of interest and principal on the mortgage-backed securities on a more frequent schedule, as described above, and the possibility that principal may be prepaid at any time due to prepayments on the underlying mortgage loans or other assets. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed-income securities.

Various factors affect the rate at which mortgage prepayments occur, including changes in interest rates, general economic conditions, the age of the mortgage loan, the location of the property and other social and demographic conditions. Generally prepayments on mortgage-backed securities increase during periods of falling mortgage interest rates and decrease during periods of rising mortgage interest rates. We may reinvest prepayments at a yield that is higher or lower than the yield on the prepaid investment, thus affecting the weighted average yield of our investments.

To the extent mortgage-backed securities are purchased at a premium, faster than expected prepayments result in a faster than expected amortization of the premium paid. Conversely, if these securities were purchased at a discount, faster than expected prepayments accelerate our recognition of income.

CMOs may allow for shifting of prepayment risk from slower-paying tranches to faster-paying tranches. This is in contrast to mortgage pass-through certificates where all investors share equally in all payments, including all prepayments, on the underlying mortgages.

Freddie Mac Certificates

Freddie Mac is a privately-owned government-sponsored enterprise created pursuant to an Act of Congress on July 24, 1970. The principal activity of Freddie Mac currently consists of the purchase of mortgage loans or participation interests in mortgage loans and the resale of the loans and participations in the form of guaranteed mortgage-backed securities. Freddie Mac guarantees to each holder of Freddie Mac certificates the timely payment of interest at the applicable pass-through rate and ultimate collection of all principal on the holder's pro rata share of the unpaid principal balance of the related mortgage loans, but does not guarantee the timely payment of scheduled principal of the underlying mortgage loans. The obligations of Freddie Mac under its guarantees are solely those of Freddie Mac and are not backed by the full faith and credit of the United States. If Freddie Mac were unable to satisfy these obligations, distributions to holders of Freddie Mac certificates would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, defaults and delinquencies on the underlying mortgage loans would adversely affect monthly distributions to holders of Freddie Mac certificates.

Freddie Mac certificates may be backed by pools of single-family mortgage loans or multi-family mortgage loans. These underlying mortgage loans may have original terms to maturity of up to 40 years. Freddie Mac certificates may be issued under cash programs (composed of mortgage loans purchased from a number of sellers) or guarantor programs (composed of mortgage loans acquired from one seller in exchange for certificates representing interests in the mortgage loans purchased).

Freddie Mac certificates may pay interest at a fixed rate or an adjustable rate. The interest rate paid on adjustable-rate Freddie Mac certificates (Freddie Mac ARMs) adjusts periodically within 60 days prior to the month in which the interest rates on the underlying mortgage loans adjust. The interest rates paid on certificates issued under Freddie Mac's standard ARM programs adjust in relation to the Treasury index. Other specified indices used in Freddie Mac ARM programs include the 11th District Cost of Funds Index published by the Federal Home Loan Bank of San Francisco, LIBOR and other indices. Interest rates paid on fully-indexed Freddie Mac ARM certificates equal the applicable index rate plus a specified number of basis points. The majority of the series of Freddie Mac ARM certificates issued to date have evidenced pools of mortgage loans with monthly, semi-annual or annual interest adjustments. Adjustments in the interest rates paid are generally limited to an annual increase or decrease of either 100 or 200 basis points and to a lifetime cap of 500 or 600 basis points over the initial interest rate. Certain Freddie Mac programs include mortgage loans which allow the borrower to convert the adjustable mortgage interest rate to a fixed rate. Adjustable-rate mortgages which are converted into fixed-rate mortgage loans are repurchased by Freddie Mac or by the seller of the loan to Freddie Mac at the unpaid principal balance of the loan plus accrued interest to the due date of the last adjustable rate interest payment.

Fannie Mae Certificates

Fannie Mae is a privately-owned, federally-chartered corporation organized and existing under the Federal National Mortgage Association Charter Act. Fannie Mae provides funds to the mortgage market primarily by purchasing home mortgage loans from local lenders, thereby replenishing their funds for additional lending. Fannie Mae guarantees to the registered holder of a Fannie Mae certificate that it will distribute amounts representing scheduled principal and interest on the mortgage loans in the pool underlying the Fannie Mae certificate, whether or not received, and the full principal amount of any such mortgage loan foreclosed or otherwise finally liquidated, whether or not the principal amount is actually received. The obligations of Fannie Mae under its guarantees are solely those of Fannie Mae and are not backed by the full faith and credit of the United States. If Fannie Mae were unable to satisfy its obligations, distributions to holders of Fannie Mae certificates would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, defaults and delinquencies on the underlying mortgage loans would adversely affect monthly distributions to holders of Fannie Mae.

Fannie Mae certificates may be backed by pools of single-family or multi-family mortgage loans. The original term to maturity of any such mortgage loan generally does not exceed 40 years. Fannie Mae certificates may pay interest at a fixed rate or an adjustable rate. Each series of Fannie Mae ARM certificates bears an initial interest rate and margin tied to an index based on all loans in the related pool, less a fixed percentage representing servicing compensation and Fannie Mae's guarantee fee. The specified index used in different series has included the Treasury Index, the 11th District Cost of Funds Index published by the Federal Home Loan Bank of San Francisco, LIBOR and other indices. Interest rates paid on fully-indexed Fannie Mae ARM certificates equal the applicable index rate plus a specified number of basis points. The majority of series of Fannie Mae ARM certificates issued to date have evidenced pools of mortgage loans with monthly, semi-annual or annual interest rate adjustments. Adjustments in the interest rates paid are generally limited to an annual increase or decrease of either 100 or 200 basis points and to a lifetime cap of 500 or 600 basis points over the initial interest rate. Certain Fannie Mae programs include mortgage loans which allow the borrower to convert the adjustable mortgage interest rate of the ARM to a fixed rate. Adjustable-rate mortgages which are converted into fixed-rate mortgage loans are repurchased by Fannie Mae or by the seller of the loans to Fannie Mae at the unpaid principal of the loan plus accrued interest to the due date of the last adjustable rate interest payment. Adjustments to the interest rates on Fannie Mae ARM certificates are typically subject to lifetime caps and periodic rate or payment caps.

Ginnie Mae Certificates

Ginnie Mae is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development (HUD). The National Housing Act of 1934 authorizes Ginnie Mae to guarantee the timely payment of the principal and interest on certificates which represent an interest in a pool of mortgages insured by the Federal Housing Administration (FHA) or partially guaranteed by the Department of Veterans Affairs and other loans eligible for inclusion in mortgage pools underlying Ginnie Mae certificates. Section 306(g) of the Housing Act provides that the full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty by Ginnie Mae.

At present, most Ginnie Mae certificates are backed by single-family mortgage loans. The interest rate paid on Ginnie Mae certificates may be a fixed rate or an adjustable rate. The interest rate on Ginnie Mae certificates issued under Ginnie Mae's standard ARM program adjusts annually in relation to the Treasury index. Adjustments in the interest rate are generally limited to an annual increase or decrease of 100 basis points and to a lifetime cap of 500 basis points over the initial coupon rate.

Single-Family and Multi-Family Privately-Issued Certificates

Single-family and multi-family privately-issued certificates are pass-through certificates that are not issued by one of the agencies and that are backed by a pool of conventional single-family or multi-family mortgage loans. These certificates are issued by originators of, investors in, and other owners of mortgage loans, including savings and loan associations, savings banks, commercial banks, mortgage banks, investment banks and special purpose "conduit" subsidiaries of these institutions.

While agency pass-through certificates are backed by the express obligation or guarantee of one of the agencies, as described above, privately-issued certificates are generally covered by one or more forms of private (i.e., non-governmental) credit enhancements. These credit enhancements provide an extra layer of loss coverage in the event that losses are incurred upon foreclosure sales or other liquidations of underlying mortgaged properties in amounts that exceed the equity holder's equity interest in the property. Forms of credit enhancements include limited issuer guarantees, reserve funds, private mortgage guaranty pool insurance, over-collateralization and subordination.

Subordination is a form of credit enhancement frequently used and involves the issuance of classes of senior and subordinated mortgage-backed securities. These classes are structured into a hierarchy to allocate losses on the underlying mortgage loans and also for defining priority of rights to payment of principal and interest. Typically, one or more classes of senior securities are created which are rated in one of the two highest rating levels by one or more nationally recognized rating agencies and which are supported by one or more classes of mezzanine securities and subordinated securities that bear losses on the underlying loans prior to the classes of senior securities. Mezzanine securities, as used in this Form 10-K, refers to classes that are rated below the two highest levels, but no lower than a single "B" rating under the S&P rating system (or comparable level under other rating systems) and are supported by one or more classes of subordinated securities which bear realized losses prior to the classes of mezzanine securities. Subordinated securities, as used in this Form 10-K, refers to any class that bears the "first loss" from losses from underlying mortgage loans or that is rated below a single "B" level (or, if unrated, we deem it to be below that level). In some cases, only classes of senior securities and subordinated securities are issued. By adjusting the priority of interest and principal payments on each class of a given series of senior-subordinated mortgage-backed securities, issuers are able to create classes of mortgage-backed securities with varying degrees of credit exposure, prepayment exposure and potential total return, tailored to meet the needs of sophisticated institutional investors.

Collateralized Mortgage Obligations and Multi-Class Pass-Through Securities

We may also invest in CMOs and multi-class pass-through securities. CMOs are debt obligations issued by special purpose entities that are secured by mortgage loans or mortgage-backed certificates, including, in many cases, certificates issued by government and government-related guarantors, including, Ginnie Mae, Fannie Mae and Freddie Mac, together with certain funds and other collateral. Multi-class pass-through securities are equity interests in a trust composed of mortgage loans or other mortgage-backed securities. Payments of principal and interest on underlying collateral provide the funds to pay debt service on the CMO or make scheduled distributions on the multi-class pass-through securities. CMOs and multi-class pass-through securities may be issued by agencies or instrumentalities of the U.S. Government or by private organizations. The discussion of CMOs in the following paragraphs is similarly applicable to multi-class pass-through securities.

In a CMO, a series of bonds or certificates is issued in multiple classes. Each class of CMOs, often referred to as a "tranche," is issued at a specific coupon rate (which, as discussed below, may be an adjustable rate subject to a cap) and has a stated maturity or final distribution date. Principal prepayments on collateral underlying a CMO may cause it to be retired substantially earlier than the stated maturity or final distribution date. Interest is paid or accrues on all classes of a CMO on a monthly, quarterly or semi-annual basis. The principal and interest on underlying mortgages may be allocated among the several classes of a series of a CMO in many ways. In a common structure, payments of principal, including any principal prepayments, on the underlying mortgages are applied to the classes of the series of a CMO in the order of their respective stated maturities or final distribution dates, so that no payment of principal will be made on any class of a CMO until all other classes having an earlier stated maturity or final distribution date have been paid in full.

Other types of CMO issues include classes such as parallel pay CMOs, some of which, such as planned amortization class CMOs (or PAC bonds), provide protection against prepayment uncertainty. Parallel pay CMOs are structured to provide payments of principal on certain payment dates to more than one class. These simultaneous payments are taken into account in calculating the stated maturity date or final distribution date of each class which, as with other CMO structures, must be retired by its stated maturity date or final distribution date but may be retired earlier. PAC bonds generally require payment of a specified amount of principal on each payment date so long as prepayment speeds on the underlying collateral fall within a specified range.

Other types of CMO issues include targeted amortization class CMOs (or TAC bonds), which are similar to PAC bonds. While PAC bonds maintain their amortization schedule within a specified range of prepayment speeds, TAC bonds are generally targeted to a narrow range of prepayment speeds or a specified prepayment speed. TAC bonds can provide protection against prepayment uncertainty since cash flows generated from higher prepayments of the underlying mortgage-related assets are applied to the various other pass-through tranches so as to allow the TAC bonds to maintain their amortization schedule.

A CMO may be subject to the issuer's right to redeem the CMO prior to its stated maturity date, which may diminish the anticipated return on our investment. Privately-issued CMOs are supported by private credit enhancements similar to those used for privately-issued certificates and are often issued as senior-subordinated mortgage-backed securities. We will only acquire CMOs or multi-class pass-through certificates that constitute debt obligations or beneficial ownership in grantor trusts holding mortgage loans, or regular interests in REMICs, or that otherwise constitute qualified REIT real estate assets under the Internal Revenue Code (provided that we have obtained a favorable opinion of our tax advisor or a ruling from the IRS to that effect).

Adjustable-Rate Mortgage Pass-Through Certificates and Floating Rate Mortgage-Backed Securities

Some of the mortgage pass-through certificates we acquire are adjustable-rate mortgage pass-through certificates. This means that their interest rates may vary over time based upon changes in an objective index, such as:

- **LIBOR or the London Interbank Offered Rate.** The interest rate that banks in London offer for deposits in London of U.S. dollars.
- **Treasury Index.** A monthly or weekly average yield of benchmark U.S. Treasury securities, as published by the Federal Reserve Board.
- **CD Rate.** The weekly average of secondary market interest rates on six-month negotiable certificates of deposit, as published by the Federal Reserve Board.

These indices generally reflect short-term interest rates. The underlying mortgages for adjustable-rate mortgage pass-through certificates are adjustable-rate mortgage loans (or ARMs).

We also acquire CMO floaters. One or more tranches of a CMO may have coupon rates that reset periodically at a specified increment over an index such as LIBOR. These adjustable-rate tranches are sometimes known as CMO floaters and may be backed by fixed or adjustable-rate mortgages.

There are two main categories of indices for adjustable-rate mortgage pass-through certificates and floaters: (1) those based on U.S. Treasury securities, and (2) those derived from calculated measures such as a cost of funds index or a moving average of mortgage rates. Commonly utilized indices include the one-year Treasury note rate, the three-month Treasury bill rate, the six-month Treasury bill rate, rates on long-term Treasury securities, the 11th District Federal Home Loan Bank Costs of Funds Index, the National Median Cost of Funds Index, one-month or three-month LIBOR, the prime rate of a specific bank, or commercial paper rates. Some indices, such as the one-year Treasury rate, closely mirror changes in market interest rate levels. Others, such as the 11th District Home Loan Bank Cost of Funds Index, tend to lag changes in market interest rate levels. We seek to diversify our investments in adjustable-rate mortgage pass-through certificates and floaters among a variety of indices and reset periods so that we are not at any one time unduly exposed to the risk of interest rate fluctuations. In selecting adjustable-rate mortgage pass-through certificates and floaters for investment, we will also consider the liquidity of the market for the different mortgage-backed securities.

We believe that adjustable-rate mortgage pass-through certificates and floaters are particularly well-suited to our investment objective of high current income, consistent with modest volatility of net asset value, because the value of adjustable-rate mortgage pass-through certificates and floaters generally remains relatively stable as compared to traditional fixed-rate debt securities paying comparable rates of interest. While the value of adjustable-rate mortgage pass-through certificates and floaters, like other debt securities, generally varies inversely with changes in market interest rates (increasing in value during periods of declining interest rates and decreasing in value during periods of increasing interest rates), the value of adjustable-rate mortgage pass-through certificates and floaters should generally be more resistant to price swings than other debt securities because the interest rates on these securities move with market interest rates.

Adjustable-rate mortgage pass-through certificates and floaters typically have caps, which limit the maximum amount by which the interest rate may be increased or decreased at periodic intervals or over the life of the security. To the extent that interest rates rise faster than the allowable caps on the adjustable-rate mortgage pass-through certificates and floaters, these securities will behave more like fixed-rate securities. Consequently, interest rate increases in excess of caps can be expected to cause these securities to behave more like traditional debt securities than adjustable-rate interest-earning assets and, accordingly, to decline in value to a greater extent than would be the case in the absence of these caps.

Adjustable-rate mortgage pass-through certificates and floaters, like other mortgage-backed securities, differ from conventional bonds in that principal is to be paid back over the life of the security rather than at maturity. As a result, we receive monthly scheduled payments of principal and interest on these securities and may receive unscheduled principal payments representing prepayments on the underlying mortgages. When we reinvest the payments and any unscheduled prepayments we receive, we may receive a rate of interest on the reinvestment which is lower than the rate on the existing security. For this reason, adjustable-rate mortgage pass-through certificates and floaters are less effective than longer-term debt securities as a means of "locking in" longer-term interest rates. Accordingly, adjustable-rate mortgage pass-through certificates and floaters, while generally having less risk of price decline during periods of rapidly rising interest rates than fixed-rate mortgage-backed securities of comparable maturities, have less potential for capital appreciation than fixed-rate securities during periods of declining interest rates.

As in the case of fixed-rate mortgage-backed securities, to the extent these securities are purchased at a premium, faster than expected prepayments would accelerate our amortization of the premium. Conversely, if these securities were purchased at a discount, faster than expected prepayments would accelerate our recognition of income.

As in the case of fixed-rate CMOs, floating-rate CMOs may allow for shifting of prepayment risk from slower-paying tranches to faster-paying tranches. This is in contrast to mortgage pass-through certificates where all investors share equally in all payments, including all prepayments, on the underlying mortgages.

Other Floating Rate Instruments

We may also invest in structured floating-rate notes issued or guaranteed by government agencies, such as Fannie Mae and Freddie Mac. These instruments are typically structured to reflect an interest rate arbitrage (i.e., the difference between the agency's cost of funds and the income stream from specified assets of the agency) and their reset formulas may provide more attractive returns than other floating rate instruments. The indices used to determine resets are the same as those described above.

Mortgage Loans

As of December 31, 2010, we have not invested directly in mortgage loans, but we may from time-to-time invest a small percentage of our assets directly in single-family, multi-family or commercial mortgage loans. We expect that the majority of these mortgage loans would be ARM pass-through certificates. The interest rate on an ARM pass-through certificate is typically tied to an index (such as LIBOR or the interest rate on Treasury bills), and is adjustable periodically at specified intervals. These mortgage loans are typically subject to lifetime interest rate caps and periodic interest rate or payment caps. The acquisition of mortgage loans generally involves credit risk. We may obtain credit enhancement to mitigate this risk; however, there can be no assurances that we will be able to obtain credit enhancement or that credit enhancement would mitigate the credit risk of the underlying mortgage loans.

Capital Investment Policy

Asset Acquisitions

Our capital investment policy provides that at least 75% of our total assets will be comprised of high quality mortgage-backed securities and short-term investments. The remainder of our assets (comprising not more than 25% of total assets), may consist of mortgage-backed securities and 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) or, if not rated, are determined by us 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.

Our capital investment policy requires that we structure our portfolio to maintain a minimum weighted average rating (including our deemed comparable ratings for unrated mortgage-backed securities) of our mortgage-backed securities of at least single "A" under the S&P rating system and at the comparable level under the other rating systems. To date, substantially all of the mortgage-backed securities we have acquired have been pass-through certificates or CMOs issued or guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae which, although not rated, have an implied "AAA" rating.

We intend to acquire only those mortgage-backed securities that we believe we have the necessary expertise to evaluate and manage, that we can readily finance and that are consistent with our balance sheet guidelines and risk management objectives. Since we expect to hold our mortgage-backed securities until maturity, we generally do not seek to acquire assets whose investment returns are only attractive in a limited range of scenarios. We believe that future interest rates and mortgage prepayment rates are very difficult to predict and, as a result, we seek to acquire mortgage-backed securities which we believe provide acceptable returns over a broad range of interest rate and prepayment scenarios.

Among the asset choices available to us, our policy is to acquire those mortgage-backed securities which we believe generate the highest returns on capital invested, after consideration of the following:

- the amount and nature of anticipated cash flows from the asset;
- our ability to pledge the asset to secure collateralized borrowings;
- the increase in our capital requirement determined by our capital investment policy resulting from the purchase and financing of the asset; and
- the costs of financing, hedging and managing the asset.

Prior to acquisition, we assess potential returns on capital employed over the life of the asset and in a variety of interest rate, yield spread, financing cost, credit loss and prepayment scenarios.

We also give consideration to balance sheet management and risk diversification issues. We deem a specific asset which we are evaluating for potential acquisition as more or less valuable to the extent it serves to increase or decrease certain interest rate or prepayment risks which may exist in the balance sheet, to diversify or concentrate credit risk, and to meet the cash flow and liquidity objectives our management may establish for our balance sheet from time-to-time. Accordingly, an important part of the asset evaluation process is a simulation, using risk management models, of the addition of a potential asset and our associated borrowings and hedges to the balance sheet and an assessment of the impact this potential asset acquisition would have on the risks in and returns generated by our balance sheet as a whole over a variety of scenarios.

We believe that adjustable-rate mortgage pass-through certificates and floaters are particularly well-suited to our investment objective of high current income, consistent with modest volatility of net asset value, because the value of adjustable-rate mortgage pass-through certificates and floaters generally remains relatively stable as compared to traditional fixed-rate debt securities paying comparable rates of interest. We have, however, purchased a significant amount of fixed-rate mortgage-backed securities and may continue to do so in the future if, in our view, the potential returns on capital invested, after hedging and all other costs, would exceed the returns available from other assets or if the purchase of these assets would serve to reduce or diversify the risks of our balance sheet.

We may purchase the stock of mortgage REITs or similar companies when we believe that these purchases would yield attractive returns on capital employed. We do not, however, presently intend to invest in the securities of other issuers for the purpose of exercising control or to underwrite securities of other issuers.

We may acquire newly issued mortgage-backed securities, and also may seek to expand our capital base in order to further increase our ability to acquire new assets, when the potential returns from new investments appears attractive relative to the return expectations of stockholders. We may in the future acquire mortgage-backed securities by offering our debt or equity securities in exchange for the mortgage-backed securities.

We generally intend to hold mortgage-backed securities for extended periods. In addition, the REIT provisions of the Internal Revenue Code limit in certain respects our ability to sell mortgage-backed securities. We may decide however to sell assets from time to time, for a number of reasons, including our desire to dispose of an asset as to which credit risk concerns have arisen, to reduce interest rate risk, to substitute one type of mortgage-backed security for another, to improve yield or to maintain compliance with the 55% requirement of Section 3(c)(5)(C) of the Investment Company Act, or generally to re-structure the balance sheet when we deem advisable. Our board of directors has not adopted any policy that would restrict management's authority to determine the timing of sales or the selection of mortgage-backed securities to be sold.

We do not invest in REMIC residuals or other CMO residuals.

As a requirement for maintaining REIT status, we will distribute to stockholders aggregate dividends equaling at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) for each taxable year. We will make additional distributions of capital when the return expectations of the stockholders appear to exceed returns potentially available to us through making new investments in mortgage-backed securities. Subject to the limitations of applicable securities and state corporation laws, we can distribute capital by making purchases of our own capital stock or through paying down or repurchasing any outstanding uncollateralized debt obligations.

Our asset acquisition strategy may change over time as market conditions change and as we evolve.

Credit Risk Management

Although we do not expect to encounter credit risk in our Agency mortgage-backed securities and Agency debentures, we face credit risk on the portions of our portfolio which are not mortgage-backed securities and Agency debentures. In addition, our use of repurchase agreements and 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, we could have difficulty obtaining our Agency mortgage-backed securities pledged as collateral for swaps. We review credit risk and other risk of loss associated with each investment and determine the appropriate allocation of capital to apply to the investment under our capital investment policy. Our management will monitor the overall portfolio risk and determine appropriate levels of provision for loss.

Capital and Leverage

We expect generally to maintain a debt-to-equity ratio of between 8:1 and 12:1, although the ratio may vary, as it currently does because of market conditions, 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. For purposes of calculating this ratio, our equity (or capital base) is equal to the value of our investment portfolio on a mark-to-market basis less the book value of our obligations under repurchase agreements and other collateralized borrowings. For the calculation of this ratio, equity includes the Series B Cumulative Convertible Preferred Stock, which is not included in equity under Generally Accepted Accounting Principles.

Our goal is to strike a balance between the under-utilization of leverage, which reduces potential returns to stockholders, and the over-utilization of leverage, which could reduce our ability to meet our obligations during adverse market conditions. Our capital investment policy limits our ability to acquire additional assets during times when our debt-to-equity ratio exceeds 12:1. At December 31, 2010, our ratio of debt-to-equity was 6.7:1. Our capital base represents the approximate liquidation value of our investments and approximates the market value of assets that we can pledge or sell to meet over-collateralization requirements for our borrowings. The unpledged portion of our capital base is available for us to pledge or sell as necessary to maintain over-collateralization levels for our borrowings.

We are prohibited from acquiring additional assets during periods when our capital base is less than the minimum amount required under our capital investment policy, except as may be necessary to maintain REIT status or our exemption from the Investment Company Act of 1940, as amended (or the Investment Company Act). In addition, when our capital base falls below our risk-managed capital requirement, our management is required to submit to our board of directors a plan for bringing our capital base into compliance with our capital investment policy guidelines. We anticipate that in most circumstances we can achieve this goal without overt management action through the natural process of mortgage principal repayments. We anticipate that our capital base is likely to exceed our risk-managed capital requirement during periods following new equity offerings and during periods of falling interest rates and that our capital base could fall below the risk-managed capital requirement during periods of rising interest rates.

The first component of our capital requirement is the current aggregate over-collateralization amount or "haircut" the lenders require us to hold as capital. The haircut for each mortgage-backed security is determined by our lenders based on the risk characteristics and liquidity of the asset. Should the market value of our pledged assets decline, we will be required to deliver additional collateral to our lenders to maintain a constant over-collateralization level on our borrowings.

The second component of our capital requirement is the "excess capital cushion." This is an amount of capital in excess of the haircuts required by our lenders. We maintain the excess capital cushion to meet the demands of our lenders for additional collateral should the market value of our mortgage-backed securities decline. The aggregate excess capital cushion equals the sum of liquidity cushion amounts assigned under our capital investment policy to each of our mortgage-backed securities. We assign excess capital cushions to each mortgage-backed security based on our assessment of the mortgage-backed security's market price volatility, credit risk, liquidity and attractiveness for use as collateral by lenders. The process of assigning excess capital cushions relies on our management's ability to identify and weigh the relative importance of these and other factors. In assigning excess capital cushions, we also give consideration to hedges associated with the mortgage-backed security and any effect such hedges may have on reducing net market price volatility, concentration or diversification of credit and other risks in the balance sheet as a whole and the net cash flows that we can expect from the interaction of the various components of our balance sheet.

Our capital investment policy stipulates that at least 25% of the capital base maintained to satisfy the excess capital cushion must be invested in AAA-rated adjustable-rate mortgage-backed securities or assets with similar or better liquidity characteristics.

A substantial portion of our borrowings are short-term or variable-rate borrowings. Our borrowings are implemented primarily through repurchase agreements, but in the future may also be obtained through loan agreements, lines of credit, dollar-roll agreements (an agreement to sell a security for delivery on a specified future date and a simultaneous agreement to repurchase the same or a substantially similar security on a specified future date) and other credit facilities with institutional lenders and issuance of debt securities such as commercial paper, medium-term notes, CMOs and senior or subordinated notes. We enter into financing transactions only with institutions that we believe are sound credit risks and follow other internal policies designed to limit our credit and other exposure to financing institutions.

We expect to continue to use repurchase agreements as our principal financing device to leverage our mortgage-backed securities portfolio. 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. We may, however, enter into such commitment agreements in the future. We enter into repurchase agreements primarily with national broker-dealers, commercial banks and other lenders which typically offer this type of financing. We enter into collateralized borrowings only with financial institutions meeting credit standards approved by our board of directors, and we monitor the financial condition of these institutions on a regular basis.

A repurchase agreement, although structured as a sale and repurchase obligation, acts as a financing under which we effectively pledge our mortgage-backed securities as collateral to secure a short-term loan. Generally, the other party to the agreement makes the loan in an amount equal to a percentage of the market value of the pledged collateral. At the maturity of the repurchase agreement, we are required to repay the loan and correspondingly receive back our collateral. While used as collateral, the mortgage-backed securities continue to pay principal and interest which are for our benefit. In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the Bankruptcy Code, the effect of which, among other things, would be to allow the creditor under the agreement to avoid the automatic stay provisions of the Bankruptcy Code and to foreclose on the collateral without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur.

Substantially all of our collateralized borrowing agreements require us to deposit additional collateral in the event the market value of existing collateral declines, which may require us to sell assets to reduce our borrowings. We have designed our liquidity management policy to maintain a cushion of equity sufficient to provide required liquidity to respond to the effects under our borrowing arrangements of interest rate movements and changes in market value of our mortgage-backed securities, as described above. However, a major disruption of the repurchase or other market that we rely on for short-term borrowings would have a material adverse effect on us unless we were able to arrange alternative sources of financing on comparable terms.

Our articles of incorporation and bylaws do not limit our ability to incur borrowings, whether secured or unsecured.

Interest Rate Risk Management

To the extent consistent with our election to qualify as a REIT, we follow an interest rate risk management program intended to protect our portfolio of mortgage-backed securities and related debt against the effects of major interest rate changes. Specifically, our interest rate risk management program is formulated with the intent to offset the potential adverse effects resulting from rate adjustment limitations on our mortgage-backed securities and the differences between interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities and related borrowings.

Our interest rate risk management program encompasses a number of procedures, including the following:

- we attempt to structure our borrowings to have interest rate adjustment indices and interest rate adjustment periods that, on an aggregate basis, generally correspond to the interest rate adjustment indices and interest rate adjustment periods of our adjustable-rate mortgage-backed securities; and

- we attempt to structure our borrowing agreements relating to adjustable-rate mortgage-backed securities to have a range of different maturities and interest rate adjustment periods (although substantially all will be less than one year).

We adjust the average maturity adjustment periods of our borrowings on an ongoing basis by changing the mix of maturities and interest rate adjustment periods as borrowings come due and are renewed. Through use of these procedures, we attempt to minimize the differences between the interest rate adjustment periods of our mortgage-backed securities and related borrowings that may occur.

We enter into interest rate swaps. We may from time to time enter into interest rate collars, interest rate caps or floors, and purchase interest-only mortgage-backed securities and similar instruments to attempt to mitigate the risk of the cost of our variable rate liabilities increasing at a faster rate than the earnings on our assets during a period of rising interest rates or to mitigate prepayment risk. We may hedge as much of the interest rate risk as our management determines is in our best interests, given the cost of the hedging transactions and the need to maintain our status as a REIT. This determination may result in our electing to bear a level of interest rate or prepayment risk that could otherwise be hedged when management believes, based on all relevant facts, that bearing the risk is advisable.

We seek to build a balance sheet and undertake an interest rate risk management program which is likely to generate positive earnings and maintain an equity liquidation value sufficient to maintain operations given a variety of potentially adverse circumstances. Accordingly, our interest rate risk management program addresses both income preservation, as discussed above, and capital preservation concerns. For capital preservation, we monitor our “duration.” This is the expected percentage change in market value of our assets that would be caused by a 1% change in short and long-term interest rates. To monitor weighted average duration and the related risks of fluctuations in the liquidation value of our equity, we model the impact of various economic scenarios on the market value of our mortgage-backed securities and liabilities. At December 31, 2010, we estimate that the duration of our assets was 3.41 years and giving effect to the swap transactions, our weighted average duration was 0.74 years. We believe that our interest rate risk management program will allow us to maintain operations throughout a wide variety of potentially adverse circumstances. Nevertheless, in order to further preserve our capital base (and lower our duration) during periods when we believe a trend of rapidly rising interest rates has been established, we may decide to increase hedging activities or to sell assets. Each of these actions may lower our earnings and dividends in the short term to further our objective of maintaining attractive levels of earnings and dividends over the long term.

We may elect to conduct a portion of our hedging operations through one or more subsidiary corporations, each of which we would elect to treat as a “taxable REIT subsidiary.” To comply with the asset tests applicable to us as a REIT, we could own 100% of the voting stock of such subsidiary, provided that the value of the stock that we own in all such taxable REIT subsidiaries does not exceed 25% of the value of our total assets at the close of any calendar quarter. A taxable subsidiary, such as FIDAC, Merganser, and RCap, would not elect REIT status and would distribute any net profit after taxes to us. Any dividend income we receive from the taxable subsidiaries (combined with all other income generated from our assets, other than qualified REIT real estate assets) must not exceed 25% of our gross income.

We believe that we have developed a cost-effective asset/liability management program to provide a level of protection against interest rate and prepayment risks. However, no strategy can completely insulate us from interest rate changes and prepayment risks. Further, as noted above, the federal income tax requirements that we must satisfy to qualify as a REIT limit our ability to hedge our interest rate and prepayment risks. We monitor carefully, and may have to limit, our asset/liability management program to assure that we do not realize excessive hedging income, or hold hedging assets having excess value in relation to total assets, which could result in our disqualification as a REIT, the payment of a penalty tax for failure to satisfy certain REIT tests under the Internal Revenue Code, provided the failure was for reasonable cause. In addition, asset/liability management involves transaction costs which increase dramatically as the period covered by the hedging protection increases. Therefore, we may be unable to hedge effectively our interest rate and prepayment risks.

Prepayment Risk Management

We seek to minimize the effects of faster or slower than anticipated prepayment rates through structuring a diversified portfolio with a variety of prepayment characteristics, investing in mortgage-backed securities with prepayment prohibitions and penalties, investing in certain mortgage-backed security structures which have prepayment protections, and balancing assets purchased at a premium with assets purchased at a discount. We monitor prepayment risk through periodic review of the impact of a variety of prepayment scenarios on our revenues, net earnings, dividends, cash flow and net balance sheet market value.

Future Revisions in Policies and Strategies

Our board of directors has established the investment policies and operating policies and strategies set forth in this Form 10-K. The board of directors has the power to modify or waive these policies and strategies without the consent of the stockholders to the extent that the board of directors determines that the modification or waiver is in the best interests of our stockholders. Among other factors, developments in the market which affect our policies and strategies or which change our assessment of the market may cause our board of directors to revise our policies and strategies.

Potential Acquisitions, Strategic Alliances and Other Investments

From time-to-time we have explored possible transactions to enhance our operations and growth, including entering into new businesses, acquisitions of other businesses or assets, investments in other entities, joint venture arrangements, or strategic alliances. We entered into the broker-dealer business during the first quarter of January 2009, through our subsidiary RCap, which was granted membership in FINRA in January 2009. On October 31, 2008 we consummated our acquisition of Merganser which is a registered investment advisor. We own approximately 45.0 million shares of common stock of Chimera Investment Corporation, or Chimera. Chimera is a publicly traded, specialty finance company that acquires, manages, and finances, directly or through its subsidiaries, residential mortgage loans, residential mortgage-backed securities, real estate related securities and various other asset classes. Chimera is externally managed by FIDAC and has elected and qualifies to be taxed as a REIT for federal income tax purposes. We own approximately 4.5 million shares of common stock of CreXus Investment Corp., or CreXus. CreXus is a publicly traded, specialty finance company that acquires, manages, and finances, directly or through its subsidiaries, commercial mortgage loans and other commercial real estate debt, commercial mortgage-backed securities, or CMBS, and other commercial real estate-related assets. CreXus is externally managed by FIDAC and has elected and qualifies to be taxed as a REIT for federal income tax purposes.

We may, from time-to-time, continue to explore possible new businesses, acquisitions, investments, joint venture arrangements and strategic alliances which may enhance our operations and assist our and our subsidiaries' growth. These transactions could be material to our financial condition and results of operations. The process of integrating an acquired company or business, will likely create, unforeseen operating difficulties and expenditures. Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition. Also, the anticipated benefit of many of our acquisitions or investments may not materialize.

Dividend Reinvestment and Share Purchase Plan

We have adopted a dividend reinvestment and share purchase plan. Under the dividend reinvestment feature of the plan, existing shareholders can reinvest their dividends in additional shares of our common stock. Under the share purchase feature of the plan, new and existing shareholders can purchase shares of our common stock. We have an effective shelf registration statement on Form S-3 which registered 100,000,000 shares that could be issued under the plan. We still sell shares covered by this registration statement under the plan.

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.

Employees

As of December 31, 2010, we and our subsidiaries had 114 full time employees. None of our employees are subject to any collective bargaining agreements. We believe we have good relations with our employees.

Available Information

Our investor relations website is www.annaly.com. We make available on this website under "SEC filings," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

COMPETITION

We believe that our principal competition in the acquisition and holding of the types of mortgage-backed securities we purchase are financial institutions such as banks, savings and loans, life insurance companies, institutional investors such as mutual funds and pension funds, and certain other mortgage REITs. Some of our competitors have greater financial resources and access to capital than we do. Our competitors, as well as additional competitors which may emerge in the future, may increase the competition for the acquisition of mortgage-backed securities, which in turn may result in higher prices and lower yields on assets.

ITEM 1A. RISK FACTORS

An investment in our stock involves a number of risks. Before making an investment decision, you should carefully consider all of the risks described in this Form 10-K. If any of the risks discussed in this Form 10-K actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the trading price of our stock could decline significantly and you may lose all or part of your investment.

Risks Associated with Recent Adverse Developments in the Mortgage Finance and Credit Markets

Volatile market conditions for mortgages and mortgage-related assets as well as the broader financial markets have resulted in a significant contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which we invest.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets, including Agency mortgage-backed securities, as well as the broader financial markets and the economy generally. Beginning in the summer of 2007, significant adverse changes in financial market conditions resulted in a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and a declining real estate market contributed to increased volatility and diminished expectations for the economy and markets. As a result of these conditions, many traditional mortgage investors suffered severe losses in their residential mortgage portfolios and several major market participants failed or have been impaired, resulting in a significant contraction in market liquidity for mortgage-related assets. This illiquidity negatively affected both the terms and availability of financing for all mortgage-related assets. Further increased volatility and deterioration in the markets for mortgages and mortgage-related assets as well as the broader financial markets may adversely affect the performance and market value of our Agency mortgage-backed securities. If these conditions persist, institutions from which we seek financing for our investments may tighten their lending standards or become insolvent, which could make it more difficult for us to obtain financing on favorable terms or at all. Our profitability may be adversely affected if we are unable to obtain cost-effective financing for our investments. Continued adverse developments in the broader residential mortgage market may adversely affect the value of the assets in which we invest.

Since the summer of 2007, the residential mortgage market in the United States experienced a variety of difficulties and changed economic conditions, including defaults, credit losses and liquidity concerns. Certain commercial banks, investment banks and insurance companies have announced extensive losses from exposure to the residential mortgage market. These losses have reduced financial industry capital, leading to reduced liquidity for some institutions. These factors have impacted investor perception of the risk associated with Agency mortgage-backed securities in which we invest. As a result, values for Agency mortgage-backed securities in which we invest have experienced a certain amount of volatility. Further increased volatility and deterioration in the broader residential mortgage and Agency mortgage-backed securities markets may adversely affect the performance and market value of our investments. Any decline in the value of our investments, or perceived market uncertainty about their value, would likely make it difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with terms of any financing arrangements already in place.

The Agency mortgage-backed securities in which we invest are classified for accounting purposes as available-for-sale. All assets classified as available-for-sale are reported at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. As a result, a decline in fair values may reduce the book value of our assets. Moreover, if the decline in fair value of an available-for-sale security is other-than-temporarily impaired, such decline will reduce earnings. If market conditions result in a decline in the fair value of our Agency mortgage-backed securities, our financial position and results of operations could be adversely affected.

The potential limit or wind down of the role Fannie Mae and Freddie Mac play in the mortgage-backed securities market may adversely affect our business, operations and financial condition.

On February 11, 2011, the U.S Department of the Treasury (or Treasury) issued a White Paper titled "Reforming America's Housing Finance Market" (or the White Paper) that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. Any such proposals, if enacted, may have broad adverse implications for the economy, the mortgage-backed securities market and our business, operations and financial condition. We expect such proposals to be the subject of significant discussion and it is not yet possible to determine whether or when such proposals may be enacted, what form any final legislation or policies might take and how proposals, legislation or policies emanating from the White Paper may impact the economy, the mortgage-backed securities market and our business, operations and financial condition. We are evaluating, and will continue to evaluate, the potential impact of the proposals set forth in the White Paper.

The conservatorship of Fannie Mae and Freddie Mac, their reliance upon the U.S. Government for solvency, and related efforts that may significantly affect Fannie Mae and Freddie Mac and their relationship with the U.S. Government, may adversely affect our business, operations and financial condition.

Due to increased market concerns about Fannie Mae and Freddie Mac's ability to withstand future credit losses associated with securities held in their investment portfolios, and on which they provide guarantees, without the direct support of the U.S. Government Congress passed the Housing and Economic Recovery Act of 2008, or the HERA. Among other things, the HERA established the Federal Housing Finance Agency, or FHFA, which has broad regulatory powers over Fannie Mae and Freddie Mac. On September 6, 2008, the FHFA placed Fannie Mae and Freddie Mac into conservatorship and, together with the Treasury, established a program designed to boost investor confidence in Fannie Mae's and Freddie Mac's debt and mortgage-backed securities. As the conservator of Fannie Mae and Freddie Mac, the

FHFA controls and directs their operations and may (1) take over the assets of and operate Fannie Mae and Freddie Mac with all the powers of their shareholders, directors and officers of Fannie Mae and Freddie Mac and conduct all business of Fannie Mae and Freddie Mac; (2) collect all obligations and money due to Fannie Mae and Freddie Mac; (3) perform all functions of Fannie Mae and Freddie Mac which are consistent with the conservator's appointment; (4) preserve and conserve the assets and property of Fannie Mae and Freddie Mac; and (5) contract for assistance in fulfilling any function, activity, action or duty of the conservator.

In addition to FHFA becoming the conservator of Fannie Mae and Freddie Mac, the Treasury and Fannie Mae and Freddie Mac have entered into Preferred Stock Purchase Agreements (or PSPAs) pursuant to which the Treasury has ensured that each of Fannie Mae and Freddie Mac maintains a positive net worth. On December 24, 2009, the Treasury amended the terms of the PSPAs to remove the $200 billion per institution limit established under the PSPAs until the end of 2012. The Treasury also amended the PSPAs with respect to the requirements for Fannie Mae and Freddie Mac to reduce their portfolios.

In addition, in 2008 the Federal Reserve established a program to purchase $100 billion in direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Bank and $500 billion in Agency mortgage-backed securities. These targets were increased in March 2009 to $200 billion and $1.25 trillion of Agency debentures and Agency mortgage-backed securities, respectively. The Federal Reserve stated that its actions were intended to reduce the cost and increase the availability of credit for the purchase of houses, and were meant to support housing markets and foster improved conditions in financial markets more generally. The Federal Reserve completed this program in March 2010.

The problems faced by Fannie Mae and Freddie Mac resulting in their placement into federal conservatorship and receipt of significant U.S. Government support have sparked debate among some federal policy makers regarding the continued role of the U.S. Government in providing liquidity for mortgage loans and mortgage-backed securities. With Fannie Mae's and Freddie Mac's future under debate, the nature of their guarantee obligations could be considerably limited relative to historical measurements. Any changes to the nature of their guarantee obligations could redefine what constitutes an Agency mortgage-backed security and could have broad adverse implications for the market and our business, operations and financial condition. If Fannie Mae or Freddie Mac are eliminated, or their structures change radically (i.e., limitation or removal of the guarantee obligation), we may be unable to acquire additional Agency mortgage-backed securities. A reduction in the supply of Agency mortgage-backed securities could negatively affect the pricing of Agency mortgage-backed securities by reducing the spread between the interest we earn on our portfolio of Agency mortgage-backed securities and our cost of financing that portfolio.

Although the Treasury previously committed capital to Fannie Mae and Freddie Mac through 2012, and in the White Paper the Treasury committed to providing sufficient capital to enable Fannie Mae and Freddie Mac to meet their current and future guarantee obligations, there can be no assurance that these actions will be adequate for their needs. If these actions are inadequate, Fannie Mae and Freddie Mac could continue to suffer losses and could fail to honor their guarantees and other obligations. Furthermore, the current credit support provided by the Treasury to Fannie Mae and Freddie Mac, and any additional credit support it may provide in the future, could have the effect of lowering the interest rates we expect to receive from mortgage-backed securities, and tightening the spread between the interest we earn on our mortgage-backed securities and the cost of financing those assets.

In addition, our existing Agency mortgage-backed securities could be materially and adversely impacted. We rely on our Agency mortgage-backed securities as collateral for our financings under our repurchase agreements. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on acceptable terms or at all, or to maintain our compliance with the terms of any financing transactions.

Future policies that change the relationship between Fannie Mae and Freddie Mac and the U.S. Government, including those that result in their winding down, nationalization, privatization, or elimination, may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such policies could increase the risk of loss on investments in Agency mortgage-backed securities guaranteed by Fannie Mae and/or Freddie Mac. It also is possible that such policies could adversely impact the market for such securities and spreads at which they trade. All of the foregoing could materially and adversely affect our business, operations and financial condition.

Mortgage loan modification programs, future legislative action and changes in the requirements necessary to

qualify for refinancing a mortgage with Fannie Mae, Freddie Mac or Ginnie Mae may adversely affect the value of, and the returns on, the assets in which we invest.

The U.S. government, through the Federal Housing Administration, or FHA, and the FDIC, has implemented programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures including the Hope for Homeowners Act of 2008, which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans. The programs may also involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. Members of the U.S. Congress have indicated support for additional legislative relief for homeowners, including an amendment of the bankruptcy laws to permit the modification of mortgage loans in bankruptcy proceedings. These loan modification programs, future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans, as well as changes in the requirements necessary to qualify for refinancing a mortgage with Fannie Mae, Freddie Mac or Ginnie Mae may adversely affect the value of, and the returns on, our Agency mortgage-backed securities and Agency debentures. Depending on whether or not we purchased an instrument at a premium or discount, the yield we receive may be positively or negatively impacted by any modification.

The U.S. Government's pressing for refinancing of certain loans may affect prepayment rates for mortgage loans in Mortgage-Backed Securities.

In addition to the increased pressure upon residential mortgage loan investors and servicers to engage in loss mitigation activities, the U.S. Government is pressing for refinancing of certain loans, and this encouragement may affect prepayment rates for mortgage loans in Agency mortgage-backed securities. To the extent these and other economic stabilization or stimulus efforts are successful in increasing prepayment speeds for residential mortgage loans, such as those in Agency mortgage-backed securities, that could potentially harm our income and operating results, particularly in connection with loans or Agency mortgage-backed securities purchased at a premium or our interest-only securities.

There can be no assurance that the actions of the U.S. Government, the Federal Reserve, the Treasury and other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve the intended effect, that our business will benefit from these actions or that further government or market developments will not adversely impact us.

In response to the financial issues affecting the banking system and the financial markets and going concern threats to investment banks and other financial institutions, the U.S. Government, the Federal Reserve, the Treasury and other governmental and regulatory bodies have taken action to attempt to stabilize the financial markets.

There can be no assurance that the actions of the U.S. Government will have a beneficial impact on the financial markets, including on current levels of volatility. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, our business may not receive the anticipated positive impact from the legislation. There can also be no assurance that we will be eligible to participate in any programs established by the U.S. Government, if we are eligible, that we will be able to utilize them successfully or at all. In addition, because the programs are designed, in part, to provide liquidity to restart the market for certain of our targeted assets, the establishment of these programs may result in increased competition for attractive opportunities in our targeted assets. It is also possible that our competitors may utilize the programs which would provide them with attractive debt and equity capital funding from the U.S. Government. In addition, the U.S. Government, the Federal Reserve, the Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. We cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on our business, results of operations and financial condition.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these securities.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by FIDAC), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. Government, if we are not eligible to participate in programs established by the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Risks Related to Our Business

An increase in the interest payments on our borrowings relative to the interest we earn on our Investment Securities may adversely affect our profitability.

We earn money based upon the spread between the interest payments we earn on our Investment Securities and the interest payments we must make on our borrowings. If the interest payments on our borrowings increase relative to the interest we earn on our Investment Securities, our profitability may be adversely affected. The interest payments on our borrowings may increase relative to the interest we earn on our adjustable-rate interest-earning assets for various reasons discussed in this section.

- ***Differences in timing of interest rate adjustments on our Investment Securities and our borrowings may adversely affect our profitability***

We rely primarily on short-term borrowings to acquire Investment Securities with long-term maturities. Accordingly, if short-term interest rates increase, this may adversely affect our profitability.

Some of the Investment Securities we acquire are adjustable-rate interest-earning assets. This means that their interest rates may vary over time based upon changes in an objective index, such as:

- LIBOR. The interest rate that banks in London offer for deposits in London of U.S. dollars.
- Treasury Rate. A monthly or weekly average yield of benchmark U.S. Treasury securities, as published by the Federal Reserve Board.
- CD Rate. The weekly average of secondary market interest rates on six-month negotiable certificates of deposit, as published by the Federal Reserve Board.

These indices generally reflect short-term interest rates. On December 31, 2010, approximately 13% of our Investment Securities were adjustable-rate interest-earning assets.

The interest rates on our borrowings similarly vary with changes in an objective index. Nevertheless, the interest rates on our borrowings generally adjust more frequently than the interest rates on our adjustable-rate interest-earning assets. For example, on December 31, 2010, our adjustable-rate interest-earning assets had a weighted average term to next rate adjustment of 39 months, while our borrowings had a weighted average term of 127 days. Accordingly, in a period of rising interest rates, we could experience a decrease in net income or a net loss because the interest rates on our borrowings adjust faster than the interest rates on our adjustable-rate interest-earning assets.

- ***Interest rate caps on our Agency mortgage-backed securities and Agency debentures may adversely affect our profitability***

Our adjustable-rate interest-earning assets are typically subject to periodic and lifetime interest rate caps. Periodic interest rate caps limit the amount an interest rate can increase during any given period. Lifetime interest rate caps limit the amount an interest rate can increase through maturity of Agency mortgage-backed securities and Agency debentures. Our borrowings are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, we could experience a decrease in net income or experience a net loss because the interest rates on our borrowings could increase without limitation while the interest rates on our adjustable-rate interest-earning assets would be limited by caps.

- ***Because we acquire fixed-rate securities, an increase in interest rates may adversely affect our profitability***

In a period of rising interest rates, our interest payments could increase while the interest we earn on our fixed-rate mortgage-backed securities would not change. This would adversely affect our profitability. On December 31, 2010, approximately 86% of our Investment Securities were fixed-rate investments.

An increase in prepayment rates may adversely affect our profitability.

The Agency mortgage-backed securities we acquire are backed by pools of mortgage loans. We receive payments, generally, from the payments that are made on these underlying mortgage loans. When borrowers prepay their mortgage loans at rates that are faster-than-expected, this results in prepayments on mortgage-backed securities that are faster than expected. These faster than expected prepayments may adversely affect our profitability. We often purchase mortgage-backed securities that have a higher interest rate than the market interest rate at the time. In exchange for this higher interest rate, we must pay a premium over the market value to acquire the security. In accordance with accounting rules, we amortize this premium over the term of the mortgage-backed security. If the mortgage-backed security is prepaid in whole or in part prior to its maturity date, however, we must expense all or a part of the remaining unamortized portion of the premium that was prepaid at the time of the prepayment. This adversely affects our profitability.

Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.

We often purchase mortgage-backed securities that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we typically pay a premium over par value to acquire these mortgage-backed securities. In accordance with generally accepted accounting principles (or GAAP), we amortize the premiums on our mortgage-backed securities over the life of the related mortgage-backed securities. If the mortgage loans securing these mortgage-backed securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis which may adversely affect our profitability. Defaults on mortgage loans underlying Agency mortgage-backed securities typically have the same effect as prepayments because of the underlying Agency guarantee. Fannie Mae and Freddie Mac significantly increased their purchases of delinquent loans from the pools of mortgages collateralizing their Agency mortgage-backed securities beginning in March 2010. As of December 31, 2010, we had net purchase premiums of $2.3 billion, or 3.0% of current par value, on our Agency mortgage-backed securities, Agency debentures, and corporate debt.

We may seek to reduce prepayment risk by acquiring mortgage-backed securities at a discount. If a discounted security is prepaid in whole or in part prior to its maturity date, we will earn income equal to the amount of the remaining discount. This will improve our profitability if the discounted securities are prepaid faster than expected.

We also can acquire mortgage-backed securities that are less affected by prepayments. For example, we can acquire CMOs, a type of mortgage-backed security. CMOs divide a pool of mortgage loans into multiple tranches that allow for shifting of prepayment risks from slower-paying tranches to faster-paying tranches. This is in contrast to pass-through or pay-through mortgage-backed securities, where all investors share equally in all payments, including all prepayments. As discussed below, the Investment Company Act of 1940 imposes restrictions on our purchase of CMOs. As of December 31, 2010, approximately 19% of our Investment Securities were CMOs and approximately 81% of our Investment Securities were pass-through or pay-through securities.

While we seek to minimize prepayment risk to the extent practical, in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

An increase in interest rates may adversely affect our book value.

Increases in interest rates may negatively affect the market value of our investment securities. Our fixed-rate securities, generally, are more negatively affected by these increases. In accordance with accounting rules, we reduce our book value by the amount of any decrease in the market value of our investment securities.

Failure to procure funding on favorable terms, or at all, would adversely affect our results and may, in turn, negatively affect the market price of shares of our common stock.

The current dislocation and weakness in the broader mortgage markets could adversely affect one or more of our potential lenders and could cause one or more of our potential lenders to be unwilling or unable to provide us with financing. This could potentially increase our financing costs and reduce our liquidity. If one or more major market participants fails or otherwise experiences a major liquidity crisis, as was the case for Bear Stearns & Co. in March 2008 and Lehman Brothers Holdings Inc. in September 2008, it could negatively impact the marketability of all fixed income securities, including Agency RMBS, and this could negatively impact the value of the securities we acquire, thus reducing our net book value. Furthermore, if any of our potential lenders or any of our lenders are unwilling or unable to provide us with financing, we could be forced to sell our assets at an inopportune time when prices are depressed.

Our strategy involves significant leverage.

We incur this leverage by borrowing against a substantial portion of the market value of our investment securities. By incurring this leverage, we can enhance our returns. Nevertheless, this leverage, which is fundamental to our investment strategy, also creates significant risks.

- ***Our leverage may cause substantial losses***

  Because of our significant leverage, we may incur substantial losses if our borrowing costs increase. Our borrowing costs may increase for any of the following reasons:

  - short-term interest rates increase;
  - the market value of our Investment Securities decreases;
  - interest rate volatility increases; or
  - the availability of financing in the market decreases.

- ***Our leverage may cause margin calls and defaults and force us to sell assets under adverse market conditions***

  Because of our leverage, a decline in the value of our investment securities may result in our lenders initiating margin calls. A margin call means that the lender requires us to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing. Our fixed-rate mortgage-backed securities generally are more susceptible to margin calls as increases in interest rates tend to more negatively affect the market value of fixed-rate securities.

  If we are unable to satisfy margin calls, our lenders may foreclose on our collateral. This could force us to sell our investment securities under adverse market conditions. Additionally, in the event of our bankruptcy, our borrowings, which are generally made under repurchase agreements, may qualify for special treatment under the Bankruptcy Code. This special treatment would allow the lenders under these agreements to avoid the automatic stay provisions of the Bankruptcy Code and to liquidate the collateral under these agreements without delay.

- ***Liquidation of collateral may jeopardize our REIT status***

To continue to qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our Agency mortgage-backed securities and Agency debentures, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT and our failure to qualify as a REIT will have adverse tax consequences.

- ***We may exceed our target leverage ratios***

We seek to maintain a ratio of debt-to-equity of between 8:1 and 12:1. However, we are not required to stay within this leverage ratio. If we exceed this ratio, the adverse impact on our financial condition and results of operations from the types of risks described in this section would likely be more severe.

- ***We may not be able to achieve our optimal leverage***

We use leverage as a strategy to increase the return to our investors. However, we may not be able to achieve our desired leverage for any of the following reasons:

  - we determine that the leverage would expose us to excessive risk;
  - our lenders do not make funding available to us at acceptable rates; or
  - our lenders require that we provide additional collateral to cover our borrowings.

- ***We may incur increased borrowing costs which would adversely affect our profitability***

Currently, all of our collateralized borrowings are in the form of repurchase agreements. If the interest rates on these repurchase agreements increase, it would adversely affect our profitability.

Our borrowing costs under repurchase agreements generally correspond to short-term interest rates such as LIBOR or a short-term Treasury index, plus or minus a margin. The margins on these borrowings over or under short-term interest rates may vary depending upon:

  - the movement of interest rates;
  - the availability of financing in the market; or
  - the value and liquidity of our Investment Securities.

If we are unable to renew our borrowings at favorable rates, our profitability may be adversely affected.

Since we rely primarily on short-term borrowings, our ability to achieve our investment objectives depends not only on our ability to borrow money in sufficient amounts and on favorable terms, but also on our ability to renew or replace on a continuous basis our maturing short-term borrowings. If we are not able to renew or replace maturing borrowings, we would have to sell our assets under possibly adverse market conditions.

If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term, or if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will lose money on our repurchase

transactions.

When we engage in repurchase transactions, we generally sell securities to lenders (repurchase agreement counterparties) and receive cash from these lenders. The lenders are obligated to resell the same securities back to us at the end of the term of the transaction. Because the cash we receive from the lender when we initially sell the securities to the lender is less than the value of those securities (this difference is the haircut), if the lender defaults on its obligation to resell the same securities back to us, we may incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). We would also lose money on a repurchase transaction if the value of the underlying securities has declined as of the end of the transaction term, as we would have to repurchase the securities for their initial value but would receive securities worth less than that amount. Further, if we default on one of our obligations under a repurchase transaction, the lender can terminate the transaction and cease entering into any other repurchase transactions with us. Repurchase agreements generally contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default. Any losses we incur on our repurchase transactions could adversely affect our earnings and thus our cash available for distribution to shareholders.

Any repurchase agreements that we use to finance our assets may require us to provide additional collateral or pay down debt.

Our repurchase agreements involve the risk that the market value of the securities pledged or sold by us to the repurchase agreement counterparty may decline in value, in which case the counterparty may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have additional collateral or the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the counterparty could accelerate its indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In addition, in the event that the counterparty files for bankruptcy or becomes insolvent, our securities may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to bank credit facilities and increase its cost of capital. Repurchase agreement counterparties may also require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would enhance our ability to satisfy its collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. In the event that we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

Our hedging strategies expose us to risks.

Our policies permit us to enter into interest rate swaps, caps and floors and other derivative transactions to help us mitigate our interest rate and prepayment risks described above. We have used interest rate swaps and interest rate caps to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. Interest rate hedging may fail to protect or could adversely affect us because, among other things: interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates; available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought; and the duration of the hedge may not match the duration of the related liability.

- ***Our hedging strategies may not be successful in mitigating the risks associated with interest rates***

We cannot assure you that our use of derivatives will offset the risks related to changes in interest rates. It is likely that there will be periods in the future during which we will incur losses on our derivative financial instruments that will not be fully offset by gains on our portfolio. The derivative financial instruments we select may not have the effect of reducing our interest rate risk. In addition, the nature and timing of hedging transactions may influence the effectiveness of these strategies. Poorly designed strategies or improperly executed transactions could significantly increase our risk and lead to material losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategy and the derivatives that we use may not adequately offset the risk of interest rate volatility or that our hedging transactions may not result in losses.

- ***Our use of derivatives may expose us to counterparty risks***

We enter into interest rate swap and cap agreements to hedge risks associated with movements in interest rates. If a swap counterparty cannot perform under the terms of an interest rate swap, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the interest rate swap, and the hedged liability would cease to be hedged by the interest rate swap. We may also be at risk for any collateral we have pledged to secure our obligations under the interest rate swap if the counterparty become insolvent or file for bankruptcy. Similarly, if a cap counterparty fails to perform under the terms of the cap agreement, in addition to not receiving payments due under that agreement that would off-sets our interest expense, we would also incur a loss for all remaining unamortized premium paid for that agreement.

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We may face risks of investing in inverse floating rate securities.

We may invest in inverse floaters. The returns on inverse floaters are inversely related to changes in an interest rate. Generally, income on inverse floaters will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floaters may subject us to the risks of reduced or eliminated interest payments and losses of principal. In addition, certain indexed securities and inverse floaters may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages our investment in such securities. As a result, the market value of such securities will generally be more volatile than that of fixed rate securities.

Our investment strategy may involve credit risk.

We may incur losses if there are payment defaults under our Investment Securities.

To date, substantially all of our mortgage-backed securities have been agency certificates and Agency debentures which, although not rated, carry an implied “AAA” rating. Agency certificates are mortgage pass-through certificates where Freddie Mac, Fannie Mae or Ginnie Mae guarantees payments of principal and interest on the certificates. Agency debentures are debt instruments issued by Freddie Mac, Fannie Mae, or the FHLB.

Even though our Agency mortgage-backed securities and Agency debentures acquired thus far have been “AAA”, pursuant to our capital investment policy, we have the ability to acquire securities of lower credit quality. Under our policy:

- 75% of our total assets must be high quality mortgage-backed securities and short-term investments. High quality securities are securities (1) that are rated within one of the two highest rating categories by at least one of the nationally recognized rating agencies, (2) that are unrated but are guaranteed by the United States government or an agency of the United States government, or (3) that are unrated or whose ratings have not been updated but that our management determines are of comparable quality to high quality rated mortgage-backed securities;

- the remaining 25% of total assets, may consist of mortgage-backed securities and 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 (or 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; and

- we seek to structure our portfolio to maintain a minimum weighted average rating (including our deemed comparable ratings for unrated mortgage-backed securities) of our mortgage-backed securities of at least single “A” under the S&P rating system and at the comparable level under the other rating systems.

If we acquire securities of lower credit quality, we may incur losses if there are defaults under those securities or if the rating agencies downgrade the credit quality of those securities.

We have not established a minimum dividend payment level.

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year (subject to certain adjustments) is distributed. This enables us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described in this section. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time.

Because of competition, we may not be able to acquire mortgage-backed securities at favorable yields.

Our net income depends, in large part, on our ability to acquire mortgage-backed securities at favorable spreads over our borrowing costs. In acquiring mortgage-backed securities, we compete with other REITs, investment banking firms, savings and loan associations, banks, insurance companies, mutual funds, other lenders and other entities that purchase mortgage-backed securities, many of which have greater financial resources than us. As a result, in the future, we may not be able to acquire sufficient mortgage-backed securities at favorable spreads over our borrowing costs.

We are dependent on our key personnel

We are dependent on the efforts of our key officers and employees, including Michael A. J. Farrell, our Chairman of the board of directors, Chief Executive Officer and President, Wellington J. Denahan-Norris, our Vice Chairman, Chief Operating Officer and Chief Investment Officer, and Kathryn F. Fagan, our Chief Financial Officer and Treasurer. The loss of any of their services could have an adverse effect on our operations. Although we have employment agreements with each of them, we cannot assure you they will remain employed with us.

We and our shareholders are subject to certain tax risks

- ***Our failure to qualify as a REIT would have adverse tax consequences***

We believe that since 1997 we have qualified for taxation as a REIT for federal income tax purposes. We plan to continue to meet the requirements for taxation as a REIT. The determination that we are a REIT requires an analysis of various factual matters and circumstances that may not be totally within our control. For example, to qualify as a REIT, at least 75% of our gross income must come from real estate sources and 95% of our gross income must come from real estate sources and certain other sources that are itemized in the REIT tax laws. We are also required to distribute to stockholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain). Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service (or IRS) might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult or impossible for us to remain qualified as a REIT.

If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first fail to qualify. If we fail to qualify as a REIT, we would have to pay significant income taxes and would therefore have less money available for investments or for distributions to our stockholders. This would likely have a significant adverse effect on the value of our securities. In addition, the tax law would no longer require us to make distributions to our stockholders.

A REIT that fails the quarterly asset tests for one or more quarters will not lose its REIT status as a result of such failure if either (i) the failure is regarded as a de minimis failure under standards set out in the Internal Revenue Code, or (ii) the failure is greater than a de minimis failure but is attributable to reasonable cause and not willful neglect. In the case of a greater than de minimis failure, however, the REIT must pay a tax and must remedy the failure within 6 months of the close of the quarter in which the failure was identified. In addition, the Internal Revenue Code provides relief for failures of other tests imposed as a condition of REIT qualification, as long as the failures are attributable to reasonable cause and not willful neglect. A REIT would be required to pay a penalty of $50,000, however, in the case of each failure.

- ***We have certain distribution requirements***

As a REIT, 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). The required distribution limits the amount we have available for other business purposes, including amounts to fund our growth. Also, it is possible that because of the differences between the time we actually receive revenue or pay expenses and the period we report those items for distribution purposes, we may have to borrow funds on a short-term basis to meet the 90% distribution requirement.

- ***We are also subject to other tax liabilities***

Even if we qualify as a REIT, we may be subject to certain federal, state and local taxes on our income and property. Any of these taxes would reduce our operating cash flow.

- ***Limits on ownership of our common stock could have adverse consequences to you and could limit your opportunity to receive a premium on our stock***

To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal tax laws to include certain entities). Primarily to facilitate maintenance of our qualification as a REIT for federal income tax purposes, our charter will prohibit ownership, directly or by the attribution provisions of the federal tax laws, by any person of more than 9.8% of the lesser of the number or value of the issued and outstanding shares of our common stock and will prohibit ownership, directly or by the attribution provisions of the federal tax laws, by any person of more than 9.8% of the lesser of the number or value of the issued and outstanding shares of any class or series of our preferred stock. Our board of directors, in its sole and absolute discretion, may waive or modify the ownership limit with respect to one or more persons who would not be treated as "individuals" for purposes of the federal tax laws if it is satisfied, based upon information required to be provided by the party seeking the waiver and upon an opinion of counsel satisfactory to the board of directors, that ownership in excess of this limit will not otherwise jeopardize our status as a REIT for federal income tax purposes.

The ownership limit may have the effect of delaying, deferring or preventing a change in control and, therefore, could adversely affect our shareholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with a change in control.

- ***A REIT cannot invest more than 25% of its total assets in the stock or securities of one or more taxable REIT subsidiaries; therefore, our taxable subsidiaries cannot constitute more than 25% of our total assets***

A taxable REIT subsidiary is a corporation, other than a REIT or a qualified REIT subsidiary, in which a REIT owns stock and which elects taxable REIT subsidiary status. The term also includes a corporate subsidiary in which the taxable REIT subsidiary owns more than a 35% interest. A REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be qualifying income if earned directly by the parent REIT. Overall, at the close of any calendar quarter, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more taxable REIT subsidiaries.

The stock and securities of our taxable REIT subsidiaries are expected to represent less than 25% of the value of our total assets. Furthermore, we intend to monitor the value of our investments in the stock and securities of our taxable REIT subsidiaries to ensure compliance with the above-described 25% limitation. We cannot assure you, however, that we will always be able to comply with the 25% limitation so as to maintain REIT status.

- ***Taxable REIT subsidiaries are subject to tax at the regular corporate rates, are not required to distribute dividends, and the amount of dividends a taxable REIT subsidiary can pay to its parent REIT may be limited by REIT gross income tests***

A taxable REIT subsidiary must pay income tax at regular corporate rates on any income that it earns. Our taxable REIT subsidiaries will pay corporate income tax on their taxable income, and their after-tax net income will be available for distribution to us. Such income, however, is not required to be distributed.

Moreover, the annual gross income tests that must be satisfied to ensure REIT qualification may limit the amount of dividends that we can receive from our taxable REIT subsidiaries and still maintain our REIT status. Generally, not more than 25% of our gross income can be derived from non-real estate related sources, such as dividends from a taxable REIT subsidiary. If, for any taxable year, the dividends we received from our taxable REIT subsidiaries, when added to our other items of non-real estate related income, represented more than 25% of our total gross income for the year, we could be denied REIT status, unless we were able to demonstrate, among other things, that our failure of the gross income test was due to reasonable cause and not willful neglect.

The limitations imposed by the REIT gross income tests may impede our ability to distribute assets from our taxable REIT subsidiaries to us in the form of dividends. Certain asset transfers may, therefore, have to be structured as purchase and sale transactions upon which our taxable REIT subsidiaries recognize taxable gain.

- ***If interest accrues on indebtedness owed by a taxable REIT subsidiary to its parent REIT at a rate in excess of a commercially reasonable rate, or if transactions between a REIT and a taxable REIT subsidiary are entered into on other than arm's-length terms, the REIT may be subject to a penalty tax***

If interest accrues on an indebtedness owed by a taxable REIT subsidiary to its parent REIT at a rate in excess of a commercially reasonable rate, the REIT is subject to tax at a rate of 100% on the excess of (i) interest payments made by a taxable REIT subsidiary to its parent REIT over (ii) the amount of interest that would have been payable had interest accrued on the indebtedness at a commercially reasonable rate. A tax at a rate of 100% is also imposed on any transaction between a taxable REIT subsidiary and its parent REIT to the extent the transaction gives rise to deductions to the taxable REIT subsidiary that are in excess of the deductions that would have been allowable had the transaction been entered into on arm's-length terms. We will scrutinize all of our transactions with our taxable REIT subsidiaries in an effort to ensure that we do not become subject to these taxes. We may not be able to avoid application of these taxes.

Risks of Ownership of Our Common Stock

We may change our policies without stockholder approval.

Our board of directors and management determine all of our policies, including our investment, financing and distribution policies. They may amend or revise these policies at any time without a vote of our stockholders. Policy changes could adversely affect our financial condition, results of operations, the market price of our common stock or our ability to pay dividends or distributions.

Our governing documents and Maryland law impose limitations on the acquisition of our common stock and changes in control that could make it more difficult for a third party to acquire us.

Maryland Business Combination Act

The Maryland General Corporation Law establishes special requirements for "business combinations" between a Maryland corporation and "interested stockholders" unless exemptions are applicable. An interested stockholder is any person who beneficially owns 10% or more of the voting power of our then-outstanding voting stock. Among other things, the law prohibits for a period of five years a merger and other similar transactions between us and an interested stockholder unless the board of directors approved the transaction prior to the party's becoming an interested stockholder. The five-year period runs from the most recent date on which the interested stockholder became an interested stockholder. The law also requires a super majority stockholder vote for such transactions after the end of the five-year period. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares; and

- two-thirds of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder or an affiliate of the interested stockholder with whom the business combination is to be effected.

As permitted by the Maryland General Corporation Law, we have elected not to be governed by the Maryland business combination statute. We made this election by opting out of this statute in our articles of incorporation. If, however, we amend our articles of incorporation to opt back in to the statute, the business combination statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

Maryland Control Share Acquisition Act

Maryland law provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of the stockholders. Two-thirds of the shares eligible to vote must vote in favor of granting the "control shares" voting rights. "Control shares" are shares of stock that, taken together with all other shares of stock the acquirer previously acquired, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one third of all voting power;

- one-third or more but less than a majority of all voting power; or

- a majority or more of all voting power.

Control shares do not include shares of stock the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If a person who has made (or proposes to make) a control share acquisition satisfies certain conditions (including agreeing to pay expenses), he may compel our board of directors to call a special meeting of stockholders to consider the voting rights of the shares. If such a person makes no request for a meeting, we have the option to present the question at any stockholders' meeting.

If voting rights are not approved at a meeting of stockholders then, subject to certain conditions and limitations, we may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. We will determine the fair value of the shares, without regard to voting rights, as of the date of either:

- the last control share acquisition; or

- the meeting where stockholders considered and did not approve voting rights of the control shares.

If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may obtain rights as objecting stockholders and, thereunder, exercise appraisal rights. This means that you would be able to force us to redeem your stock for fair value. Under Maryland law, the fair value may not be less than the highest price per share paid in the control share acquisition. Furthermore, certain limitations otherwise applicable to the exercise of dissenters' rights would not apply in the context of a control share acquisition. The control share acquisition statute would not apply to shares acquired in a merger, consolidation or share exchange if we were a party to the transaction. The control share acquisition statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders' best interests.

The market price and trading volume of our shares of common stock may be volatile and issuances of large amounts of shares of our common stock could cause the market price of our common stock to decline.

As of February 24, 2011, 804,165,257 shares of our common stock were outstanding. If we issue a significant number of shares of common stock or securities convertible into common stock in a short period of time, there could be a dilution of the existing common stock and a decrease in the market price of the common stock.

The market price of our shares of common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our shares of common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our shares of common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our shares of common stock include those set forth under "Special Note Regarding Forward-Looking Statements" as well as:

- actual or anticipated variations in our quarterly operating results or business prospects;
- changes in our earnings estimates or publication of research reports about us or the real estate industry;
- an inability to meet or exceed securities analysts' estimates or expectations;
- increases in market interest rates;
- hedging or arbitrage trading activity in our shares of common stock;
- capital commitments;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of management personnel;
- actions by institutional shareholders;
- speculation in the press or investment community;
- changes in our distribution policy;
- general market and economic conditions; and
- future sales of our shares of common stock or securities convertible into, or exchangeable or exercisable for, our shares of common stock.

Holders of our shares of common stock will be subject to the risk of volatile market prices and wide fluctuations in the market price of our shares of common stock. In addition, many of the factors listed above are beyond our control. These factors may cause the market price of our shares of common stock to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market prices of our shares of common stock will not fall in the future.

The repurchase right in our Convertible Senior Notes triggered by a fundamental change could discourage a potential acquiror.

If we undergo certain fundamental changes, such as the acquisition of 50% of the voting power of all shares of our common equity entitled to vote generally in the election of directors, holders of our Convertible Senior Notes may require us to repurchase all or a portion of their notes at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest up to, but excluding, the repurchase date. We will pay for all notes so repurchased with shares of our common stock using a price per share equal to the average daily volume-weighted average price of our common stock for the 20 consecutive trading days ending on the trading day immediately prior to the occurrence of the fundamental change. The issuance of these shares of common stock upon certain fundamental changes could discourage a potential acquiror.

Broad market fluctuations could negatively impact the market price of our shares of common stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies' operating performance. These broad market fluctuations could reduce the market price of our shares of common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations, which could lead to a material decline in the market price of our shares of common stock.

Regulatory Risks

Loss of Investment Company Act exemption would adversely affect us.

We intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we fail to qualify for this exemption, our ability to use leverage would be substantially reduced, and we would be unable to conduct our business as described in this Form 10-K.

We currently rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) as interpreted by the staff of the SEC, requires us to invest at least 55% of our assets in “mortgages and other liens on and interest in real estate” (or Qualifying Real Estate Assets) and at least 80% of our assets in Qualifying Real Estate Assets plus real estate related assets. The assets that we acquire, therefore, are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. If the SEC determines that any of these securities are not qualifying interests in real estate or real estate related assets, adopts a contrary interpretation with respect to these securities or otherwise believes we do not satisfy the above exceptions, we could be required to restructure our activities or sell certain of our assets. We may be required at times to adopt less efficient methods of financing certain of our mortgage assets and we may be precluded from acquiring certain types of higher yielding mortgage assets. The net effect of these factors will be to lower our net interest income. If we fail to qualify for exemption from registration as an investment company, our ability to use leverage would be substantially reduced, and we would not be able to conduct our business as described. Our business will be materially and adversely affected if we fail to qualify for this exemption.

Compliance with proposed and recently enacted changes in securities laws and regulations increases our costs.

The Sarbanes-Oxley Act of 2002 and rules and regulations promulgated by the SEC and the New York Stock Exchange have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. We believe that these rules and regulations will make it more costly for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified members of management and our board of directors, particularly to serve on our audit committee.

The Dodd-Frank Act contains many regulatory changes and calls for future rulemaking that may affect our business, including, but not limited to resolutions involving derivatives, risk-retention in securitizations and short-term financings. We are evaluating, and will continue to evaluate the potential impact of regulatory change under the Dodd-Frank Act.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive and administrative office is located at 1211 Avenue of the Americas, Suite 2902 New York, New York 10036, telephone 212-696-0100. This office is leased under a non-cancelable lease expiring December 31, 2015.

ITEM 3. 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 effect on our consolidated financial statements.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading publicly on October 8, 1997 and is traded on the New York Stock Exchange under the trading symbol "NLY." As of February 16, 2011, we had 717,915,257 shares of common stock issued and outstanding which were held by approximately 473,679 beneficial holders.

The following table sets forth, for the periods indicated, the high, low, and closing sales prices per share of our common stock as reported on the New York Stock Exchange composite tape and the cash dividends declared per share of our common stock.

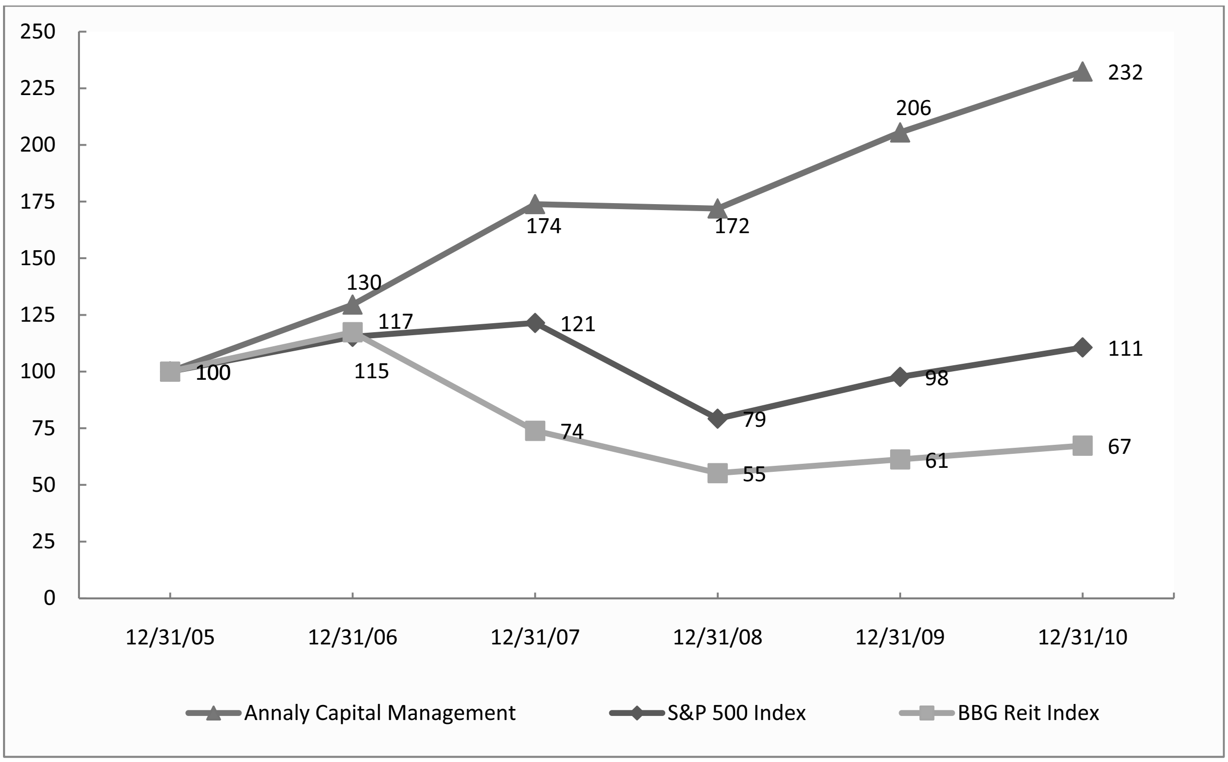
	Stock Prices		
	High	Low	Close
First Quarter ended March 31, 2010	$18.75	$16.96	$17.18
Second Quarter ended June 30, 2010	$18.10	$14.09	$17.15
Third Quarter ended September 30, 2010	$18.54	$16.73	$17.60
Fourth Quarter ended December 31, 2010	$18.37	$17.25	$17.92
	High	Low	Close
First Quarter ended March 31, 2009	$16.29	$12.07	$13.87
Second Quarter ended June 30, 2009	$15.56	$13.21	$15.14
Third Quarter ended September 30, 2009	$19.74	$14.96	$18.14
Fourth Quarter ended December 31, 2009	$18.99	$16.74	$17.35

	Common Dividends Declared Per Share
First Quarter ended March 31, 2010	$0.65
Second Quarter ended June 30, 2010	$0.68
Third Quarter ended September 30, 2010	$0.68
Fourth Quarter ended December 31, 2010	$0.64
First Quarter ended March 31, 2009	$0.50
Second Quarter ended June 30, 2009	$0.60
Third Quarter ended September 30, 2009	$0.69
Fourth Quarter ended December 31, 2009	$0.75

We intend to pay quarterly dividends and to distribute to our stockholders all or substantially all of our taxable income in each year (subject to certain adjustments). This will enable us to qualify for the tax benefits accorded to a REIT under the Code. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under the caption "Risk Factors." All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. No dividends can be paid on our common stock unless we have paid full cumulative dividends on our preferred stock. From the date of issuance of our preferred stock through December 31, 2010, we have paid full cumulative dividends on our preferred stock.

SHARE PERFORMANCE GRAPH

The following graph and table set forth certain information comparing the yearly percentage change in cumulative total return on our common stock to the cumulative total return of the Standard & Poor's Composite 500 stock Index or S&P 500 Index, and the Bloomberg REIT Mortgage Index, or BBG REIT index, an industry index of mortgage REITs. The comparison is for the period from December 31, 2005 to December 31, 2010 and assumes the reinvestment of dividends. The graph and table assume that $100 was invested in our common stock and the two other indices on December 31, 2005. Upon written request we will provide stockholders with a list of the REITs included in the BBG REIT Index.



	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
Annaly Capital Management, Inc.	100	130	174	172	206	232
S&P 500 Index	100	115	121	79	98	111
BBG Reit Index	100	117	74	55	61	67

The information in the share performance graph and table has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future share performance.

EQUITY COMPENSATION PLAN INFORMATION

On May 27, 2010, at our 2010 Annual Meeting of Stockholders, our stockholders approved the 2010 Equity Incentive Plan. The 2010 Equity Incentive Plan authorizes the Compensation Committee of the board of directors to grant options, stock appreciation rights, dividend equivalent rights, or other share-based award, including restricted shares up to an aggregate of 25,000,000 shares, subject to adjustments as provided in the 2010 Equity Incentive Plan. On June 28, 2010, we granted to each non-management director of the Company options to purchase 1,250 shares of our common stock under the 2010 Equity Incentive Plan. The stock options were issued at the current market price on the date of grant and immediately vested with a contractual term of 5 years. The grant date fair value is calculated using the Black-Scholes option valuation model.

We had previously adopted a long term stock incentive plan for executive officers, key employees and nonemployee directors (the Incentive Plan). The Incentive Plan authorizes the Compensation Committee of the board of directors to grant awards, including incentive stock options as defined under Section 422 of the Code (ISOs) and options not so qualified (NQSOs). 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 outstanding shares of our common stock up to a ceiling of 8,932,921 shares. No further awards will be made under the Incentive Plan, although existing awards will remain effective. Stock options were 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. For a description of our Incentive Plan, see Note 14 to the Financial Statements.

The following table provides information as of December 31, 2010 concerning shares of our common stock authorized for issuance under the 2010 Incentive Plan and Incentive Plan (the Incentive Plans).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under the Incentive Plans (excluding previously issued)
Equity compensation plans approved by security holders	6,891,975	$15.33	25,181,850
Equity compensation plans not approved by security holders	-	-	-
Total	6,891,975	$15.33	25,181,850

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from our audited financial statements for the years ended December 31, 2010, 2009, 2008, 2007, and 2006. The selected financial data should be read in conjunction with the more detailed information contained in the Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

SELECTED FINANCIAL DATA
(dollars in thousands, except for per share data)

Statement of Operations Data	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Interest income:					
Investment securities	$2,676,307	$2,922,499	$3,115,428	$2,355,447	$1,221,882
Securities loaned	3,997	103	-	-	-
U.S. Treasury Securities	2,830	-	-	-	-
Total interest income	2,683,134	2,922,602	3,115,428	2,355,447	1,221,882
Interest expense:					
Repurchase agreements	397,971	575,867	1,560,976	1,892,372	1,043,898
Interest rate swaps	735,107	719,803	327,936	34,093	11,115
Convertible Senior Notes	24,228	-	-	-	-
Securities borrowed	3,377	92	-	-	-
U.S. Treasury Securities sold, not yet purchased	2,649	-	-	-	-
Total interest expense	1,163,332	1,295,762	1,888,912	1,926,465	1,055,013
Net interest income	1,519,802	1,626,840	1,226,516	428,982	166,869
Other (loss) income:					
Investment advisory and service fees	58,073	48,952	27,891	22,028	22,351
Gain (loss) on sale of Mortgage-Backed Securities and Agency debentures	181,791	99,128	10,713	19,062	(3,862)
Gain on termination of interest rate swaps	-	-	-	2,096	10,674
Income from trading securities	-	-	9,695	19,147	3,994
Dividend income	31,038	17,184	2,713	91	-
Loss on other-than-temporarily impaired securities	-	-	(31,834)	(1,189)	(52,348)
Loss on receivable from Prime Broker	-	(13,613)	-	-	-
Unrealized gain (loss) on interest rate swaps	(318,832)	349,521	(768,268)	-	-
Net loss on trading securities	(2,351)	-	-	-	-
Income from underwriting	2,095	-	-	-	-
Total other (loss) income	(48,186)	501,172	(749,090)	61,235	(19,191)
Expenses:					
Distribution fees	360	1,756	1,589	3,647	3,444
General and administrative expenses	171,487	130,152	103,622	62,666	40,063
Total Expenses	171,847	131,908	105,211	66,313	43,507
Impairment of intangible for customer relationships	-	-	-	-	2,493
Income before income (loss) on equity method investment, income taxes and noncontrolling interest	1,299,769	1,996,104	372,215	423,904	101,678
Income (loss) on equity method investment	2,945	(252)	-	-	-

Income taxes	(35,434)	(34,381)	(25,977)	(8,870)	(7,538)
Income before noncontrolling interest	1,267,280	1,961,471	346,238	415,034	94,140
Noncontrolling interest	-	-	58	650	324
Net income	1,267,280	1,961,471	346,180	414,384	93,816
Dividends on preferred stock	18,033	18,501	21,177	21,493	19,557
Net income available to common shareholders	$1,249,247	$1,942,970	$325,003	$392,891	$74,259
Total assets	$83,026,590	$69,376,190	$57,597,615	$54,002,514	$30,715,980
6.00% Series B Cumulative Convertible Preferred Stock	$40,032	$63,114	$96,042	$111,466	$111,466
Basic net income per average common share	$2.12	$3.55	$0.64	$1.32	$0.44
Diluted net income per average common share	$2.04	$3.52	$0.64	$1.31	$0.44
Dividends declared per common share	$2.65	$2.54	$2.08	$1.04	$0.57

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We own, manage, and finance a portfolio of real estate related investments, including mortgage pass-through certificates, CMOs, Agency callable debentures, and other securities representing interests in or obligations backed by pools of mortgage loans. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our interest-earning assets and the costs of borrowing to finance our acquisition of interest-earning assets and from dividends we receive from our subsidiaries. Our wholly-owned subsidiaries offer diversified real estate, asset management and other financial services. FIDAC and Merganser are our wholly-owned taxable REIT subsidiaries that are registered investment advisors that generate advisory and service fee income. RCap is our wholly-owned broker dealer taxable REIT subsidiary which generates fee income. We also own an investment fund.

We are primarily engaged in the business of investing, on a leveraged basis, in mortgage pass-through certificates, CMOs and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by Freddie Mac, Fannie Mae and Ginnie Mae. We also invest in Federal Home Loan Bank (or FHLB), Freddie Mac and Fannie Mae debentures.

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 high-quality rated 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 (or 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.

We may acquire Agency 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, substantially all of the Agency 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 Agency mortgage-backed securities portfolio increase, related purchase premium amortization increases, thereby reducing the net yield on such assets. The CPR on our Agency mortgage-backed securities portfolio averaged 27%, 19%

and 13% for the years ended December 31, 2010, 2009 and 2008, 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.

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 Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income	Net Interest Rate Spread
	(ratios for the quarters have been annualized, dollars in thousands)							
Quarter Ended December 31, 2010	$74,749,528	$682,087	3.65%	$67,448,046	$304,013	1.80%	$378,074	1.85%
Quarter Ended September 30, 2010	$69,242,085	$702,976	4.06%	$62,034,137	$302,568	1.95%	$400,408	2.11%
Quarter Ended June 30, 2010	$61,952,037	$643,682	4.16%	$56,190,308	$280,242	2.00%	$363,440	2.16%
Quarter Ended March 31, 2010	$61,983,900	$654,389	4.22%	$55,298,875	$276,509	2.00%	$377,880	2.22%

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

The following table presents the CPR experienced on our Agency mortgage-backed securities portfolio, on an annualized basis, for the quarterly periods presented.

Quarter Ended	CPR
December 31, 2010	23%
September 30, 2010	20%
June 30, 2010	32%
March 31, 2010	34%

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. In this “Management Discussion and Analysis of Financial Condition and Results of Operations”, net income attributable to controlling interest is referred to as net income.

Recent Developments

During the period of market dislocation that began in August 2007, fiscal and monetary policymakers established new liquidity facilities for primary dealers and commercial banks, reduced short-term interest rates, and passed legislation intended to address the challenges of mortgage borrowers and lenders. In September 2008, Fannie Mae and Freddie Mac were placed into the conservatorship of the Federal Housing Finance Agency, or FHFA, their federal regulator, pursuant to its powers under The Federal Housing Finance Regulatory Reform Act of 2008, a part of the Housing and Economic Recovery Act of 2008. In addition to FHFA becoming the conservator of Fannie Mae and Freddie Mac, the Treasury and FHFA entered into Preferred Stock Purchase Agreements (PSPAs) between the Treasury and Fannie Mae and Freddie Mac pursuant to which the Treasury will ensure that each of Fannie Mae and Freddie Mac maintains a positive net worth. On December 24, 2009, the Treasury amended the terms of the PSPAs with Fannie Mae and Freddie Mac to remove the $200 billion per institution limit established under the PSPAs until the end of 2012. The

Treasury also amended the PSPAs with respect to the requirements for Fannie Mae and Freddie Mac to reduce their portfolios.

In 2010, Freddie Mac and Fannie Mae began purchasing seriously delinquent mortgage loans out of securities that they currently guarantee. The loans which they consider seriously delinquent are those loans that are more than 120 days past due. The repurchases materially impacted the rate of principal prepayments on our Agency mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac because of higher premium amortization expense, a decline in higher yielding Agency mortgage-backed securities assets and an increase in lower yielding investments. As of December 31, 2010, we had net purchase premiums of $2.3 billion, or 3.0% of current par value, on our Agency mortgage-backed securities. In addition, the U.S. Government, the Board of Governors of the Federal Reserve System, or Federal Reserve, and other governmental and regulatory bodies may take other actions in the future to address the financial crisis and recovery from the crisis.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act). The Dodd-Frank Act provides for new regulations on financial institutions and creates new supervisory and advisory bodies, including the new Consumer Financial Protection Bureau. The Dodd-Frank Act tasks many agencies with issuing a variety of new regulations, including rules related to mortgage origination and servicing, securitization and derivatives. Because a significant number of regulations under the Dodd-Frank Act have either not yet been proposed or not yet been adopted in final form, it is not possible for us to predict how the Dodd-Frank Act will impact our business.

On February 11, 2011, the U.S Department of the Treasury issued a White Paper titled "Reforming America's Housing Finance Market" that lays out, among other things, proposals to limit or potentially wind down the role that Fannie Mae and Freddie Mac play in the mortgage market. Any such proposals, if enacted, may have broad adverse implications for the mortgage-backed securities market and our business, operations and financial condition. We expect such proposals to be the subject of significant discussion and it is not yet possible to determine whether or when such proposals may be enacted, what form any final legislation or policies might take and how proposals, legislation or policies emanating from the White Paper may impact the mortgage-backed securities market and our business, operations and financial condition. We are evaluating the potential impact of the proposals set forth in the White Paper.

Market conditions are evolving on a number of fronts. Regulatory and technical dynamics continue to develop, and monetary policy initiatives, including additional large scale asset purchases by the Federal Reserve, continue to support asset prices and lower yields across a wide range of market sectors, including ours.

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 GAAP. 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.

Fair Value of Investment Securities: Investment Securities 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 determine fair values from internal sources and compare them to independent sources. Fair values from internal prices are compared to independent sources for reasonableness. 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) our intent to sell the Investment Securities, (2) whether it is more likely than not that we will be required to sell the Investment Securities before recovery, or (3) whether we do not expect to recover the entire amortized cost basis of the Investment Securities. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the statement of earnings, while the balance of impairment related to other factors will be recognized in other comprehensive income (or OCI).

Interest Income: 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 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.

Derivative Financial Instruments/Hedging Activity: Prior to the fourth quarter of 2008, we designated interest rate swaps as cash flow hedges, whereby the swaps were recorded at fair value on our balance sheet as assets and liabilities with any changes in fair value recorded in OCI. In a cash flow hedge, a swap would exactly match the pricing date of the relevant repurchase agreement. Through the end of the third quarter of 2008 we continued to be able to effectively match the swaps with the repurchase agreements therefore entering into effective hedge transactions. However, due to the volatility of the credit markets, it is no longer practical to match the pricing dates of both the swaps and the repurchase agreements.

As a result, we voluntarily discontinued hedge accounting after the third quarter of 2008 through a combination of de-designating previously defined hedge relationships and not designating new contracts as cash flow hedges. The de-designation of cash flow hedges requires that the net derivative gain or loss related to the discontinued cash flow hedge should continue to be reported in accumulated OCI, unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. We continue to hold repurchase agreements in excess of swap contracts and have no indication that interest payments on the hedged repurchase agreements are in jeopardy of discontinuing. Therefore, the deferred losses related to these derivatives that have been de-designated will not be recognized immediately and will remain in OCI. These losses are reclassified into earnings during the contractual terms of the swap agreements starting as of October 1, 2008. Changes in the unrealized gains or losses on the interest rate swaps subsequent to September 30, 2008 are reflected in our statement of operations.

Results of Operations:

Net Income Summary

For the year ended December 31, 2010, our net income was $1.3 billion or $2.12 basic net income per average share available to common shareholders, as compared to $2.0 billion net income or $3.55 basic net income per average share related to common shareholders for the year ended December 31, 2009, and net income was $346.2 million or $0.64 basic net income per average share related to common shareholders for the year ended December 31, 2008. Net income per average share decreased by $1.43 per average share available to common shareholders and total net income decreased $694.2 million for the year ended December 31, 2010, when compared to the year ended December 31, 2009. We attribute the decrease in total net income for the year ended December 31, 2010 from the year ended December 31, 2009 in part to recording of unrealized loss related to interest rate swaps of $318.8 million for the year ended December 31, 2010, compared to an unrealized gain of $349.5 million which was recorded in for the year ended December 31, 2009. Net income for the year ended December 31, 2010, also decreased due to net interest income decreasing by $107.0 million for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due to the decline in the interest rate spread.

We attribute the increase in total net income for the year ended December 31, 2009 from the year ended December 31, 2008 in part to recording of unrealized gains related to interest rate swaps of $349.5 million for the year ended December 31, 2009, comparison to an unrealized loss of $768.3 million which was recorded in for the year ended December 31, 2008. Net income for the year ended December 31, 2009, also increased due to net interest income increasing by $400.3 million for the year ended December 31, 2009, as compared to the year ended December 31, 2008, due to the improved interest rate spread. For the year ended December 31, 2009, net gain on sale of Agency mortgage-backed securities was $99.1 million, as compared to a net gain of $10.7 million for the year ended December 31, 2008.

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

	For the Years Ended December 31, 2010	2009	2008
Interest income			
Investment Securities	$2,676,307	$2,922,499	$3,115,428
Securities loaned	3,997	103	-
U.S Treasury Securities	2,830	-	-
Total interest income	2,683,134	2,922,602	3,115,428
Interest expense			
Repurchase agreements	397,971	575,867	1,560,976
Interest rate swaps	735,107	719,803	327,936
Convertible Notes	24,228	-	-
Securities borrowed	3,377	-	-
U.S Treasuries Sold, not yet purchased	2,649	92	-
Total interest expense	1,163,332	1,295,762	1,888,912
Net interest income	1,519,802	1,626,840	1,226,516
Other (loss) income:			
Investment advisory and service fees	58,073	48,952	27,891
Gain on sale of Mortgage-Backed Securities and agency debentures	181,791	99,128	10,713
Income from trading securities	-	-	9,695
Dividend income	31,038	17,184	2,713
Loss on other-than-temporarily impaired securities	-	-	(31,834)
Loss on receivable from Prime Broker	-	(13,613)	-
Unrealized (loss) gain on interest rate swaps	(318,832)	349,521	(768,268)
Net Loss on trading securities	(2,351)	-	-
Income from underwriting	2,095	-	-
Total other (loss) income	(48,186)	501,172	(749,090)
Expenses:			
Distribution fees	360	1,756	1,589
General and administrative expenses	171,487	130,152	103,622
Total expenses	171,847	131,908	105,211
Income before income on equity method investment, income taxes and noncontrolling interest	1,299,769	1,996,104	372,215
Income on equity method investment	2,945	(252)	-
Income taxes	(35,434)	(34,381)	(25,977)
Net income	1,267,280	1,961,471	346,238
Noncontrolling interest	-	-	58
Net income attributable to controlling interest	1,267,280	1,961,471	346,180
Dividends on preferred stock	18,033	18,501	21,177
Net income available to common shareholders	$1,249,247	$1,942,970	$325,003
Weighted average number of basic common shares outstanding	588,192,659	546,973,036	507,024,596
Weighted average number of diluted common shares outstanding	625,307,174	553,129,907	507,024,596

Basic net income per average common share	$2.12	$3.55	$0.64
Diluted net income per average common share	$2.04	$3.52	$0.64
Average total assets	$76,242,938	$65,224,198	$58,540,508
Average equity	$9,701,233	$8,644,228	$6,679,431
Return on average total assets	1.66%	3.01 %	0.59%
Return on average equity	13.06%	22.69%	5.18%

Interest Income and Average Earning Asset Yield

We had average earning assets of $67.0 billion, $58.6 billion, and $56.0 billion for the years ended December 31, 2010, 2009 and 2008, respectively. Our primary source of income is interest income. Our interest income was $2.7 billion, $2.9 billion and $3.1 billion for the years ended December 31, 2010, 2009, and 2008, respectively. The yield on average Interest Earning Assets was 4.01%, 4.99%, and 5.57% for the respective years. The prepayment speeds increased to an average of 27% CPR for the year ended December 31, 2010 from an average of 19% CPR for the year ended December 31, 2009. For the year ended December 31, 2010, as compared to the year ended December 31, 2009, interest income declined by $239.5 million, due to the decline in yield on average Interest Earning Assets of 98 basis points. Interest income decreased by $193.0 million for the year ended December 31, 2009, as compared to the year ended December 31, 2008, due to the decrease in yield on interest earning assets of 58 basis points.

Interest Expense and the Cost of Funds

Our largest expense is the cost of borrowed funds. We had average borrowed funds of $60.2 billion and total interest expense of $1.2 billion for the year ended December 31, 2010. We had average borrowed funds of $52.4 billion and total interest expense of $1.3 billion for the year ended December 31, 2009. We had average borrowed funds of $50.3 billion and total interest expense of $1.9 billion for the year ended December 31, 2008. Our average cost of funds was 1.93%, 2.47% and 3.76% for the years ended December 31, 2010, 2009 and 2008, respectively. The cost of funds rate decreased by 54 basis points and the average borrowed funds increased by $7.8 billion for the year ended December 31, 2010 when compared to the year ended December 31, 2009. The cost of funds rate decreased by 129 basis points and the average borrowed funds increased by $2.1 billion for the year ended December 31, 2009 when compared to the year ended December 31, 2008. Interest expense for the year ended December 31, 2010 decreased by $132.4 million over the prior year due to the substantial decrease in the average cost of funds rate. Interest expense for the year-ended December 31, 2009 decreased by $593.1 million when compared to interest expense for the year ended December 31, 2008. Our average cost of funds was 1.66% above average one-month LIBOR and 1.41% above average six-month LIBOR for the year ended December 31, 2010. Our average cost of funds was 2.14% above average one-month LIBOR and 1.36% above average six-month LIBOR for the year ended December 31, 2009. Our average cost of funds was 1.08% above average one-month LIBOR and 0.70% above average six-month LIBOR for the year ended December 31, 2008.

The table below shows our average borrowed funds and average cost of funds as compared to average one-month and average six-month LIBOR for the years ended December 31, 2010, 2009, 2008, 2007, and 2006 and the four quarters in 2010.

Average Cost of Funds

(Ratios for the four quarters in 2009 have been annualized, dollars in thousands)

	Average Borrowed Funds	Interest-Bearing Liabilities at Period End	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 Cost of Funds Relative to Average One-Month LIBOR	Average Cost of Funds Relative to Average Six-Month LIBOR
For the Year Ended December 31, 2010	$60,242,842	$67,260,840	$1,163,332	1.93%	0.27%	0.52%	(0.25%)	1.66%	1.41%
For the Year Ended December 31, 2009	$52,361,607	$54,627,186	$1,295,762	2.47%	0.33%	1.11%	(0.78%)	2.14%	1.36%
For the Year Ended December 31, 2008	$50,270,226	$46,674,885	$1,888,912	3.76%	2.68%	3.06%	(0.38%)	1.08%	0.70%
For the Year Ended December 31, 2007	$37,967,215	$46,079,395	$1,926,465	5.07%	5.19%	5.19%	(0.00%)	(0.12%)	(0.12%)
For the Year Ended December 31, 2006	$21,399,130	$27,555,968	$1,055,013	4.93%	5.03%	5.21%	(0.18%)	(0.10%)	(0.28%)
For the Quarter Ended December 31, 2010	$67,448,046	$67,260,840	$304,013	1.80%	0.26%	0.45%	(0.19%)	1.54%	1.35%
For the Quarter Ended September 30, 2010	$62,034,137	$62,583,593	$302,568	1.95%	0.29%	0.59%	(0.30%)	1.66%	1.36%
For the Quarter Ended June 30, 2010	$56,190,308	$57,255,284	$280,242	2.00%	0.32%	0.63%	(0.31%)	1.68%	1.37%
For the Quarter Ended March 31, 2010	$55,298,875	$54,444,857	$276,509	2.00%	0.23%	0.40%	(0.17%)	1.77%	1.60%

Net Interest Income

Our net interest income, which equals interest income less interest expense, totaled $1.5 billion. $1.6 billion and $1.2 billion for the years ended December 31, 2010, 2009 and 2008, respectively. Our net interest income decreased by $107.0 million for the year ended December 31, 2010, as compared to the year ended December 31, 2009 because of the decreased interest rate spread. Our net interest rate spread for the year ended December 31, 2010 was 2.08%, or 44 basis points less than the interest rate spread of for the year ended December 31, 2009 of 2.52%. This 44 basis point decrease in interest rate spread for 2010 over the spread for 2009 was the result of the a decrease in average yield on average interest earning assets of 98 basis points which was only partially offset by the decrease in the average cost of funds of 54 basis points. Our net interest income increased for the year ended December 31, 2009, as compared to the year ended December 31, 2008, because of the increased average asset base of $12.2 billion in 2009 and the increased interest rate spread of 111 basis points.

The table below shows our interest income by average Interest Earning Assets 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 years ended December 31, 2010, 2009, 2008, 2007, and 2006 and the four quarters in 2010.

Net Interest Income

(Ratios for the four quarters in 2010 have been annualized, dollars in thousands)

	Average Interest Earning Assets Held	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income	Net Interest Rate Spread
For the Year Ended December 31, 2010	$66,981,887	$2,683,134	4.01%	$60,242,842	$1,163,332	1.93%	$1,519,802	2.08%
For the Year Ended December 31, 2009	$58,554,200	$2,922,602	4.99%	$52,361,607	$1,295,762	2.47%	$1,626,840	2.52%
For the Year Ended December 31, 2008	$55,962,519	$3,115,428	5.57%	$50,270,226	$1,888,912	3.76%	$1,226,516	1.81%
For the Year Ended December 31, 2007	$40,800,148	$2,355,447	5.77%	$37,967,215	$1,926,465	5.07%	$428,982	0.70%
For the Year Ended December 31, 2006	$23,029,195	$1,221,882	5.31%	$21,399,130	$1,055,013	4.93%	$166,869	0.38%
For the Quarter Ended December 31, 2010	$74,749,528	$682,087	3.65%	$67,448,046	$304,013	1.80%	$378,074	1.85%
For the Quarter Ended September 30, 2010	$69,242,085	$702,976	4.06%	$62,034,137	$302,568	1.95%	$400,408	2.11%
For the Quarter Ended June 30, 2010	$61,952,037	$643,682	4.16%	$56,190,308	$280,242	2.00%	$363,440	2.16%
For the Quarter Ended March 31, 2010	$61,983,900	$654,389	4.22%	$55,298,875	$276,509	2.00%	$377,880	2.22%

Investment Advisory and Service Fees

FIDAC and Merganser are registered investment advisors specializing in managing fixed income securities. At December 31, 2010, FIDAC and Merganser had under management approximately $12.4 billion in net assets and $20.1 billion in gross assets, compared to $11.5 billion in net assets and $19.1 billion in gross assets at December 31, 2009. FIDAC had $7.0 billion in net assets and $15.3 billion in gross assets at December 31, 2008. Net investment advisory and service fees for the years ended December 31, 2010, 2009, and 2008 totaled $57.7 million, $47.2 million, and $26.3 million, respectively, net of fees paid to third parties pursuant to distribution service agreements for facilitating and promoting distribution of shares or units to clients. Gross assets under management will vary from time to time because of changes in the amount of net assets FIDAC and Merganser manage as well as changes in the amount of leverage used by the various funds and accounts FIDAC manages.

Gains and Losses on Sales of Interest Earning Assets and Interest Rate Swaps

For the year ended December 31, 2010, we disposed of Interest Earning Assets with a carrying value of $10.6 billion for aggregate net gain of $181.8 million. For the year ended December 31, 2009 we disposed of Interest Earning Assets with a carrying value of $4.6 billion for an aggregate net gain of $99.1 million. For the year ended December 31, 2008, disposed of Interest Earning Assets with a carrying value of $15.2 billion for a net gain of $10.7 million. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance sheet as part of our asset/liability management strategy.

Dividend Income from Available-For-Sale Equity Securities

Dividend income from our investment in Chimera Investment Corporation (or Chimera) totaled $31.0 million for the year ended December 31, 2010, $17.2 million for the year ended December 31, 2009 and $2.7 million for the year ended December 31, 2008.

Loss on Other-Than-Temporarily Impaired Securities

At each quarter end, we review each of our securities to determine if an 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 or we are required to sell for regulatory or other reasons. For the years ended December 31, 2010 and 2009 there was no loss on other-than-temporarily impaired securities. For the year ended December 31, 2008 the loss on other-than-temporarily impaired securities totaled $31.8 million.

General and Administrative Expenses

General and administrative (or G&A) expenses were $171.5 million for the year ended December 31, 2010, $130.2 million for the year ended December 31, 2009, and $103.6 million for the year ended December 31, 2008. G&A expenses as a percentage of average total assets was 0.22%, 0.20%, and 0.18% for the years ended December 31, 2010, 2009, and 2008, respectively. The increase in G&A expenses of $41.3 million for the year December 31, 2010 was primarily the result of increased compensation costs related to us and our subsidiaries. Staff increased from 65 at the end of 2008 to 87 at the end of 2009 and 114 at the end of 2010.

The table below shows our total G&A expenses as compared to average total assets and average equity for the years ended December 31, 2010, 2009, 2008, 2007, and 2006 and the four quarters in 2010.

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 Year Ended December 31, 2010	$171,487	0.22%	1.76%
For the Year Ended December 31, 2009	$130,152	0.20%	1.51%
For the Year Ended December 31, 2008	$103,622	0.18%	1.55%
For the Year Ended December 31, 2007	$62,666	0.15%	1.69%
For the Year Ended December 31, 2006	$40,063	0.17%	2.00%
For the Quarter Ended December 31, 2010	$46,496	0.22%	1.90%
For the Quarter Ended September 30, 2010	$43,430	0.22%	1.80%
For the Quarter Ended June 30, 2010	$41,540	0.23%	1.72%
For the Quarter Ended March 31, 2010	$40,021	0.23%	1.66%

Net Income and Return on Average Equity

Our net income was $1.3 billion, $2.0 billion and $346.2 million for the years ended December 31, 2010, 2009 and 2008, respectively. Our return on average equity was 13.06%, 22.69% and 5.18% for the respective years. Net income decreased by $694.2 million for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due to the unrealized loss on interest rate swaps was $318.9 million for the year ended December 31, 2010, as compared to the unrealized gain on interest rate swaps of $349.5 million for the year ended December 31, 2009. Additionally, the net interest income for the year ended December 31, 2010 declined by $107.0 million, when compared to the previous year. We attribute the increase in total net income for the year ended December 31, 2009 from the year ended December 31, 2008 primarily due to the improved interest rate spread, resulting in an increase in net interest income of $400.3 million, the unrealized gain on interest rate swaps of $349.5 million, and the gain on sale of Agency mortgage-backed securities of $99.1 million.

The table below shows our net interest income, net investment advisory and service fees, gain (loss) on sale of Agency mortgage-backed securities and termination of interest rate swaps, loss on other-than-temporarily impaired securities, income from trading securities, G&A expenses, income taxes, impairment of intangibles for customer relationships, noncontrolling interest, each as a percentage of average equity, and the return on average equity for the years ended December 31, 2010, 2009, 2008, 2007, and 2006, and the four quarters in 2010.

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 Realized and Unrealized Gain/(Loss) Interest Rate Swaps and Trading Securities/ Average Equity	Loss on other-than-temporarily impaired securities or Loss on Receivable from Prime Broker or Impairment of Intangibles/ Average Equity	Dividend Income from Available-for-Sale Equity Securities	Income from Under-writing	Income from Equity Method Investment	G&A Expenses/ Average Equity	Income Taxes/ Average Equity	Noncon-trolling interest/ Average Equity	Return on Average Equity
For the Year Ended December 31, 2010	15.67%	0.59%	(1.44%)	-	0.32%	0.02%	0.03%	(1.76%)	(0.37%)	-	13.06%
For the Year Ended December 31, 2009	18.82%	0.55%	5.19%	(0.16%)	0.20%	-		(1.51%)	(0.40%)	-	22.69%
For the Year Ended December 31, 2008	18.36%	0.39%	(11.19%)	(0.48%)	0.04%	-		(1.55%)	(0.39%)	-	5.18%
For the Year Ended December 31, 2007	11.56%	0.50%	1.09%	(0.03%)	0.00%	-		(1.69%)	(0.24%)	(0.02%)	11.17%
For the Year Ended December 31, 2006	8.32%	0.94%	0.42%	(2.61%)	-	-		(2.00%)	(0.38%)	(0.01%)	4.68%
For the Quarter Ended December 31, 2010	15.47%	0.67%	35.58%	-	0.31%	0.03%	0.04%	(1.90%)	(0.33%)	-	49.87%
For the Quarter Ended September 30, 2010	16.57%	0.63%	(15.93%)	-	0.33%	0.04%	0.04%	(1.80%)	(0.46%)	-	(0.58%)
For the Quarter Ended June 30, 2010	15.03%	0.57%	(22.90%)	-	0.30%	0.02%	0.04%	(1.72%)	(0.37%)	-	(9.03%)
For the Quarter Ended March 31, 2010	15.69%	0.51%	(2.90%)	-	0.33%	-	-	(1.66%)	(0.30%)	-	11.67%

Financial Condition

Interest-Earning Assets, Available for Sale

Substantially all of our Agency mortgage-backed securities at December 31, 2010, 2009, and 2008 were adjustable-rate or fixed-rate mortgage-backed securities backed by single-family mortgage loans. Substantially all of the mortgage assets underlying these mortgage-backed securities were secured with a first lien position on the underlying single-family properties. Substantially all of our mortgage-backed securities were Freddie Mac, Fannie Mae or Ginnie Mae mortgage pass-through certificates or CMOs, which carry an implied "AAA" rating. All of our Agency debentures are callable and carry an implied "AAA" rating. We carry all of our Agency mortgage-backed securities and Agency debentures at fair value. We carry our corporate debt at amortized cost.

We accrete discount balances as an increase in interest income over the life of discount on Interest Earning Assets and we amortize premium balances as a decrease in interest income over the life of premium on Interest Earning Assets. At December 31, 2010, 2009, and 2008 we had on our balance sheet a total of $35.6 million, $49.2 million and $64.4 million, respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our on Interest Earning Assets acquired at a price below principal value) and a total of $2.3 billion, $1.3 billion and $619.5 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our on Interest Earning Assets acquired at a price above principal value).

We received mortgage principal repayments of $29.0 billion, $13.8 billion and $8.6 billion for the years ended December 31, 2010, 2009 and 2008, respectively. The average prepayment speed for the year ended December 31, 2010, 2009 and 2008 was 27%, 19%, and 13%, respectively. 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 into income 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 summarizes certain characteristics of our Interest Earning Assets at December 31, 2010, 2009, 2008, 2007, and 2006 and September 30, 2010, June 30, 2010, and March 31, 2010.

Mortgage-Backed Securities, Agency Debentures and Corporate Debt
(dollars in thousands)

	Principal Amount	Net Premium	Amortized Cost	Amortized Cost/Principal Amount	Fair Value	Fair Value/Principal Amount	Weighted Average Yield
At December 31, 2010	$76,129,522	$2,307,839	$78,437,361	103.03%	$79,570,274	104.52%	3.88%
At December 31, 2009	$62,508,927	$1,247,717	$63,756,644	102.00%	$65,721,477	105.14%	4.51%
At December 31, 2008	$54,508,672	$555,043	$55,063,715	101.02%	$55,645,940	102.09%	5.15%
At December 31, 2007	$52,569,598	$328,376	$52,897,974	100.62%	$53,133,443	101.07%	5.75%
At December 31, 2006	$30,134,791	$140,709	$30,275,500	100.47%	$30,217,009	100.27%	5.63%
At September 30, 2010	$74,084,239	$2,269,697	$76,353,936	103.06%	$78,220,512	105.58%	3.93%
At June 30, 2010	$67,400,316	$1,849,585	$69,249,901	102.74%	$71,812,829	106.55%	3.69%
At March 31, 2010	$66,937,615	$1,309,423	$68,247,038	101.96%	$70,171,875	104.83%	3.87%

The tables below summarizes certain characteristics of our Investment Securities at December 31, 2010, 2009, 2008, 2007, and 2006 and September 30, 2010, June 30, 2010, and March 31, 2010. The index level for adjustable-rate Agency mortgage-backed securities, Agency debentures and corporate debt is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

Adjustable-Rate Mortgage-Backed Securities, Agency Debentures and Corporate Debt Characteristics
(dollars in thousands)

	Principal Amount	Weighted Average Coupon Rate	Weighted Average Term to Next Adjustment	Weighted Average Lifetime Cap	Weighted Average Asset Yield	Principal Amount at Period End as % of Total Interest-Earning Assets
At December 31, 2010	$11,011,839	4.28%	39 months	10.16%	3.04%	14.46%
At December 31, 2009	$16,196,473	4.55%	33 months	10.09%	3.23%	25.91%
At December 31, 2008	$19,540,152	4.75%	36 months	10.00%	3.93%	35.85%
At December 31, 2007	$15,331,447	5.90%	39 months	9.89%	5.63%	29.16%
At December 31, 2006	$8,493,242	5.72%	19 months	9.76%	5.57%	28.18%
At September 30, 2010	$11,658,943	4.33%	38 months	10.04%	3.03%	15.74%
At June 30, 2010	$12,589,813	4.36%	33 months	10.00%	3.21%	18.68%
At March 31, 2010	$15,366,206	4.55%	32 months	10.09%	2.92%	22.96%

Fixed-Rate Rate Mortgage-Backed Securities, Agency Debentures and Corporate Debt Characteristics
(dollars in thousands)

	Principal Amount	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Amount at Period End as % of Total Interest-Earning Assets
At December 31, 2010	$65,117,683	4.92%	4.00%	85.54%
At December 31, 2009	$46,312,455	5.78%	4.95%	74.09%
At December 31, 2008	$34,968,520	6.13%	5.84%	64.15%
At December 31, 2007	$37,238,151	6.00%	5.80%	70.84%
At December 31, 2007	$21,641,549	5.83%	5.65%	71.82%
At December 31, 2006	$6,216,668	5.37%	4.60%	39.06%
At September 30, 2010	$62,425,285	5.06%	4.10%	84.26%
At June 30, 2010	$54,810,503	5.35%	4.40%	81.32%
At March 31, 2010	$51,571,411	5.50%	4.16%	77.04%

At December 31, 2010 and 2009, we held Agency mortgage-backed securities, Agency debentures and corporate debt with coupons linked to various indices. The following tables detail the portfolio characteristics by index.

Adjustable-Rate Mortgage-Backed Securities, Agency Debentures and Corporate Debt by Index
December 31, 2010

	One-Month Libor	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Monthly Federal Cost of Funds	Other Indexes(1)
Weighted Average Term to Next Adjustment	1 mo.	10 mo.	50 mo.	2 mo.	7 mo.	41 mo.	1 mo.	39 mo.
Weighted Average Annual Period Cap	6.41%	1.60%	1.99%	0.03%	0.01%	1.91%	0.00%	9.32%
Weighted Average Lifetime Cap at December 31, 2010	7.03%	11.09%	10.23%	9.46%	10.58%	11.06%	13.43%	15.77%
Investment Principal Value as Percentage of Mortgage-Backed Securities, Agency debentures and corporate debt at December 31, 2010	1.28%	0.69%	9.97%	0.59%	0.52%	1.06%	0.06%	0.29%

(1) Combination of indexes that account for less than 0.05% of total Mortgage-Backed Securities, Agency debentures and corporate debt.

Adjustable-Rate Mortgage-Backed Securities, Agency Debentures and Corporate Debt by Index
December 31, 2009

	One-Month Libor	Six-Month Libor	Twelve Month Libor	12-Month Moving Average	11th District Cost of Funds	1-Year Treasury Index	Monthly Federal Cost of Funds	Other Indexes(1)
Weighted Average Term to Next Adjustment	1 mo.	16 mo.	45 mo.	1 mo.	7 mo.	50 mo.	1 mo.	12 mo.
Weighted Average Annual Period Cap	6.40%	1.58%	2.01%	0.42%	0.77%	1.95%	0.00%	1.82%
Weighted Average Lifetime Cap at December 31, 2009	7.04%	11.20%	10.85%	8.12%	0.51%	10.98%	13.43%	11.71%
Investment Principal Value as Percentage of Mortgage-Backed Securities, Agency debentures and corporate debt at December 31, 2010	4.59%	1.40%	15.77%	1.10%	0.76%	2.15%	0.09%	0.05%

(1) Combination of indexes that account for less than 0.05% of total Mortgage-Backed Securities, Agency debentures and corporate debt.

Reverse Repurchase Agreements

At December 31, 2010, we did not have any amounts outstanding under our reverse repurchase agreement with Chimera. At December 31, 2009, we lent $259.0 million to Chimera in a weekly reverse repurchase agreement. This amount is included in the principal amount which approximates fair value in our Statement of Financial Condition. The interest rate at December 31, 2009 was 1.72%. The collateral for this loan was mortgage-backed securities with a fair value of $314.3 million at December 31, 2009.

At December 31, 2010, RCap had outstanding reverse repurchase agreements with non-affiliates of $1.0 billion. At December 31, 2009, RCap, in its ordinary course of business, financed though matched reverse repurchase agreements, at market rates, $69.7 million for a fund that is managed by FIDAC. At December 31, 2009, RCap had outstanding reverse repurchase agreements with non-affiliates of $425.0 million.

The table below shows the average daily reverse repurchase agreements balance for RCap and Annaly during the years ended December 31, 2010, 2009 and 2008 and the four quarters in 2010.

Reverse Repurchase Agreements
(dollars in thousands)

	Average Daily Reverse Repurchase Agreements	**Reverse Repurchase Agreements at Period End**
For the Year Ended December 31, 2010	$900,994	$1,006,163
For the Year Ended December 31, 2009	$478,151	$757,993
For the Year Ended December 31, 2008	$513,243	$598,945
For the Quarter Ended December 31, 2010	$1,596,494	$1,006,163

For the Quarter Ended September 30, 2010	$963,808	$757,722
For the Quarter Ended June 30, 2010	$422,891	$308,776
For the Quarter Ended March 31, 2010	$620,781	$532,166

Receivable from Prime Broker on Equity Investment

The net assets of the investment fund we owned are subject to English bankruptcy law, which governs the administration of Lehman Brothers International (Europe) (in administration) (or LBIE), as well as the law of New York, which governs the contractual documents. We invested approximately $45.0 million in the fund and have redeemed approximately $56.0 million. The current assets of the fund still remain at LBIE and affiliates of LBIE and the ultimate recovery of such amount remains uncertain. We have entered into the Claims Resolution Agreement between LBIE and certain eligible offerees effective December 29, 2009 with respect to these assets (or the CRA).

Certain of our assets subject to the CRA are held directly at LBIE and we have valued such assets in accordance with the valuation date set forth in the CRA and the pricing information provided to us by LBIE. The valuation date with respect to these assets as set forth in the CRA is September 19, 2008.

Certain of our assets subject to the CRA are not held directly at LBIE and are believed to be held at affiliates of LBIE. Given the great degree of uncertainty as to the status of our assets that are not directly held by LBIE and are believed to be held at affiliates of LBIE, we have valued such assets at an 80% discount. The value of the net assets that are not directly held by LBIE and are believed to be held at affiliates of LBIE is determined on the basis of the best information available to us from time to time, legal and professional advice obtained for the purpose of determining the rights, and on the basis of a number of assumptions which we believe to be reasonable.

We can provide no assurance, however, that we will recover all or any portion of any of the net assets of the investment fund following completion of LBIE's administration (and any subsequent liquidation).

Borrowings

As of December 31, 2010, our collateralized debt has consisted entirely of borrowings collateralized by a pledge of our interest-earning assets. These borrowings appear on our balance sheet as repurchase agreements. At December 31, 2010, 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 interest-earning assets 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 year ended December 31, 2010, the term to maturity of our borrowings ranged from one day to 10 years. Additionally, we have entered into structured borrowings giving the counterparty the right to call the balance prior to maturity. For the year ended December 31, 2009, the term to maturity of our borrowings ranged from one day to 10 years. Additionally, we have entered into structured borrowings giving the counterparty the right to call the balance prior to maturity. At December 31, 2010, the weighted average cost of funds for all of our borrowings was 1.84%, with the effect of the interest rate swaps, and the weighted average term to next rate adjustment was 127 days. At December 31, 2009, the weighted average cost of funds for all of our borrowings was 2.11%, with the effect of the interest rate swaps, and the weighted average term to next rate adjustment was 170 days.

During the year ended December 31, 2010, we issued $600.0 million in aggregate principal amount of 4% Convertible Senior Notes due 2015 (or the Convertible Senior Notes) for net proceeds following underwriting expenses of approximately $582.0 million. Interest on the Convertible Senior Notes is paid semi-annually at a rate of 4% per year and the Convertible Senior Notes will mature on February 15, 2015 unless earlier repurchased or converted. The Convertible Senior Notes are convertible into shares of Common Stock at a conversion rate at December 31, 2010 of 54.1089 shares of Common Stock per $1,000 principal amount of Convertible Senior Notes, which was equivalent to a conversion price at December 31, 2010 of $18.4812 per share of Common Stock subject to adjustment in certain circumstances.

Liquidity

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional Interest Earning Assets 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 Interest Earning Assets varies. Our non-cash assets are largely actual or implied AAA assets, and accordingly, 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 Interest Earning Assets 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.

Borrowings under our repurchase agreements increased by $10.9 billion to $65.5 billion at December 31, 2010, from $54.6 billion at December 31, 2009. Convertible Senior Notes totaled $600.0 million at December 31, 2010 and there were no Convertible Senior Notes outstanding at December 31, 2009.

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 Interest Earning Assets increases due to changes in market interest rates of market factors, lenders may release collateral back to us. Specifically, margin calls result from a decline in the value of our Agency mortgage-backed securities securing our repurchase agreements, prepayments on the mortgages securing such Agency mortgage-backed securities and to changes in the estimated fair value of such Agency mortgage-backed securities generally due to principal reduction of such Agency mortgage-backed securities from scheduled amortization and resulting from changes in market interest rates and other market factors. Through December 31, 2010, 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 Agency 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.

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 December 31, 2010. The table does not include the effect of net interest rate payments under our interest rate swap agreements. The net swap payments will fluctuate based on monthly changes in the receive rate. At December 31, 2010, the interest rate swaps had a net negative fair value of $751.9 million.

			(dollars in thousands)		
Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	More than Five Years	Total
Repurchase agreements	$61,183,537	$2,250,000	$700,000	$1,400,000	$65,533,537
Interest expense on repurchase agreements, based on rates at 12-31-10	201,959	191,957	130,265	88,191	612,372
Convertible Senior Notes	-	-	600,000	-	600,000
Interest Expense in Convertible Senior Notes	24,333	48,733	27,400	-	100,466
Long-term operating lease obligations	1,945	4,497	2,201	40	8,683
Employment contracts	54,532	950	-	-	55,482
Total	$61,466,306	$2,496,137	$1,459,866	$1,488,231	$66,910,540

Stockholders' Equity

On July 13, 2010 we entered into an underwriting agreement pursuant to which we sold 60,000,000 shares of our common stock for net proceeds following underwriting expenses of approximately $1.0 billion. This transaction settled on July 19, 2010.

During the year ended December 31, 2010, 363,528 options were exercised under Incentive Plan, for an aggregate exercise price of $4.6 million.

During the year ended December 31, 2010, 953,000 shares of Series B Preferred Stock were converted into 2.4 million shares of common stock.

During the year ended December 31, 2010, we raised $278.8 million by issuing 15.7 million shares through the Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2009, 423,160 options were exercised under Incentive Plan, for an aggregate exercise price of $4.9 million.

During the year ended December 31, 2009, we raised $141.8 million by issuing 8.4 million shares through our Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2009, 1.4 million shares of Series B Preferred Stock converted into 2.8 million shares of common stock.

Unrealized Gains and Losses

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)." As a result of the de-designation of interest rate swaps as cash flow hedges during the quarter ended December 31, 2008, unrealized gains and losses in our interest rate swaps impact our GAAP income.

As a result of this mark-to-market accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting. As a result, comparisons with companies that use historical cost accounting for some or all of their balance sheet may not be meaningful.

The table below shows unrealized gains and losses on the Investment Securities and interest rate swaps in our portfolio prior to de-designation.

Unrealized Gains and Losses
(dollars in thousands)

	At December 31,				
	2010	2009	2008	2007	2006
Unrealized gain	$1,764,182	$2,093,709	$785,087	$379,348	$112,596
Unrealized loss	(599,540)	(202,392)	(532,857)	(531,545)	(188,708)
Net Unrealized (loss) gain	$1,164,642	$1,891,317	$252,230	($152,197)	($76,112)

Unrealized changes in the estimated net fair value of available-for-sale investments have one direct effect on our potential earnings and dividends: positive 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 fair value of our available-for-sale investments securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale.

Leverage

Our debt-to-equity ratio at December 31, 2010, 2009 and 2008 was 6.7:1, 5.7:1 and 6.4:1, respectively. We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary, as it currently does because of market conditions, from this range from time to time based upon various factors, including our management's opinion market conditions 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 would 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 Agency 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 Agency mortgage-backed securities and Agency debentures by entering into interest rate swaps. At December 31, 2010, we had entered into swap agreements with a total notional amount of $27.1 billion. We agreed to pay a weighted average pay rate of 3.21% and receive a floating rate based on one month LIBOR. At December 31, 2009, we had entered into swap agreements with a total notional amount of $21.5 billion. We agreed to pay a weighted average pay rate of 3.85% 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

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 December 31, 2010, we had no material commitments for capital expenditures.

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 years ended December 31, 2010 and 2009. 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 years ended December 31, 2010, 2009 and 2008 and for each quarter therein. 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, for the years ended of December 31, 2010, 2009, and 2008, 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 Agency 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 December 31, 2010 and December 31, 2009, we were in compliance with this requirement.

ITEM 7A 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 Agency 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 and 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 December 31, 2010 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, with Effect of Interest Rate Swaps
-75 Basis Points	6.40%	1.62%
-50 Basis Points	4.35%	1.24%
-25 Basis Points	1.94%	0.82%
Base Interest Rate	-	-
+25 Basis Points	(0.65%)	(0.23%)
+50 Basis Points	(2.16%)	(0.87%)
+75 Basis Points	(4.11%)	(1.58%)

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 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.

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at December 31, 2010. 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 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:					
Mortgage-backed Securities and	$ 1,935,670	$ 2,394,754	$ 1,502,028	$69,179,260	$75,011,712
Agency debentures (Principal)	-	-	-	1,095,810	1,095,810
Cash Equivalents	282,626	-	-	-	282,626
Reverse Repurchase Agreements	1,006,163	-	-	-	1,006,163
U.S. Treasury Securities	1,100,447	-	-	-	1,100,447
Securities Borrowed	216,676	-	-	-	216,676
Corporate debt	22,000	-	-	-	22,000
Total Rate Sensitive Assets	4,563,582	2,394,754	1,502,028	70,275,070	78,735,434
Rate Sensitive Liabilities:					
Repurchase Agreements, with the effect of swaps	31,103,486	7,128,771	13,068,170	14,233,110	65,533,537
Convertible Senior Notes	-	-	-	600,000	600,000
U.S. Treasury Securities sold, not yet purchased	909,462	-	-	-	909,462
Securities Loaned	217,841	-	-	-	217,841
Total Rate Sensitive Liabilities	32,230,789	7,128,771	13,068,170	14,833,110	67,260,840
Interest rate sensitivity gap	($27,667,207)	($4,734,017)	($11,566,142)	$55,441,960	$11,474,594
Cumulative rate sensitivity gap	($27,667,207)	($32,401,224)	($43,967,366)	$11,474,594	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(35%)	(41%)	(56%)	15%	

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 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 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and the related notes, together with the Report of Independent Registered Public Accounting Firm thereon, are set forth on pages F-1 through F-28 of this Form 10-K.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A 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 annual 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 accumulated and communicated 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 the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to affect its internal control over financial reporting.

Management Report On Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) under the Securities Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on management's assessment, the Company's management believes that, as of December 31, 2010, the Company's internal control over financial reporting was effective based on those criteria. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company's internal control over financial reporting. This report appears on page F-1 of this annual report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 as to our directors is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010. The information regarding our executive officers required by Item 10 appears in Part I of this Form 10-K. The information required by Item 10 as to our compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010.

We have adopted a Code of Business Conduct and Ethics within the meaning of Item 406(b) of Regulation S-K. This Code of Business Conduct and Ethics applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Business Conduct and Ethics is publicly available on our website at www.annaly.com. If we make substantive amendments to this Code of Business Conduct and Ethics or grant any waiver, including any implicit waiver, we intend to disclose these events on our website.

The information regarding certain matters pertaining to our corporate governance required by Item 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Proxy Statement to be filed with the SEC within 120 days after December 31, 2010.

ITEM 11 EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the proxy statement to be filed with the SEC within 120 days after December 31, 2010.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this report:

1. Financial Statements.

2. Schedules to Financial Statements:

All financial statement schedules not included have been omitted because they are either inapplicable or the information required is provided in our Financial Statements and Notes thereto, included in Part II, Item 8, of this Annual Report on Form 10-K.

3. Exhibits:

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 of the Registrant's Registration Statement on Form S-11 (Registration Number 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).

4.5	Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.6	Supplemental Indenture, dated as of February 12, 2010, between the Registrant and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 12, 2010).
4.7	Form of 4.00% Convertible Senior Note due 2015 (included in Exhibit 4.6).
10.1	Long-Term Stock Incentive Plan (incorporated by reference to Exhibit 10.3 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).*
10.2	Form of Master Repurchase Agreement (incorporated by reference to Exhibit 10.7 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).
10.3	Amended and Restated Employment Agreement, effective as of June 4, 2004, between the Registrant and Michael A.J. Farrell (incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 10, 2005).*
10.4	Amended and Restated Employment Agreement, dated as of February 25, 2008, between the Registrant and Wellington J. Denahan (incorporated by reference to Exhibit 10.4 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 26, 2008).*
10.5	Amended and Restated Employment Agreement, effective as of June 4, 2004,between the Registrant and Kathryn F. Fagan (incorporated by reference to Exhibit 10.5 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 10, 2005).*
10.6	Amended and Restated Employment Agreement, effective as of June 4, 2004, between the Registrant and James P. Fortescue (incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 10, 2005).*
10.7	Amended and Restated Employment Agreement, dated as of January 23, 2006, between the Registrant and Jeremy Diamond (incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 13, 2006).*
10.8	Amended and Restated Employment Agreement, dated as of January 23, 2006, between the Registrant and Ronald D. Kazel (incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 13, 2006).*
10.9	Amended and Restated Employment Agreement, dated as of April 21, 2006, between the Registrant and Rose-Marie Lyght (incorporated by reference to Exhibit 10.9 of the Registrant's Form 10-Q filed with the Securities and Exchange Commission on May 9, 2006).*
10.10	Amended and Restated Employment Agreement, effective as of June 4, 2004, between the Registrant and Kristopher R. Konrad (incorporated by reference to Exhibit 10.11 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 10, 2005).*
10.11	Amended and Restated Employment Agreement, dated January 23, 2006, between the Registrant and R. Nicholas Singh (incorporated by reference to Exhibit 10.7 of the Registrant's Form 10-K filed with the Securities and Exchange Commission on March 13, 2006).*
10.12	Amended and Restated Employment Agreement, dated August 4, 2010, between the Registrant and Matthew Lambiase (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q filed with the Securities and Exchange Commission August 6, 2010).*
10.13	Employment Agreement, dated July 1, 2010, between the Registrant and Kevin Keyes.*
10.14	Registrant's 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report Form 8-K filed with the SEC on June 1, 2010).*
12.1	Computation of ratio of earnings to combined fixed charges and preferred stock dividends.
21.1	Subsidiaries of Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
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 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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 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.

Exhibit 101.INS XBRL	Instance Document †
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document †
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document †
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created†
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document †
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document †

* Exhibit Numbers 10.1 and 10.3-10.14 are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

† Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition at December 31, 2010 and December 31,2009; (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2010, 2009 and 2008; (iii) Consolidated Statement of Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008; and (v) Notes to Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Annaly Capital Management, Inc.
New York, New York

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report On Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Annaly Capital Management, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 25, 2011

Part I
Item1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2010 AND 2009
(dollars in thousands)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 282,626	$ 1,504,568
U.S. Treasury Securities, at fair value (including pledged assets of $660,823 and $0, respectively)	1,100,447	-
Reverse repurchase agreements with affiliate	-	328,757
Reverse repurchase agreements	1,006,163	425,000
Securities borrowed, at fair value	216,676	29,077
Mortgage-Backed Securities, at fair value (including pledged assets of $67,787,023 and $57,047,750, respectively)	78,440,330	64,805,725
Agency debentures, at fair value (including pledged assets of $1,068,869 and $871,318, respectively)	1,108,261	915,752
Corporate debt	21,683	-
Investments with affiliates	252,863	242,198
Receivable for Mortgage-Backed Securities sold	151,460	732,134
Accrued interest and dividends receivable	345,250	318,919
Receivable from Prime Broker	3,272	3,272
Receivable for advisory and service fees	16,172	12,566
Intangible for customer relationships, net	9,290	10,491
Goodwill	42,030	27,917
Interest rate swaps, at fair value	2,561	5,417
Other derivative contracts, at fair value	2,607	-
Other assets	24,899	14,397
Total assets	$83,026,590	$69,376,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
U.S. Treasury Securities sold, not yet purchased, at fair value	$ 909,462	-
Repurchase agreements	65,533,537	$54,598,129
Securities loaned, at fair value	217,841	29,057
Payable for Mortgage-Backed Securities and Agency debentures purchased	4,575,026	4,083,786
Convertible Senior Notes	600,000	-
Accrued interest payable	115,766	89,460
Dividends payable	404,220	414,851
Interest rate swaps, at fair value	754,439	533,362
Other derivative contracts, at fair value	2,446	-
Accounts payable and other liabilities	8,921	10,005
Total liabilities	73,121,658	59,758,650
6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized 1,652,047 and 2,604,614 shares issued and outstanding, respectively.	40,032	63,114
Commitments and contingencies	-	-
Stockholders' Equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 shares authorized, issued and outstanding	177,088	177,088
Common stock: par value $.01 per share; 987,987,500 shares authorized, 631,594,205 and, 553,134,877 issued and outstanding, respectively	6,316	5,531
Additional paid-in capital	9,175,245	7,817,454
Accumulated other comprehensive income	1,164,642	1,891,317
Accumulated deficit	(658,391)	(336,964)

Total stockholders’ equity	9,864,900	9,554,426
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders’ equity	$83,026,590	$69,376,190

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(dollars in thousands, except per share amounts)

	For the Years ended December 31,		
	2010	**2009**	**2008**
Interest income			
Investment securities	$2,676,307	$2,922,499	$3,115,428
Securities loaned	3,997	103	-
U.S. Treasury Securities	2,830	-	-
Total interest income	2,683,134	2,922,602	$3,115,428
Interests expense			
Repurchase agreements	397,971	575,867	1,560,976
Interest rate swaps	735,107	719,803	327,936
Convertible Senior Notes	24,228	-	-
Securities borrowed	3,377	92	-
U.S. Treasury Securities sold, not yet purchased	2,649	-	-
Total interest expense	1,163,332	1,295,762	1,888,912
Net interest income	1,519,802	1,626,840	1,226,516
Other (loss) income:			
Investment advisory and service fees	58,073	48,952	27,891
Gain on sale of Mortgage-Backed Securities and Agency debentures	181,791	99,128	10,713
Dividend income	31,038	17,184	2,713
Loss on other-than-temporarily impaired securities	-	-	(31,834)
Loss on receivable from Prime Broker	-	(13,613)	-
Unrealized gain (loss) on interest rate swaps	(318,832)	349,521	(768,268)
Net (loss) gain on trading securities	(2,351)	-	9,695
Income from underwriting	2,095	-	-
Total other (loss) income	(48,186)	501,172	(749,090)
Expenses:			
Distribution fees	360	1,756	1,589
General and administrative expenses	171,487	130,152	103,622
Total expenses	171,847	131,908	105,211
Income before income from equity method investment and income taxes	1,299,769	1,996,104	372,215
Income (loss) from equity method investment	2,945	(252)	-
Income taxes	(35,434)	(34,381)	(25,977)
Net income	1,267,280	1,961,471	346,238
Noncontrolling interest	-	-	58
Net income attributable to controlling interest	1,267,280	1,961,471	346,180
Dividends on preferred stock	18,033	18,501	21,177
Net income available to common shareholders	$1,249,247	$1,942,970	$325,003
Net income available per share to common shareholders:			
Basic	$2.12	$3.55	$0.64
Diluted	$2.04	$3.52	$0.64
Weighted average number of common shares outstanding:			
Basic	588,192,659	546,973,036	507,024,596
Diluted	625,307,174	553,130,643	507,024,596

Net income attributable to controlling interest	$1,267,280	$1,961,471	$346,180
Other comprehensive income (loss):			
Unrealized (loss) gain on available-for-sale securities	(639,783)	1,513,397	319,226
Unrealized gain on interest rate swaps	94,899	224,818	64,080
Reclassification adjustment for net (gains) losses included in net income	(181,791)	(99,128)	21,121
Other comprehensive (loss) income	(726,675)	1,639,087	404,427
Comprehensive income attributable to controlling interest	$540,605	$3,600,558	$750,607

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(dollars in thousands, except per share data)

	Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
BALANCE, DECEMBER 31, 2007	$177,088	$4,018	$5,297,922	($152,197)	($121,893)	$5,204,938
Net income attributable to controlling interest	-	-	-	-	346,180	-
Other comprehensive income	-	-	-	404,427	-	-
Comprehensive income	-	-	-	-	-	750,607
Exercise of stock options and stock grants	-	3	2,777	-	-	2,780
Stock option expense and long-term compensation expense	-	-	2,534	-	-	2,534
Conversion of Series B cumulative convertible Preferred Stock	-	13	15,411	-	-	15,424
Stock granted in acquisition	-	2	3,123	-	-	3,125
Net proceeds from follow-on offerings	-	1,277	2,146,266	-	-	2,147,543
Net proceeds from ATM program	-	44	71,788	-	-	71,832
Net proceeds from direct purchase and dividend reinvestment	-	58	93,617	-	-	93,675
Preferred Series A dividends declared $1.97 per share	-	-	-	-	(14,594)	(14,594)
Preferred Series B dividends declared $1.50 per share	-	-	-	-	(6,583)	(6,583)
Common dividends declared, $2.08 per share	-	-	-	-	(1,088,009)	(1,088,009)
BALANCE, DECEMBER 31, 2008	$177,088	$5,415	$7,633,438	$252,230	($884,899)	$7,183,272
Net income	-	-	-	-	1,961,471	-
Other comprehensive income	-	-	-	1,639,087	-	-
Comprehensive income	-	-	-	-	-	3,600,558
Exercise of stock options and stock grants	-	4	4,911	-	-	4,915
Stock option expense and long-term compensation expense	-	-	4,514	-	-	4,514
Conversion of Series B cumulative convertible Preferred Stock	-	28	32,900	-	-	32,928
Net proceeds from direct purchase and dividend reinvestment	-	84	141,691	-	-	141,775
Preferred Series A dividends declared $1.97 per share	-	-	-	-	(14,593)	(14,593)
Preferred Series B dividends declared $1.50 per share	-	-	-	-	(3,908)	(3,908)
Common dividends declared, $2.54 per share	-	-	-	-	(1,395,035)	(1,395,035)
BALANCE, DECEMBER 31, 2009	$177,088	$5,531	$7,817,454	$1,891,317	($336,964)	$9,554,426
Net income	-	-	-	-	1,267,280	-
Other comprehensive income	-	-	-	(726,675)	-	-
Comprehensive income	-	-	-	-	-	540,605
Net proceeds from follow-on offering	-	600	1,046,755	-	-	1,047,355
Exercise of stock options and stock grants	-	4	4,596	-	-	4,600
Stock option expense and long-term compensation expense	-	-	4,757	-	-	4,757
Conversion of Series B cumulative convertible Preferred Stock	-	24	23,057	-	-	23,081
Net proceeds from direct purchase and dividend reinvestment	-	157	278,626	-	-	278,783
Preferred Series A dividends declared $1.97 per share	-	-	-	-	(14,593)	(14,593)
Preferred Series B dividends declared $1.50 per share	-	-	-	-	(3,440)	(3,440)
Common dividends declared, $2.65 per share	-	-	-	-	(1,570,674)	(1,570,674)
BALANCE, DECEMBER 31, 2010	$177,088	$6,316	$9,175,245	$1,164,642	($658,391)	$9,864,900

See notes to consolidated financial statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
(dollars in thousands)

	For the Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net income	$1,267,280	$1,961,471	$346,238
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income attributable to non controlling interest	-	-	(58)
Amortization of Investment Securities premiums and discounts, net	664,429	253,683	99,603
Amortization of intangibles	1,600	2,316	4,133
Amortization on deferred	3,150	-	-
Amortization of trading securities premiums and discounts	-	-	(3)
Gain on sale of Mortgage-Backed Securities and Agency debentures	(181,791)	(99,128)	(10,713)
Stock option and long-term compensation expense	4,757	4,514	2,534
Unrealized loss (gain) on interest rate swaps	318,832	(349,521)	768,268
Realized loss on futures	3,168	-	-
Realized gain on treasuries	(4,144)	-	-
Unrealized loss on treasuries	3,200	-	-
Unrealized loss on options	127	-	-
(Gain) loss on investment with affiliate, equity method	(318)	252	-
Net realized gain on trading investments	-	-	(12,578)
Unrealized depreciation on trading investments	-	-	2,994
Loss on other-than-temporarily impaired securities	-	-	31,834
Increase in accrued interest and dividend receivable	(27,125)	(35,574)	(8,405)
(Increase) decrease in advisory and service fees receivable	(3,606)	(6,462)	345
Decrease (increase) in other assets	3,950	(8,780)	340
Increase (decrease) in interest payable	26,306	(110,524)	(57,623)
(Decrease) increase in accounts payable and other liabilities	(1,084)	1,624	(28,867)
Purchase of trading securities	-	-	(13,048)
Proceeds from sale of trading securities	-	-	30,986
Purchase of equity trading securities sold, not yet purchased	-	-	(22,290)
Proceeds from equity trading securities sold, not yet purchased	-	-	21,483
Decrease (increase) in receivable from Prime Broker	-	13,613	(16,886)
Reduction of net assets in the fund	-	-	(28,704)
Proceeds from repurchase agreements from Broker Dealer	1,268,429,168	301,505,728	-
Payments on repurchase agreements from Broker Dealer	(1,258,941,064)	(291,820,728)	-
Proceeds from reverse repo from Broker Dealer	87,968,002	3,100,827	-
Payments on reverse repo from Broker Dealer	(88,479,412)	(3,595,580)	-
Proceeds from securities borrowed	2,924,082	152,027	-
Payments on securities borrowed	(3,111,681)	(181,104)	-
Proceeds from securities loaned	3,231,198	197,100	-
Payments on securities loaned	(3,042,414)	(168,043)	-
Payments on treasuries	(9,521,134)	-	-
Proceeds from treasuries	9,331,089	-	-
Payments on future contract	(3,455)	-	-
Net cash provided by operating activities	10,863,110	10,817,711	1,109,583
Cash flows from investing activities:			
Purchase of Mortgage-Backed Securities	(51,422,692)	(24,992,434)	(25,281,183)
Proceeds from sale of Mortgage-Backed Securities and Agency debentures	9,262,772	4,029,801	15,491,408
Principal payments of Mortgage-Backed Securities	28,961,203	13,796,269	8,619,102
Agency debentures called	2,132,002	602,000	-
Purchase of Agency debentures	(3,002,259)	(918,765)	(500,000)
Purchase of Corporate Debt	(21,670)	-	-
Investment in affiliates	-	(157,995)	(26,283)
Payments on reverse repurchase agreements	(4,032,426)	(10,051,980)	(562,119)
Proceeds from reverse repurchase agreements	4,291,430	10,355,095	-
Earn out payment	(14,113)		
Investment to purchase subsidiary	-	-	(12,628)
Net cash used in investing activities	(13,845,753)	(7,338,009)	(2,271,703)

Cash flows from financing activities:			
Proceeds from repurchase agreements	224,789,731	327,758,745	434,042,799
Principal payments on repurchase agreements	(223,342,427)	(329,520,501)	(433,414,474)
Proceeds from exercise of stock options	4,598	4,914	2,780
Issuance of convertible notes	582,000	-	-
Proceeds from direct purchase and dividend reinvestment	278,784	141,775	93,675
Net proceeds from follow-on offerings	1,047,354	-	2,147,543
Net proceeds from ATM programs	-	-	71,832
Noncontrolling interest	-	-	(1,574)
Dividends paid	(1,599,339)	(1,269,420)	(975,068)
Net cash provided (used) by financing activities	1,760,701	(2,884,487)	1,967,513
Net (decrease) increase in cash and cash equivalents	(1,221,942)	595,215	805,393
Cash and cash equivalents, beginning of period	1,504,568	909,353	103,960
Cash and cash equivalents, end of period	$282,626	$1,504,568	$909,353
Supplemental disclosure of cash flow information:			
Interest paid	$1,137,026	$1,406,287	$1,946,535
Taxes paid	$36,742	$42,268	$18,866
Noncash investing activities:			
Receivable for Mortgage-Backed Securities sold	$151,460	$732,134	$75,546
Payable for Mortgage-Backed Securities and Agency debentures purchased	$4,575,026	$4,083,786	$2,062,030
Net change in unrealized gain (loss) on available-for-sale securities and interest rate swaps, net of reclassification adjustment	($726,675)	$1,639,087	$404,427
Noncash financing activities:			
Dividends declared, not yet paid	$404,220	$414,851	$270,736
Conversion of Series B cumulative preferred stock	$23,081	$32,928	$15,424

See notes to consolidated financial statements

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Annaly Capital Management, Inc. ("Annaly" or the "Company") was incorporated in Maryland on November 25, 1996. 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, and completed its initial public offering on October 14, 1997. The Company is a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. Fixed Income Discount Advisory Company ("FIDAC") is a registered investment advisor and is a wholly owned taxable REIT subsidiary of the Company. On June 27, 2006, the Company made a majority equity investment in an affiliated investment fund (the "Fund"), which is now wholly owned by the Company. During the third quarter of 2008, the Company formed RCap Securities, Inc. ("RCap"). RCap was granted membership in the Financial Industry Regulatory Authority ("FINRA") on January 26, 2009, and operates as a broker-dealer. RCap is a wholly owned taxable REIT subsidiary of the Company. On October 31, 2008, the Company acquired Merganser Capital Management, Inc. ("Merganser"). Merganser is a registered investment advisor and is a wholly owned taxable REIT subsidiary of the Company. In 2010, the Company established Shannon Funding LLC ("Shannon"), which intends to provide warehouse financing and other services to residential mortgage originators in the United States. In 2010, the Company also established Charlesfort Capital Management LLC ("Charlesfort"), which engages in corporate middle market lending transactions.

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

The consolidated financial statements include the accounts of the Company, FIDAC, Merganser, RCap, Shannon, Charlesfort and the Fund. All intercompany balances and transactions have been eliminated. The noncontrolling interest in the earnings of the Fund is reflected as noncontrolling interest in the consolidated financial statements.

Prior year numbers for interest expense on interest rate swaps were reclassified in the financial statements to conform with current year presentation.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and cash held in money market funds on an overnight basis.

Reverse Repurchase Agreements **-** The Company may invest its daily available cash balances via reverse repurchase agreements to provide additional yield on its assets. These investments will typically be recorded as short term investments and will generally mature daily. Reverse repurchase agreements are recorded at cost and are collateralized by mortgage-backed securities pledged by the counterparty to the agreement. Reverse repurchase agreements entered into by RCap are part of the subsidiary's daily matched book trading activity. These reverse repurchase agreements are recorded on trade date at the contract amount, are collateralized by mortgage-backed securities and generally mature within 90 days. Margin calls are made by RCap as appropriate based on the daily valuation of the underlying collateral versus the contract price. RCap generates income from the spread between what is earned on the reverse repurchase agreements and what is paid on the matched repurchase agreements. Cash flows related to RCap's matched book activity are included in cash flows from operating activity. Reverse repurchase agreements entered into by Annaly are included in cash flows from investing activities.

Securities borrowed and loaned transactions – RCap records securities borrowed and loaned transactions at the fair value. Securities borrowed transactions require RCap to provide the counterparty with collateral in the form of cash or other securities. RCap receives collateral in the form of cash or other securities for securities loaned transactions. For these transactions, the fees received or paid by RCap are recorded as interest income or expense. On a daily basis, market value changes of securities borrowed or loaned against may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

U.S. Treasury Securities - During the second quarter 2010, RCap commenced trading U.S. Treasury securities for its proprietary portfolio, which consists of long and short positions on U.S Treasury bills, notes, and bonds. U.S. Treasury securities are classified as trading investments and are recorded on trade date at cost. Changes in fair value are reflected in the Company's statement of operations. U.S Treasury bills trade at a discount to par with the difference between proceeds received upon maturity and purchase price recognized as interest income in the Company's statement of operations. Interest income on U.S Treasury notes and bonds is accrued based on the outstanding principal amount of those investments and their contractual terms. Premiums and discounts associated with the purchase of the U.S. Treasury notes and bonds are amortized into interest income over the projected lives of the securities using the interest method.

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, and certificates guaranteed by the Government National Mortgage Association ("Ginnie Mae") , the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae") (collectively, "Agency Mortgage-Backed Securities"). The Company also invests in Agency debentures issued by Federal Home Loan Bank ("FHLB"), Freddie Mac, and Fannie Mae.

Investment Securities – The Agency Mortgage-Backed Securities, Agency debentures, corporate debt and reverse repurchase agreements are referred to herein as "Investment Securities." The Company is required 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 Investment Securities assets classified as available-for-sale are reported at estimated fair value, based on fair values obtained and compared to independent sources, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Investment Securities transactions are recorded on the trade date. Realized gains and losses on sales of Investment Securities are determined on the specific identification method.

The Company's investment in Chimera Investment Corporation ("Chimera") is accounted for as available-for-sale equity securities. The Company's investment in CreXus Investment Corp. ("CreXus") is accounted for under the equity method.

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 Company determines if it (1) has the intent to sell the Investment Securities, (2) is more likely than not that it will be required to sell the securities before recovery, or (3) does not expect to recover the entire amortized cost basis of the Investment Securities. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the statement of earnings, while the balance of impairment related to other factors will be recognized in other comprehensive income ("OCI"). There were no losses on other-than-temporarily impaired securities for the years ended December 31, 2010 and 2009, and there was $31.8 million loss on other-than-temporary impaired securities for the year ended December 31, 2008.

The estimated fair value of available-for-sale debt and equity securities, U.S Treasury securities, U.S Treasury securities sold, not yet purchased, receivable from prime broker, interest rate swaps, and futures and options contracts is equal to their carrying value presented in the consolidated statements of financial condition. Cash and cash equivalents, reverse repurchase agreements, securities borrowed, receivable for Agency Mortgage-Backed Securities sold, accrued interest and dividends receivable, receivable for advisory and service fees, repurchase agreements with maturities shorter than one year, payable for Investment Securities purchased, securities loaned, dividends payable, accounts payable and other liabilities, and accrued interest payable, generally approximates fair value at December 31, 2010 due to the short term nature of these financial instruments. The estimated fair value of long term structured repurchase agreements is reflected in Note 9 to the financial statements. The estimated fair value of Convertible Senior Notes is reflected in Note 11 to the financial statements.

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. Dividend income on available-for-sale equity securities is recorded on announcement date on an accrual basis.

Derivative Financial Instruments/Hedging Activity **-** Prior to the fourth quarter of 2008, the Company designated interest rate swaps as cash flow hedges, whereby the swaps were recorded at fair value on the balance sheet as assets and liabilities with any changes in fair value recorded in OCI. In a cash flow hedge, a swap would exactly match the pricing date of the relevant repurchase agreement. Through the end of the third quarter of 2008 the Company continued to be able to effectively match the swaps with the repurchase agreements therefore entering into effective hedge transactions. However, due to the volatility of the credit markets, it was no longer practical to match the pricing dates of both the swaps and the repurchase agreements.

As a result, the Company voluntarily discontinued hedge accounting after the third quarter of 2008 through a combination of de-designating previously defined hedge relationships and not designating new contracts as cash flow hedges. The de-designation of cash flow hedges requires that the net derivative gain or loss related to the discontinued cash flow hedge should continue to be reported in accumulated OCI, unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. The Company continues to hold repurchase agreements in excess of swap contracts and has no indication that interest payments on the hedged repurchase agreements are in jeopardy of discontinuing. Therefore, the deferred losses related to these derivatives that have been de-designated will not be recognized immediately and will remain in OCI. These losses are reclassified into earnings during the contractual terms of the swap agreements starting as of October 1, 2008. Changes in the unrealized gains or losses on the interest rate swaps subsequent to September 30, 2008 are reflected in the Company's statement of operations.

RCap enters into U.S Treasury, Eurodollar, and federal funds futures and options contracts for speculative or hedging purposes. RCap maintains a margin account which is settled daily with futures and options commission merchants. Changes in the unrealized gains or losses on the futures and options contracts are reflected in the Company's statement of operations.

Credit Risk – The Company has limited its exposure to credit losses on its portfolio of Agency Mortgage-Backed Securities by only purchasing securities issued by Freddie Mac, Fannie Mae or Ginnie Mae and Agency debentures issued by the FHLB, Freddie Mac and Fannie Mae. The payment of principal and interest on the Freddie Mac and Fannie Mae Agency Mortgage-Backed Securities are guaranteed by those respective agencies, and the payment of principal and interest on the Ginnie Mae Agency Mortgage-Backed Securities are backed by the full faith and credit of the U.S. government. Principal and interest on Agency debentures are guaranteed by the agency issuing the debenture. Substantially all of the Company's Investment Securities have an actual or implied "AAA" rating. The Company faces credit risk on the portions of its portfolio which are not Agency Mortgage-Backed Securities and Agency debentures.

Market Risk - Weakness in the mortgage market may adversely affect the performance and market value of the Company's investments. This could negatively impact the Company's net book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide additional financing, the Company could be forced to sell its Investment Securities at an inopportune time when prices are depressed. The Company does not anticipate having difficulty converting its assets to cash or extending financing terms due to the fact that its Agency Mortgage-Backed Securities and Agency debentures have an actual or implied "AAA" rating and principal payment is guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae.

Repurchase Agreements - The Company finances the acquisition of its Agency Mortgage-Backed Securities and Agency debentures 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. Reverse repurchase agreements and repurchase agreements with the same counterparty and the same maturity are presented net in the statement of financial condition when the terms of the agreements permit netting.

Convertible Senior Notes – The Company records the notes at their contractual amounts, including accrued interest. The Company has analyzed whether the embedded conversion option should be bifurcated and has determined that bifurcation is not necessary.

Cumulative Convertible Preferred Stock - The Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") contains fundamental change provisions that allow the holder to redeem the Series B 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 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 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 certain of its subsidiaries, FIDAC, Merganser and RCap, have made separate joint elections to treat these subsidiaries as taxable REIT subsidiaries. As such, each of the taxable REIT subsidiaries are taxable as a domestic C corporation and subject to federal, state, and local income taxes based upon its taxable income.

The provisions of FASB ASC 740, Income Taxes, clarify the accounting for uncertainty in income taxes recognized in financial statements and prescribe a recognition threshold and measurement attribute for tax positions taken or expected to be taken on a tax return. FASB ASC 740 also requires that interest and penalties related to unrecognized tax benefits be recognized in financial statements. The Company does not have any unrecognized tax benefits that would affect its financial position. Thus, no accruals for penalties and interest were necessary as of December 31, 2010.

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. All assets classified as available-for-sale and interest rate swaps are reported at their estimated fair value, based on market prices. The Company's policy is to obtain fair values from one or more independent sources. Fair values from independent sources are compared to internal prices for reasonableness. Actual results could differ from those estimates.

Goodwill and Intangible Assets - The Company's acquisitions of FIDAC and Merganser were 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 costs of FIDAC and Merganser were 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. Goodwill and 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 a 10.2 year weighted average time period. During the years ended December 31, 2010, and 2009, there were no impairment losses. Goodwill was increased during the year ended December 31, 2011due to an a earn-out payment of $14.1 million from the Merganser acquisition.

Stock Based Compensation - The Company is required to measure and recognize in the consolidated financial statements the compensation cost relating to share-based payment transactions. The compensation cost is reassessed based on the fair value of the equity instruments issued.

The Company recognizes compensation expense on a straight-line 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.

A Summary of Recent Accounting Pronouncements Follows:

<u>Assets</u>

<u>Receivables (ASC 310)</u>

In July 2010, the Financial Accounting Standards Board ("the FASB") released ASU 2010-20, which provides greater transparency and addresses disclosures about the credit quality of financing receivables and the allowance for credit losses. In addition, assist in the assessment of credit risk exposures and evaluation of the adequacy of allowances for credit losses. Additional disclosures must be provided on a disaggregated basis. The update defines two levels of disaggregation – portfolio segment and class of financing receivable. Additionally, the update requires disclosure of credit quality indicators, past due information and modifications of financing receivables. The update is not applicable to mortgage banking activities (loans originated or purchased for resale to investors); derivative instruments such as repurchase agreements; debt securities; a transferor's interest in securitization transactions accounted for as sales under ASC 860; and purchased beneficial interests in securitized financial assets. This update is effective for the Company for interim or annual periods ending on or after December 15, 2010. This update has no material effect on the Company's consolidated financial statements.

Broad Transactions

Consolidation (ASC 810)

Effective January 1, 2010, the consolidation standards have been amended by ASU 2009-17. This amendment updates the existing standard and eliminates the exemption from consolidation of a Qualified Special Purpose Entity ("QSPE"). The update requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity ("VIE"). The analysis identifies the primary beneficiary of a VIE as the enterprise that has both: a) the power to direct the activities that most significantly impact the entity's economic performance and b) the obligation to absorb losses or the right to receive benefits from the entity which could potentially be significant to the VIE. The update requires enhanced disclosures to provide users of financial statements with more transparent information about an enterprises involvement in a VIE. Further, ongoing assessments of whether an enterprise is the primary beneficiary of a VIE are required. At this time, the amendment has no material effect on the Company's consolidated financial statements.

Effective January 1, 2010, FASB amended the consolidation standard with ASU 2010-10 which indefinitely defers the effective date of ASU 2009-17 for a reporting enterprises interest in entities for which it is industry practice to issue financial statements in accordance with investment company standards (ASC 946). This deferral is expected to most significantly affect reporting entities in the investment management industry. This amendment has no material effect on the Company's consolidated financial statements.

Fair Value Measurements and Disclosures (ASC 820)

.In January 2010, FASB issued guidance (ASU 2010-06) which increased disclosure regarding the fair value of assets. The key provisions of this guidance include the requirement to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 including a description of the reason for the transfers. Previously this was only required of transfers between Level 2 and Level 3 assets. Further, reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities; a class is potentially a subset of the assets or liabilities within a line item in the statement of financial position. Additionally, disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements are required for either Level 2 or Level 3 assets. This portion of the guidance was effective for the Company on January 1, 2010. The guidance also requires that the disclosure on any Level 3 assets presents separately information about purchases, sales, issuances and settlements. In other words, Level 3 assets are presented on a gross basis rather than as one net number. However, this last portion of the guidance was not effective for the Company until January 1, 2011. Adoption of this guidance has no material effect on the Company's consolidated financial statements

Subsequent Events (ASC 855)

ASC 855 provides general standards governing accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued.

In February 2010, FASB issued ASU 2010-09 as an amendment to ASC 855. This update eliminates the requirement to provide a specific date through which subsequent events were evaluated. This update was issued to alleviate potential conflicts between ASC 855 and SEC reporting requirements. The update was effective upon issuance and has no impact on the Company's consolidated financial statements.

Transfers and Servicing (ASC 860)

On June 12, 2009, the FASB issued ASU 2009-16, which amended the accounting standards governing the transfer and servicing of financial assets. This amendment updates the existing standard and eliminates the concept of a Qualified Special Purpose Entity ("QSPE"); clarifies the surrendering of control to effect sale treatment; and modifies the financial components approach – limiting the circumstances in which a financial asset or portion thereof should be derecognized when the transferor maintains continuing involvement. It defines the term "Participating Interest". Under this standard update, the transferor must recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer, including any retained beneficial interest. Additionally, the amendment requires enhanced disclosures regarding the transferors risk associated with continuing involvement in any transferred assets. The amendment was effective beginning January 1, 2010. The amendment has no material effect on the Company's consolidated financial statements.

2. MORTGAGE-BACKED SECURITIES

The following tables present the Company's available-for-sale Agency Mortgage-Backed Securities portfolio as of December 31, 2010 and 2009 which were carried at their fair value:

December 31, 2010	**Federal Home Loan Mortgage Corporation**	**Federal National Mortgage Association**	**Government National Mortgage Association**	**Total Mortgage-Backed Securities**
		(dollars in thousands)		
Mortgage-Backed Securities, par value	$19,846,543	$54,341,140	$824,029	$75,011,712
Unamortized discount	(14,651)	(18,329)	(403)	(33,383)
Unamortized premium	517,507	1,795,116	26,200	2,338,823
Amortized cost	20,349,399	56,117,927	849,826	77,317,152
Gross unrealized gains	463,471	1,211,324	29,408	1,704,203
Gross unrealized losses	(140,027)	(438,918)	(2,080)	(581,025)
Estimated fair value	$20,672,843	$56,890,333	$877,154	$78,440,330

	Amortized Cost	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Estimated Fair Value**
		(dollars in thousands)		
Adjustable rate	$10,954,627	$257,822	($75,440)	$11,137,009
Fixed rate	66,362,525	1,446,381	(505,585)	67,303,321
Total	$77,317,152	$1,704,203	($581,025)	$78,440,330

December 31, 2009	**Federal Home Loan Mortgage Corporation**	**Federal National Mortgage Association**	**Government National Mortgage Association**	**Total Mortgage-Backed Securities**
		(dollars in thousands)		
Mortgage-Backed Securities, par value	$18,973,616	$41,836,554	$779,109	$61,589,279
Unamortized discount	(20,210)	(28,167)	-	(48,377)
Unamortized premium	301,700	974,861	20,382	1,296,943
Amortized cost	19,255,106	42,783,248	799,491	62,837,845
Gross unrealized gains	717,749	1,318,066	21,944	2,057,759
Gross unrealized losses	(27,368)	(61,739)	(772)	(89,879)
Estimated fair value	$19,945,487	$44,039,575	$820,663	$64,805,725

	Amortized Cost	**Gross Unrealized Gain**	**Gross Unrealized Loss**	**Estimated Fair Value**
		(dollars in thousands)		
Adjustable rate	$16,345,988	$513,820	($68,488)	$16,791,320
Fixed rate	46,491,857	1,543,939	(21,391)	48,014,405
Total	$62, 837,845	$2,057,759	($89,879)	$64,805,725

Actual maturities of Agency Mortgage-Backed Securities are generally shorter than stated contractual maturities because actual maturities of Agency 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 Agency Mortgage-Backed Securities on December 31, 2010 and 2009, according to their estimated weighted-average life classifications:

	December 31, 2010		December 31, 2009	
Weighted-Average Life	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**
	(dollars in thousands)			
Less than one year	$ 915,398	$ 901,824	$ 2,796,707	$ 2,762,873
Greater than one year and less than five years	59,732,123	58,321,570	55,780,372	54,070,493
Greater than or equal to five years	17,792,809	18,093,758	6,228,646	6,004,479
Total	$78,440,330	$77,317,152	$64,805,725	$62,837,845

The weighted-average lives of the Agency Mortgage-Backed Securities at December 31, 2010 and 2009 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 actual weighted average lives of the Agency Mortgage-Backed Securities could be longer or shorter than estimated.

The following table presents the gross unrealized losses, and estimated fair value of the Company's Agency Mortgage-Backed Securities by length of time that such securities have been in a continuous unrealized loss position at December 31, 2010 and December 31, 2009.

	Unrealized Loss Position For: (dollars in thousands)					
	Less than 12 Months		**12 Months or More**		**Total**	
	Estimated Fair Value	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
December 31, 2010	$28,608,996	($577,096)	$166,481	($3,929)	$28,775,477	($581,025)
December 31, 2009	$4,818,239	($22,869)	$2,802,920	($67,010)	$7,621,159	($89,879)

The decline in value of these securities is solely due to market conditions and not the quality of the assets. Substantially all of the Agency Mortgage-Backed Securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered other-than-temporarily impaired because 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 or we are required to sell for regulatory or other reasons. Also, the Company is guaranteed payment of the principal amount of the securities by the government agency which created them.

During the year ended December 31, 2010, the Company sold $7.8 billion of Agency Mortgage-Backed Securities, resulting in a realized gain of $171.6 million. During the year ended December 31, 2009, the Company sold $4.6 billion of Agency Mortgage-Backed Securities, resulting in a realized gain of $99.1 million.

3. AGENCY DEBENTURES

At December 31, 2010, the Company owned Agency debentures with a carrying value of $1.1 billion, including an unrealized gain of $9.7 million. At December 31, 2009, the Company owned Agency debentures with a carrying value of $915.8 million including an unrealized loss of $3.0 million.

During the year ended December 31, 2010, the Company sold or had called $2.8 billion of Agency debentures, resulting in realized gains of $10.2 million. The Company had no sales of Agency debentures for the year ended December 31, 2009.

4. INVESTMENT WITH AFFILIATE, AVAILABLE FOR SALE EQUITY SECURITIES

All of the available-for-sale equity securities are shares of Chimera and are reported at fair value. Chimera is externally managed by FIDAC pursuant to a management agreement. The Company owned approximately 45.0 million shares of Chimera at a fair value of approximately $184.9 million at December 31, 2010 and approximately 45.0 million shares of Chimera at fair value of approximately $174.5 million at December 31, 2009. At December 31, 2010 and December 31, 2009, the investment in Chimera had an unrealized gain of $46.0 million and $35.7 million, respectively. Chimera is externally managed by FIDAC pursuant to a management agreement.

5. INVESTMENT IN AFFILIATE, EQUITY METHOD

The Company owns approximately 25% of CreXus and accounts for its investment using the equity method. CreXus is externally managed by FIDAC pursuant to a management agreement. The quoted fair value of the Company's investment in CreXus was $59.3 million at December 31, 2010 and $63.2 million at December 31,2009.

6. REVERSE REPURCHASE AGREEMENT

At December 31, 2010, the Company did not have any amounts outstanding under its reverse repurchase agreement with Chimera. At December 31, 2009, the Company had lent $259.0 million to Chimera in a reverse repurchase agreement which was callable weekly. This amount was included in the principal amount which approximates fair value in the Company's Statements of Financial Condition. The interest rate at December 31, 2009 was at the rate of 1.72%. The collateral for this loan was mortgage-backed securities with a fair value of $314.3 million at December 31, 2009.

At December 31, 2010 RCap had outstanding reverse repurchase agreements with non-affiliates of $1.0 billion. At December 31, 2009, RCap, in its ordinary course of business, financed through matched reverse repurchase agreements, at market rates, $69.7 million for an entity that is managed by FIDAC pursuant to a management agreement. At December 31, 2009, RCap had an outstanding reverse repurchase agreement with non-affiliates of $425.0 million.

The Company reports cash flows on reverse repurchase agreements as investment activities in the Statements of Cash Flows. The Company reports cash flows on reverse repurchase agreements related to RCap as operating activities in the Statements of Cash Flows.

7. RECEIVABLE FROM PRIME BROKER

The net assets of the investment fund owned by the Company are subject to English bankruptcy law, which governs the administration of Lehman Brothers International (Europe) (in administration) ("LBIE"), as well as the law of New York, which governs the contractual documents. The Company invested approximately $45.0 million in the fund and has redeemed approximately $56.0 million. The current assets of the fund still remain at LBIE and affiliates of LBIE and the ultimate recovery of such amount remains uncertain. The Company has entered into the Claims Resolution Agreement (the "CRA") between LBIE and certain eligible offerees effective December 29, 2009 with respect to these assets.

Certain of the fund's assets subject to the CRA are held directly at LBIE and the Company has valued such assets in accordance with the valuation date set forth in the CRA and the pricing information provided to the Company by LBIE. The valuation date with respect to these assets as set forth in the CRA is September 19, 2008.

Certain of the fund's assets subject to the CRA are not held directly at LBIE and are believed to be held at affiliates of LBIE. Given the great degree of uncertainty as to the status of the fund's assets that are not directly held by LBIE and are believed to be held at affiliates of LBIE, the Company has valued such assets at an 80% discount, or $3.3 million. The value of the net assets that are not directly held by LBIE and are believed to be held at affiliates of LBIE is determined on the basis of the best information available to us from time to time, legal and professional advice obtained for the purpose of determining the rights, and on the basis of a number of assumptions which we believe to be reasonable.

The Company can provide no assurance, however, that it will recover all or any portion of any of the net assets of the fund following completion of LBIE's administration (and any subsequent liquidation).

8. FAIR VALUE MEASUREMENTS

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1– inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to overall fair value.

Available for sale equity securities are valued based on quoted prices (unadjusted) in an active market. Agency Mortgage-Backed Securities and interest rate swaps are valued using quoted prices for similar assets and dealer quotes. The dealer will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, rate reset period and expected life of the security. Management ensures that current market conditions are represented. Management compares similar market transactions and comparisons to a pricing model. The Company's Investment Securities characteristics are as follows:

	Weighted Average Coupon on Fixed Rate Investments	Weighted Average Coupon on Adjustable Rate Investments	Weighted Average Yield on Fixed Rate Investments	Weighted Average Yield on Adjustable Rate Investments	Weighted Average Lifetime Cap on Adjustable Investments	Weighted Average Term to Next Adjustment on Adjustable Rate Investments
At December 31, 2010	4.92%	4.28%	4.00%	3.04%	10.16%	39 months
At December 31, 2009	5.78%	4.55%	4.95%	3.23%	10.09%	33 months

The Company's financial assets and liabilities carried at fair value on a recurring basis are valued as follows:

The classification of assets and liabilities by level remains unchanged at December 31, 2010, when compared to the previous year.

	Level 1	Level 2	Level 3
At December 31, 2010		(dollars in thousands)	
Assets:			
Mortgage-Backed Securities	$ -	$78,440,330	$ -
Agency debentures	-	1,108,261	-
Available for sale equity securities	184,879	-	-
U.S. Treasury securities	1,100,447	-	-
Securities borrowed		216,676	-
Interest rate swaps	--	2,561	-
Other derivative contracts	2,607	-	-
Liabilities:			
Interest rate swaps	-	754,439	-
U.S. Treasury securities sold, not yet purchased	909,462	-	-
Securities loaned	-	217,841	-
Other derivative contracts	-	2,446	-
At December 31, 2009			
Assets:			
Mortgage-Backed Securities	$ -	$64,805,725	$ -
Agency debentures	-	915,752	-
Available for sale equity securities	174,533	-	-
Interest rate swaps	-	5,417	-
Liabilities:			
Interest rate swaps	-	533,362	-
U.S. Treasury securities sold, not yet purchased	-	-	-
Securities loaned			

9. REPURCHASE AGREEMENTS

The Company had outstanding $65.5 billion and $54.6 billion of repurchase agreements with weighted average borrowing rates of 1.84% and 2.11%, after giving effect to the Company's interest rate swaps, and weighted average remaining maturities of 127 days and 170 days as of December 31, 2010 and December 31, 2009, respectively. Investment Securities pledged as collateral under these repurchase agreements and interest rate swaps had an estimated fair value of $69.5 billion at December 31, 2010 and $57.9 billion at December 31, 2009.

At December 31, 2010 and 2009, the repurchase agreements had the following remaining maturities:

	December 31, 2010	December 31, 2009
	(dollars in thousands)	
1 day	-	-
Within 30 days	$32,669,341	$ 38,341,206
30 to 59 days	13,767,522	7,163,255
60 to 89 days	4,776,597	192,005
90 to 119 days	6,068,376	139,966
Over 120 days	8,251,701	8,761,697
Total	$65,533,537	$54,598,129

The Company did not have an amount at risk greater than 10% of the equity of the Company with any counterparty as of December 31, 2010 or December 31, 2009.

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 $5.9 billion and the fair value of the option to call was ($313.2 million) at December 31, 2010. The repurchase agreements totaled $7.0 billion and the fair value of the option to call was ($352.4) at December 31, 2009. Management has determined that the call option is not required to be bifurcated as it is deemed clearly and closely related to the debt instrument, therefore the fair value of the option is not recorded in the consolidated financial statements.

The structured repurchase agreements are modeled and priced as pay fixed versus receive floating interest rate swaps whereby the fixed receiver has the option to cancel the swap after an initial lockout period. Therefore the structured repurchase agreements are priced as a combination of an interest rate swaps with an embedded call options.

Additionally, as of December 31, 2010 the Company has entered into a repurchase agreement with a term of over one year. The amount of the repurchase agreement is $500 million and it has an estimated fair value of $513.3 million.

The Company reports cash flows repurchase agreements as financing activities in the Statements of Cash Flows. RCap reports cash flows on repurchase agreements as financing activities in the Statements of Cash Flows.

10. DERIVATIVE INSTRUMENTS

In connection with the Company's interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. As of December 31, 2010, 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 Agency 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.

In connection with RCap's proprietary trading activities, it has entered into U.S. Treasury, Eurodollar, and federal funds futures and options contracts for speculative or hedging purposes. RCap invests in futures and options contracts for economic hedging purposes to reduce exposure to changes in yields of its U.S Treasury securities and for speculative purposes to achieve capital appreciation. The use of futures and options contracts 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. RCap executes these trades as a customer of an appropriately licensed futures and options broker dealer.

The location and fair value of derivative instruments reported in the Consolidated Statement of Financial Position as of December 31, 2010 and 2009 are as follows:

	Location on Statement of Financial Condition	Notional Amount (dollars in thousands)	Net Estimated Fair Value/Carrying Value
Interest rate swaps			
December 31, 2010	Liabilities	$26,882,460	($754,439)
December 31, 2010	Assets	$200,000	$2,561
December 31, 2009	Liabilities	$18,823,300	($533,362)
December 31, 2009	Assets	$2,700,000	$5,417

Other derivative contracts		Net Estimated Fair Value/Carrying Value (dollars in thousands)
December 31, 2010	Liabilities	($2,446)
December 31, 2010	Assets	$2,607

The effect of derivatives on the Statement of Operations and Comprehensive Income is as follows:

	Location on Statement of Operations and Comprehensive Income	
	Interest Expense	Unrealized Gain (Loss) on Interest Rate Swaps
	(dollars in thousands)	
For the Year Ended December 31, 2010	$735,107	($318,832)
For the Year Ended December 31, 2009	$719,803	$349,521
For the Year Ended December 31, 2008	$327,936	($768,268)

The weighted average pay rate at December 31, 2010 was 3.21% and the weighted average receive rate was 0.28%. The weighted average pay rate at December 31, 2009 was 3.85% and the weighted average receive rate was 0.25%.

	Realized Loss	Unrealized Loss
	(dollars in thousands)	
Other derivative contracts		
For the Year Ended December 31, 2010	($3,168)	($127)

11. CONVERTIBLE SENIOR NOTES

During the year ended December 31, 2010, the Company issued $600.0 million in aggregate principal amount of its 4% Convertible Senior Notes due 2015 (“Convertible Senior Notes”) for net proceeds following expenses of approximately $582.0 million. Interest on the Convertible Senior Notes is paid semi-annually at a rate of 4% per year and the Convertible Senior Notes will mature on February 15, 2015 unless earlier repurchased or converted. The Convertible Senior Notes are convertible into shares of Common Stock at an initial conversion rate and conversion rate at December 31, 2010 of 46.6070 and 54.1089, respectively, shares of Common Stock per $1,000 principal amount of Convertible Senior Notes, which is equivalent to an initial conversion price of approximately $21.4560 and a conversion price at December 31, 2010 of approximately $18.4812 per share of Common Stock, subject to adjustment in certain circumstances. The market value at December 31, 2010 was $699.2 million, based on closing price.

12. PREFERRED STOCK AND COMMON STOCK

(A) Common Stock Issuances

On July 13, 2010 the Company entered into an agreement pursuant to which it sold 60,000,000 shares of its common stock for net proceeds following expenses of approximately $1.0 billion. This transaction settled on July 19, 2010.

During the year ended December 31, 2010, 363,528 options were exercised under the Long-Term Stock Incentive Plan, or Incentive Plan, for an aggregate exercise price of $4.6 million

During the year ended December 31, 2010, 953,000 shares of Series B Preferred Stock were converted into 2.4 million shares of common stock, respectively.

During the year ended December 31, 2010, the Company raised $278.8 million by issuing 15.7 million shares, through the Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2009, 423,160 options were exercised under the Long-Term Stock Incentive Plan, or Incentive Plan, for an aggregate exercise price of $4.9 million. During the year ended December 31, 2009, 7,550 shares of restricted stock were issued under the Incentive Plan.

During the year ended December 31, 2009, 1.4 million shares of Series B Preferred Stock were converted into 2.8 million shares of common stock, respectively.

During the year ended December 31, 2009, the Company raised $141.8 million by issuing 8.4 million shares, through the Direct Purchase and Dividend Reinvestment Program.

(B) Preferred Stock

At December 31, 2010 and 2009, the Company had issued and outstanding 7,412,500 shares of Series A Cumulative Redeemable Preferred Stock ("Series A 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 Stock 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 December 31, 2010, the Company had declared and paid all required quarterly dividends on the Series A Preferred Stock.

At December 31, 2010 and 2009, the Company had issued and outstanding 1,652,047 and 2,604,614, respectively, shares of Series B Cumulative Convertible Preferred Stock ("Series B 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 Stock 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. At December 31, 2010, the conversion ratio was 2.6571 shares of common stock per $25 liquidation preference. Commencing April 5, 2011, the Company has the 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 anytime 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 December 31, 2010, the Company had declared and paid all required quarterly dividends on the Series B Preferred Stock. During the year ended December 31, 2010, 953,000 shares of Series B Preferred Stock were converted into 2.4 million shares of common stock. During the year ended December 31, 2009, 1.4 million shares of Series B Preferred Stock were converted into 2.8 million shares of common stock.

(C) Distributions to Shareholders

During the year ended December 31, 2010, the Company declared dividends to common shareholders totaling $1.6 billion or $2.65 per share, of which $404.2 million were paid to shareholders on January 27, 2011. Dividend distributions for the year ended December 31, 2010, were characterized, for Federal income tax purposes, as 94.3% ordinary income, 5.7% long-term capital. During the year ended December 31, 2010, the Company declared dividends to Series A Preferred shareholders totaling approximately $14.6 million or $1.97 per share, and Series B shareholders totaling approximately $3.4 million or $1.50 per share, which were paid to shareholders on December 31, 2010.

During the year ended December 31, 2009, the Company declared dividends to common shareholders totaling $1.4 billion or $2.54 per share, of which $414.9 million were paid to shareholders on January 28, 2010. Dividend distributions for the year ended December 31, 2009, were characterized, for Federal income tax purposes as ordinary income. During the year ended December 31, 2009, the Company declared dividends to Series A Preferred shareholders totaling approximately $14.6 million or $1.97 per share, and Series B shareholders totaling approximately $3.9 million or $1.50 per share, which were paid to shareholders on December 31, 2009.

13. 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 years ended December 31, 2010, 2009, and 2008.

	For the years ended (amounts in thousands)		
	December 31, 2010	December 31, 2009	December 31, 2008
Net income attributable to controlling interest	$1,267,280	$1,961,471	$346,180
Less: Preferred stock dividends	18,033	18,501	21,177
Net income available to common shareholders, prior to adjustment for Series B dividends, if necessary	1,249,247	1,942,970	325,003
Add: Preferred Series B dividends, if dilutive	3,440	3,908	-
Add: Interest on Convertible Senior Note, if dilutive	21,333	-	-
Net income available to common shareholders, as adjusted	$1,274,020	$1,946,878	$325,003
Weighted average shares of common stock outstanding-basic	588,193	546,973	507,025
Add: Effect of dilutive stock options and Series B Cumulative Convertible Preferred Stock, and Convertible Senior Notes	37,114	6,158	-
Weighted average shares of common stock outstanding-diluted	625,307	553,131	507,025

Options to purchase 565,000 shares of common stock, were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2010. Options to purchase 2.8 million shares of common stock, were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2009. The Series B Cumulative Convertible Preferred Stock was anti-dilutive for the year ended December 31, 2008.

14. LONG-TERM STOCK INCENTIVE PLAN

On May 27, 2010, at the 2010 Annual Meeting of Stockholders of the Company, the stockholders approved the 2010 Equity Incentive Plan. The 2010 Equity Incentive Plan authorizes the Compensation Committee of the board of directors to grant options, stock appreciation rights, dividend equivalent rights, or other share-based award, including restricted shares up to an aggregate of 25,000,000 shares, subject to adjustments as provided in the 2010 Equity Incentive Plan. On June 28, 2010, the Company granted to each non-management director of the Company options to purchase 1,250 shares of the Company's common stock under the 2010 Equity Incentive Plan. The stock options were issued at the current market price on the date of grant and immediately vested with a contractual term of 5 years. The grant date fair value is calculated using the Black-Scholes option valuation model.

The Company had adopted a long term stock incentive plan for executive officers, key employees and non-employee directors (the "Incentive Plan"). The Incentive Plan authorized 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 authorized 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. No further awards will be made under the Incentive Plan, although existing awards will remain effective. Stock options were 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.

	For the year ended			
	December 31, 2010		December 31, 2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of year	7,271,503	$15.20	5,180,164	$15.87
Granted	8,750	17.24	2,535,750	13.26
Exercised	(363,528)	12.65	(423,161)	11.72
Forfeited	(18,500)	15.21	(10,000)	15.61
Expired	(6,250)	18.26	(11,250)	17.32
Options outstanding at the end of period	6,891,975	$15.33	7,271,503	$15.20
Options exercisable at the end of the period	3,822,844	$16.16	1,869,678	$16.96

The weighted average remaining contractual term was approximately 6.6 years for stock options outstanding and approximately 5.6 years for stock options exercisable as of December 31, 2010. As of December 31, 2010, there was approximately $8.8 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 2.0 years.

The weighted average remaining contractual term was approximately 7.6 years for stock options outstanding and approximately 4.7 years for stock options exercisable as of December 31, 2009. As of December 31, 2009, there was approximately $13.1 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 3.0 years.

15. 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 year ended December 31, 2010, the Company's taxable REIT subsidiaries recorded $6.8 million of income tax expense for income attributable to those subsidiaries, and the portion of earnings retained based on Code Section 162(m) limitations. During the year ended December 31, 2010, the Company recorded $28.6 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations.

During the year ended December 31, 2009, the Company's taxable REIT subsidiaries recorded $9.7 million of income tax expense for income attributable to those subsidiaries, and the portion of earnings retained based on Code Section 162(m) limitations. During the year ended December 31, 2009, the Company recorded $24.7 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations.

During the year ended December 31, 2008, FIDAC recorded $4.0 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 year ended December 31, 2008, Merganser recorded $94,000 of income tax expense for income attributable to Merganser. During the year ended December 31, 2008, the Company recorded $21.9 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations.

The Company's effective tax rate was 53%, 52%, and 53%, for the years ended December 31, 2010, 2009, and 2008, respectively. These rates were calculated based on the Companies estimated taxable income after dividends paid deduction and differ from the federal statutory rate as a result of state and local taxes and permanent difference pertaining to employee remuneration as discussed above.

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.

16. LEASE COMMITMENTS AND CONTINGENCIES

Commitments

The Company has a non-cancelable lease for office space which commenced in May 2002 and expires in December 2015. Merganser has a non-cancelable lease for office space, which commenced on May 2003 and expires in May 2014. Merganser subleases a portion of its leased space to a subtenant. FIDAC has a lease for office space which commenced in October 2010 and expires in February 2016. The Company's aggregate future minimum lease payments total $8.7 million. The following table details the lease payments.

Year Ending December	Lease Commitment	Sublease Income	Net Amount
	(dollars in thousands)		
2011	2,291	169	2,122
2012	2,291	70	2,221
2013	2,291	-	2,291
2014	1,863	-	1,863
2015	161	-	161
Later years	27	-	27
	$8,924	$239	$8,685

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 and therefore no accrual is required as of December 31, 2010 and 2009.

Merganser's prior owners may receive additional consideration under the merger agreement. The Company paid approximately $14.1 million of this earn-out during the fourth quarter of 2010. The Company cannot currently calculate how much additional consideration will be paid under the earn-out provisions because the payment amount will vary depending upon whether and the extent to which Merganser achieves specific performance goals. The additional earn-out consideration will be paid during 2012, if Merganser meets specific performance goals under the merger agreement. All amounts paid under this provision will be recorded as additional goodwill.

17. 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 Interest Earning Assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Interest Earning Assets 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, as discussed in Note 1.

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 Interest Earning Assets by entering into interest rate agreements such as interest rate caps and interest rate swaps. As of December 31, 2010 and 2009, the Company entered into interest rate swaps to pay a fixed rate and receive a floating rate of interest, with a total notional amount of $27.1 billion and $21.5 billion, respectively.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on Agency 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 Agency 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.

18. RELATED PARTY TRANSACTIONS

At December 31, 2009, the Company had lent $259.0 million to Chimera in a reverse repurchase agreement which was callable weekly. This amount is included in the principal amount which approximates fair value in the Company's Statement of Financial Condition. The interest rate at December 31, 2009 was at the rate of 1.72%.

On April 15, 2009, the Company purchased approximately 25.0 million shares of Chimera common stock at a price of $3.00 for aggregate proceeds of approximately $74.9 million. On May 27, 2009, the Company purchased approximately 4.7 million shares of Chimera common stock at a price of $3.22 for aggregate proceeds of approximately $15.2 million. Chimera is managed by FIDAC, and the Company owned approximately 4.4% of Chimera's common stock at December 31, 2010.

On September 22, 2009, the Company acquired 4,527,778 shares of CreXus's common stock at a price of $15.00 per share. The Company owns approximately 25% of CreXus at December 31, 2010 and accounts for its investment using the equity method.

RCap acted as a book-running manager in Chimera's underwritten public offering of 115 million shares of its common stock, which was completed on June 28, 2010. In connection with this offering, RCap recognized income from underwriting of $500,000.

RCap acted as a book-running manager in Chimera's underwritten public offering of 125 million shares of its common stock, which was completed on November 5, 2010. In connection with this offering, RCap recognized income from underwriting of $680,000.

19. RCAP REGULATORY REQUIREMENTS

RCap is subject to regulations of the securities business that include but are not limited to trade practices, use and safekeeping of funds and securities, capital structure, recordkeeping, and conduct of directors, officers and employees.

As a self clearing, registered broker dealer, RCap is subject to the minimum net capital requirements of the Financial Industry Regulatory Authority ("FINRA"). As of December 31, 2010 RCap had a minimum net capital requirement of $250,000 and would be required to notify FINRA if capital was to fall below the early warning threshold of $300,000. RCap consistently operates with capital significantly in excess of its regulatory capital requirements. RCap's regulatory net capital as defined by SEC Rule 15c3-1, as of December 31, 2010 was $168.5 million with excess net capital of $168.3 million.

20. SUBSEQUENT EVENTS

On January 4, 2011, the Company entered into an underwriting agreement pursuant to which it sold 86,250,000 shares of its common stock for net proceeds following expenses of approximately $1.5 billion. This transaction settled on January 7, 2011.

On February 15, 2011, the Company entered into an underwriting agreement pursuant to which it sold 86,250,000 shares of its common stock for net proceeds following expenses of approximately $1.5 billion. This transaction settled on February 18, 2011.

21. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

The following is a presentation of the quarterly results of operations for the year ended December 31, 2010.

	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
	(dollars in thousands, expect per share data)			
Interest income				
Investment securities	$653,935	$642,782	$700,964	$678,626
Securities loaned	454	860	1,261	1,422
U.S. Treasury Securities	-	40	751	2,039
Total interest income	654,389	643,682	702,976	682,087
Interest expense				
Repurchase agreements	92,089	96,975	105,393	103,514
Interest rate swaps	180,838	175,535	188,636	190,098
Convertible Senior Notes	3,195	6,966	7,033	7,034
Securities borrowed	387	742	1,047	1,201
U.S. Treasury Securities sold, not yet purchased	-	24	459	2,166
Total interest expense	276,509	280,242	302,568	304,013
Net interest income	377,880	363,440	400,408	378,074
Other (loss) income				
Investment advisory and service fees	12,546	13,863	15,343	16,321
Gain on sale of Mortgage-Backed Securities	46,962	39,041	61,986	33,802
Dividend income from available-for-sale equity securities	7,964	7,330	8,097	7,647
Unrealized (loss) gain on interest rate swaps	(116,732)	(593,038)	(448,253)	839,191
Net gain (loss) on trading securities	-	77	1,082	(3,510)
Income from underwriting	-	500	915	680
Total other (loss) income	(49,260)	(532,227)	(360,830)	894,131
Expenses				
Distribution fees	360	-	-	-
General and administrative expenses	40,021	41,540	43,430	46,496
Total expenses	40,381	41,540	43,430	46,496
Income (loss) before loss on equity method investments and income taxes	288,239	(210,327)	(3,852)	1,225,709
Income on equity method investment	140	935	868	1,002
Income taxes (loss)	(7,314)	(8,837)	(11,076)	(8,207)
Net income	281,065	(218,229)	(14,060)	1,218,504
Dividends on preferred stock	4,625	4,625	4,515	4,268
Net income (loss) available (related) to common shareholders	$276,440	($222,854)	($18,575)	$1,214,236
Net income (loss) available (related) per share to common shareholders:				
Basic	$0.50	$0.40	($0.03)	$1.94
Diluted	$0.49	$0.40	($0.03)	$1.84
Weighted average number of common shares outstanding:				
Basic	554,995,092	559,700,836	611,904,518	625,138,510
Diluted	575,859,564	559,700,836	611,904,518	662,476,638

The following is a presentation of the quarterly results of operations for the year ended December 31, 2009.

	March 31, 2009	June 30, 2009	September 2009	December 2009
	(dollars in thousands, expect per share data)			
Interest income				
Investment securities	$716,015	$710,401	$744,523	$751,560
Securities loaned	-	-	-	103
Total interest income	716,015	710,401	744,523	751,663
Interest expense				
Repurchase agreements	202,066	147,516	124,653	101,632
Interest rate swaps	176,559	175,080	183,124	185,040
Securities borrowed	-	-	-	92
Total interest expense	378,625	322,596	307,777	286,764
Net interest income	337,390	387,805	436,746	464,899
Other income (loss)				
Investment advisory and service fees	7,761	11,736	14,620	14,835
Gain on sale of Mortgage-Backed Securities	5,023	2,364	591	91,150
Dividend income from available-for-sale equity securities	918	3,221	5,398	7,647
Loss from Prime Broker	-	-	-	(13,613)
Unrealized gain (loss) on interest rate swaps	35,545	230,207	(128,687)	212,456
Total other income (loss)	49,247	247,528	(108,078)	312,475
Expenses				
Distribution fees	428	432	478	418
General and administrative expenses	29,882	30,046	33,344	36,880
Total expenses	30,310	30,478	33,822	37,298
Income before loss on equity method investments and income taxes	356,327	604,855	294,846	740,076
Loss on equity method investment	-	-	-	252
Income taxes	6,434	7,801	9,657	10,489
Net income	349,893	597,054	285,189	729,335
Dividends on preferred stock	4,626	4,625	4,625	4,625
Net income available to common shareholders	$345,267	$592,429	$280,564	$724,710
Net income available per share to common shareholders:				
Basic	$0.64	$1.09	$0.51	$1.31
Diluted	$0.63	$1.08	$0.51	$1.30
Weighted average number of common shares outstanding:				
Basic	542,903,110	544,344,844	547,611,480	552,917,499
Diluted	548,551,328	550,099,709	553,376,285	559,332,320

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the city of New York, State of New York.

ANNALY CAPITAL MANAGEMENT, INC.

Date: February 25, 2011	By:	/s/ Michael A. J. Farrell Michael A. J. Farrell Chairman, Chief Executive Officer, and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ KEVIN P. BRADY Kevin P. Brady	Director	February 25, 2011
/s/ KATHRYN F. FAGAN Kathryn F. Fagan	Chief Financial Officer and Treasurer (principal financial and accounting officer)	February 25, 2011
/s/ MICHAEL A.J. FARRELL Michael A. J. Farrell	Chairman of the Board, Chief Executive Officer, President and Director (principal executive officer)	February 25, 2011
/s/ JONATHAN D. GREEN Jonathan D. Green	Director	February 25, 2011
/s/ MICHAEL E. HAYLON Michael E. Haylon	Director	February 25, 2011
/s/ JOHN A. LAMBIASE John A. Lambiase	Director	February 25, 2011
/s/ E. WAYNE NORDBERG E. Wayne Nordberg	Director	February 25, 2011
/s/ DONNELL A. SEGALAS Donnell A. Segalas	Director	February 25, 2011
/s/ WELLINGTON DENAHAN-NORRIS Wellington Denahan-Norris	Vice Chairman of the Board, Chief Investment Officer, Chief Operating Officer and Director	February 25, 2011

Exhibit 12.1

Ratio of Earnings To Combined Fixed Charges And Preferred Stock Dividends

The following table sets forth the calculation of our ratio of earnings to combined fixed charges and preferred stock dividends for the periods shown (dollars in thousands):

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
Net income	1,267,280	1,961,471	346,238	414,384	93,016
Add: Fixed charges (Interest expense)	1,163,332	1,295,762	1,888,912	1,926,465	1,055,013
Earnings as adjusted	2,430,612	3,257,233	2,261,069	2,349,719	1,156,367
Fixed charges (interest expense) + preferred stock dividend	1,181,365	1,314,263	1,910,089	1,947,958	1,074,570
Ratio of earnings to combined fixed charges and preferred stock dividends	2.06	2.48	1.17	1.20	1.07

Exhibit 10.13

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), dated as of July 1, 2010 (the "Effective Date"), is entered into by and between Kevin Keyes (the "Executive") and Annaly Capital Management, Inc., a Maryland corporation (the "Company").

WHEREAS, the Company desires to establish its right to the continued services of the Executive upon the Effective Date, in the capacity described below, on the terms and conditions and subject to the rights of termination hereinafter set forth, and the Executive is willing to accept such employment on such terms and conditions.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth, the Executive and the Company have agreed and do hereby agree as follows:

1. Definitions. Capitalized terms used in this Agreement shall have the respective meanings assigned to them below:

1.1 "Book Value" of the Company shall be equal to the aggregate amounts reported as Stockholders Equity on the Company's balance sheet as of the end of each fiscal year determined in accordance with generally accepted accounting principles (GAAP) but without taking into account any valuation reserves (i.e., changes in the value of the Company's portfolio of investments as a result of mark-to-market valuation changes, referred to in the financial statements as "Accumulated Other Comprehensive Gain or Loss").

1.2 "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.3 "Compensation Committee" shall mean the Compensation Committee of the Board of Directors of the Company.

1.4 "Good Reason" shall mean the occurrence of one or more of the following without the Executive's written consent: (i) a material breach of this Agreement by the Company, or (ii) a materially significant change in the Executive's duties, authorities or responsibilities, or (iii) the relocation of the Executive's principal place of employment more than 60 miles from New York, New York, or (iv) the failure of the Company to obtain the assumption in writing of its obligations to perform this Agreement by any successor to all or substantially all of the assets or business of the Company within fifteen (15) days upon a merger, consolidation, sale or similar transaction, *provided however* that none of the events specified in (i), (ii) or (iii) shall constitute Good Reason unless the Executive shall have notified the Company in writing describing the events which constitute Good Reason and the Company shall have failed to cure such event within a reasonable period, not to exceed thirty (30) days, after the Company's actual receipt of such written notice.

2. Employment as Managing Director of the Company. The Company hereby employs and engages the Executive as Managing Director of the Company, and the Executive does hereby accept and agree to such employment and engagement. The Executive's duties as Managing Director shall be such duties typically required of a managing director, and as shall from time to time be agreed upon by the Executive and the Board of Directors of the Company. The Executive shall report solely and directly to the Company's Chief Operating Officer. The Executive's services shall be performed in the Company's offices in New York, New York or such other location as the Company and Executive shall agree. Except for periods of Disability (as defined below), during the Term, the Executive shall devote substantially all of his business time, attention and energies to the performance of his duties under this Agreement; *provided, however*, that the Executive shall be allowed, to the extent such activities do not substantially interfere with the performance by the Executive of his duties and responsibilities hereunder, (a) to manage the Executive's personal, financial and legal affairs, and (b) serve on civic or charitable boards or committees. Furthermore, the Executive shall exercise due diligence and care in the performance of his duties to the Company under this Agreement.

3. Term of Agreement.

(a) Effective Date. The term ("Term") of this Agreement shall commence as of the Effective Date and shall continue through the first anniversary of the Effective Date. From and after such first anniversary and upon each anniversary thereafter, the Term of the Agreement shall automatically be extended for successive one-year periods unless, not later than three months prior to such first anniversary or any subsequent anniversary, as applicable, either party shall have given written notice to the other that it does not wish to extend the Term of the Agreement.

4. Compensation.

(a) Base Salary. The Company shall pay the Executive, and the Executive agrees to accept from the Company, in payment for his services to the Company, a base salary equal to a per annum amount of $750,000 ("Base Salary"), payable in equal biweekly installments or at such other time or times as the Executive and the Company shall agree. The Base Salary can be increased (but not decreased) at any time by the Compensation Committee or the Board of Directors of the Company, as the case may be. The Executive's salary as increased shall be deemed to be the Base Salary for all purposes under this Agreement.

(b) Performance Bonus. With respect to each fiscal year, the Executive shall be eligible to receive an amount equal to the sum of: (A) the excess, if any, of (i) 0.040% of the Book Value of the Company for such fiscal year over (ii) the Executive's Base Salary as of the last day of such fiscal year; *provided, however,* that the Compensation Committee must approve such amount, plus (B) additional amounts as may be recommended by management and approved by the Compensation Committee (such sum being the "Performance Bonus"). Notwithstanding the foregoing, for the fiscal year ending December 31, 2010, the parties agree that the Performance Bonus that the Executive shall be eligible to receive shall be (x) a pro rata amount of the Performance Bonus, as calculated by the Company, based on the period from the Effective Date through December 31, 2010 plus (y) any other additional bonus amount as may be approved by the Compensation Committee.

(c) Annual Review. The Board of Directors shall, at least annually, review the Executive's entire compensation package to determine if it should be increased (but not decreased) in order for it to continue to meet the Company's compensation objectives.

5. Fringe Benefits. The Executive shall be entitled to participate in any benefit programs adopted from time to time by the Company for the benefit of its senior executive employees, and the Executive shall be entitled to receive such other fringe benefits as may be granted to his from time to time by the Compensation Committee or the Board of Directors of the Company, as the case may be.

(a) Benefit Plans. The Executive shall be entitled to participate in any benefit plans relating to stock options, stock purchases, awards, pension, thrift, profit sharing, life insurance, medical coverage, education, or other retirement or employee benefits available to other senior executive employees of the Company, subject to any restrictions (including waiting periods) specified in such plans.

(b) Vacation. The Executive shall be entitled to such number of weeks of paid vacation per calendar year as determined by the Board of Directors of the Company after review of industry standards, but shall in no event be entitled to fewer than four weeks of paid vacation per calendar year.

6. Business Expenses. The Company shall reimburse the Executive for any and all necessary, customary and usual expenses, properly receipted in accordance with Company policies, incurred by Executive on behalf of the Company.

7. Termination of Executive's Employment.

(a) Death. If the Executive dies while employed by the Company, his employment shall immediately terminate. The Company's obligation to pay the Executive's Base Salary shall cease as of the date of Executive's death, except that any earned, but unpaid Base Salary and Performance Bonus shall be paid to the Executive's beneficiaries as soon as practicable after his death. In addition, the Executive's beneficiaries shall receive the pro rata portion of the Performance Bonus for the year of the Executive's death, which shall be equal to the Performance Bonus (as determined at the end of the year of the Executive's death) multiplied by a ratio equal to (A) the number of days the Executive was employed in the year of his death, divided by (B) 365. The Performance Bonus shall be paid to the Executive's beneficiaries at the same time and in the same manner as such Performance Bonus would have been paid to the Executive had the Executive not died or been terminated. Thereafter, Executive's beneficiaries or his estate shall receive benefits in accordance with the Company's retirement, insurance and other applicable programs and plans then in effect.

(b) Disability. If, as a result of the Executive's incapacity due to physical or mental illness ("Disability"), Executive shall have been absent from the full-time performance of his duties with the Company for six (6) consecutive months, and, within thirty (30) days after written notice is provided to him by the Company, the Executive shall not have returned to the full-time performance of his duties, the Executive's employment under this Agreement may be terminated by the Company for Disability. With respect to the period during which begins when the Executive is first absent from the full-time performance of his duties with the Company due to Disability and ends upon the later of (i) the date he is terminated from employment in accordance with the foregoing sentence, or, (ii) the date he begins receiving long-term disability payments under the Company's long term disability plan for senior executives ("Salary Continuation Period"), the Company shall continue to pay the Executive his Base Salary at the rate in effect at the commencement of such period of Disability. In addition, the Executive shall receive the pro rata portion of the Performance Bonus for the year of the Executive's termination due to Disability, which shall be equal to the Performance Bonus (as determined at the end of the year in which the Executive is terminated by reason of Disability) multiplied by a ratio equal to (A) the number of days the Executive was employed in the year of his termination for Disability, divided by (B) 365. The Performance Bonus shall be paid to the Executive at the same time and in the same manner as such Performance Bonus would have been paid had the Executive not been terminated by reason of Disability. Upon the end of the Salary Continuation Period, the Executive's benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs

(c) Termination by the Company for Cause. The Company may terminate the Executive's employment under this Agreement for "Cause," at any time prior to expiration of the Term of the Agreement, only in the event of (i) the Executive's failure to substantially perform the duties described in this Agreement, (ii) acts or omissions constituting recklessness or willful misconduct on the part of the Executive in respect of his fiduciary obligations to the Company which is materially and demonstrably injurious to the Company, or (iii) the Executive's conviction for fraud, misappropriation or embezzlement in connection with the assets of the Company. In the case of clause (i) only, it shall also be a condition precedent to the Company's right to terminate the Executive's employment for Cause that (1) the Company shall first have given the Executive written notice stating with specificity the reason for the termination ("breach") at least 60 days before the meeting of the Board of Directors called to make such determination and the Executive and his counsel are given the opportunity to answer such grounds for termination in person, at a hearing or in writing delivered to the Chairman of the Board, in the Executive's discretion, before a vote by the Board of Directors on the existence of Cause; and (2) if such breach is susceptible to cure or remedy, a period of 60 days from and after the giving of the notice described in (1) shall have elapsed without the Executive having effectively cured or remedied such breach during such 30-day period, unless such breach cannot be cured or remedied within 60 days, in which case the period for remedy or cure shall be extended for a reasonable time (not to exceed an additional 30 days), provided the Executive has made and continues to make a diligent effort to effect such remedy or cure. In the case of clause (iii) above, the Executive's employment under this Agreement may be terminated immediately without any advance written notice. Upon a determination that grounds exist for a termination for Cause by the Board of Directors and that the breach cannot be cured, or immediately in the case of clause (iii) above, the Company's obligation to pay the Executive's Base Salary, any Performance Bonus and benefits shall immediately cease, except to the extent any Base Salary or Performance Bonus has been earned but has not yet been paid.

7.2 Termination by the Executive. The Executive may at any time during the Term of this Agreement terminate his employment hereunder for any reason or no reason by giving the Company notice in writing not less 90 days in advance of such termination. The Executive shall have no further obligations to the Company after the effective date of his termination, as set forth in the notice. In the event of a termination by the Executive under this Section, the Company will pay only the portion of Base Salary or previously awarded Performance Bonus unpaid as of the termination date. Benefits which have accrued and/or vested on the termination date will continue in effect according to their terms, but no additional accrual or vesting will take place. Notwithstanding the foregoing, if the Executive terminates his employment for Good Reason, the notice period provided in Section 7.2 above shall not apply and the Executive will be entitled to the severance detailed in Section 8.

8. Compensation Upon Termination by the Company Other Than for Cause or Upon Termination by the Executive for Good Reason. If the Executive's employment shall be terminated by the Company other than for Cause or by the Executive for Good Reason, the Executive shall be entitled to the following benefits:

(a) Payment of Unpaid Base Salary. The Company shall immediately pay the Executive any portion of the Executive's Base Salary or previously awarded Performance Bonus not paid prior to the termination date.

(b) Severance Payment. The Company shall pay the Executive an amount (the "Severance Amount") equal to three (3) times the greater of (i) the Executive's combined Base Salary and actual Performance Bonus for the preceding fiscal year or (ii) the average for the three preceding years of the Executive's combined actual Base Salary and Performance Bonus. Fifty percent of the Severance Amount shall be paid within five (5) days after the date the Executive terminates for Good Reason or is terminated by the Company for any reason other than Cause, and the remaining 50% of the Severance Amount shall be paid in three equal monthly installments beginning on the first business day of the month following the month of such termination.

(c) Immediate Vesting of Stock Options. The Company shall take all appropriate action to ensure that all stock options on the Company's stock owned by the Executive as of his termination date, and which have not been exercised prior to the termination date become immediately exercisable by the Executive, whether or not the right to exercise such stock options would otherwise then be vested in the Executive, *provided, however*, an option that is an incentive stock option within the meaning of Code Section 422(b) ("ISO") shall not be exercisable for the first time in a calendar year to the extent that the aggregate fair market value of stock (as determined under Code Section 422(b)(3)) with respect to which ISO's are exercisable by the Executive during such calendar year exceeds $100,000. The provisions of this Section 7(c) shall constitute an amendment to any existing stock option agreements (including award certificates) of the Company as of the termination date.

(d) Maximization of Payment in the Event of a Change in Control. The Company shall make the payments and provide the benefits to be paid and provided under this Agreement; *provided*, *however*, that if all or any portion of the payments and benefits provided under this Agreement, either alone or together with other payments and benefits which the Executive receives or is then entitled to receive from the Company or otherwise, would constitute a "parachute payment" within the meaning of Section 280G of the Code (or a similar or successor provision), the Company shall reduce such payments hereunder and such other payments to the extent necessary so that no portion thereof shall be subject to the excise tax imposed by Section 4999 of the Code (or a similar or successor provision); but only if, by reason of such reduction, the net after-tax benefit to the Executive shall exceed the net after-tax benefit if such reduction were not made. The payments or benefits shall be reduced in the manner and order determined by the Executive, subject to the consent of the Company, which consent shall not be unreasonably withheld. The determination of whether the payments shall be reduced as provided in this Section 8(d) and the amount of such reduction shall be made at the Company's expense by a public accounting firm retained by the Company at the time the calculation is to be performed, or one selected by the Company from among the four (4) largest public accounting firms in the United States (the "Accounting Firm"). The Accounting Firm shall provide its determination, together with detailed supporting calculations and documentation to the Company and the Executive within twenty (20) business days of the payment of the initial installment of the Severance Amount. The Executive may review these calculations for a period of twenty days and may retain another accounting firm (at his own expense) for such review and submit objections during such twenty-day review period.

(e) No Other Entitlement to Benefits Under Agreement. Except as set forth in Section 7 or Section 8 of this Agreement, following a termination governed by Section 7 or Section 8, the Executive shall not be entitled to any other compensation or benefits, except as may be separately negotiated by the parties and approved by the Board of Directors of the Company in writing in conjunction with the termination of Executive's employment.

9. Noncompetition Provisions.

(a) Noncompetition. The Executive agrees that during the Term of employment under this Agreement prior to any termination of his employment hereunder and, in the event of termination of the Executive's employment by the Company for Cause or voluntary termination of employment by the Executive (other than for Good Reason), for a period of one year following such termination, the Executive will not, directly or indirectly, without the prior written consent of the Company, manage, operate, join, control, participate in, or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System), partner, or other equity holder with, or as an officer, director or employee of, any private or public investment firm, broker dealer or real estate investment trust whose business strategy is based on or who engages in the trading, sales or management of mortgage-backed securities (the “Business”) in any geographical region in which the Company engages in the Business (a “Competitor”). It is further expressly agreed that the Company will or would suffer irreparable injury of the Company in violation of the preceding sentence of this Agreement and that the Company would by reason of such competition be entitled to injunctive relief in a court of appropriate jurisdiction, and the Executive further consents and stipulates to the entry of such injunctive relief in such a court prohibiting the Executive from competing with the Company or any subsidiary or affiliate of the Company, in the areas of business set forth above, in violation of this Agreement.

(b) Right to Company Materials. The Executive agrees that all styles, designs, lists, materials, books, files, reports, correspondence, records, and other documents (“Company Materials”) used, prepared, or made available to the Executive in connection with his employment by the Company shall be and shall remain the property of the Company. Upon the termination of employment or the expiration of the Term of employment under this Agreement, all Company Materials shall be returned immediately to the Company, and the Executive shall not make or retain any copies thereof.

(c) Soliciting Executives. The Executive promises and agrees that he will not directly or indirectly solicit any of the Company Executives to work for any Competitor during the one-year period following his termination of employment unless such termination is by the Company for reasons other than Cause or by the Executive for Good Reason.

(d) Corporate Opportunities. The Executive agrees, in accordance with Maryland law, to first offer to the Company corporate opportunities learned of solely as a result of his service as an officer of the Company.

10. Notices. All notices and other communications under this Agreement shall be in writing and shall be given by fax or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of a fax to the respective persons named below:

If to the Company:

Michael A. J. Farrell
Chairman and Chief Executive Officer
Annaly Capital Management, Inc.
1211 Avenue of the Americas
Suite 2902
New York, NY 10036
Phone: (212) 696-0100
Fax: (212) 696-9809

If to the Executive:

Kevin Keyes
320 N. Murray Avenue
Ridgewood, NJ 07450

Either party may change such party’s address for notices by notice duly given pursuant hereto.

11. Attorneys’ Fees. In the event judicial determination or arbitration (as provided in Section 22) is necessary for any dispute arising as to the parties’ rights and obligations hereunder, the Company shall pay to the Executive his costs incurred (including attorney’s fees) in deciding such dispute provided that he has substantially prevailed.

12. No Mitigation or Offset. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise. The Company shall not be entitled to set off against the amounts payable to the Executive under this Agreement any amounts earned by the Executive in

other employment after termination of employment with the Company, or any amounts which might have been earned by the Executive in other employment had such other employment been sought.

13. Termination of Prior Agreements. This Agreement terminates and supersedes any and all prior agreements and understandings between the parties with respect to employment or with respect to the compensation of the Executive by the Company.

14. Assignment; Successors. This Agreement is personal in its nature and neither of the parties hereto shall, without the consent of the other, assign or transfer this Agreement or any rights or obligations hereunder; provided that, in the event of the merger, consolidation, transfer, or sale of all or substantially all of the assets of the Company with or to any other individual or entity, this Agreement shall, subject to the provisions hereof, be binding upon and inure to the benefit of such successor and such successor shall discharge and perform all the promises, covenants, duties, and obligations of the Company hereunder.

15. Governing Law. This Agreement and the legal relations thus created between the parties hereto shall be governed by and construed under and in accordance with the laws of the State of New York.

16. Entire Agreement; Headings. This Agreement embodies the entire agreement of the parties respecting the matters within its scope and may be modified only in writing. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

17. Waiver; Modification. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by each party hereto.

18. Severability. In the event that a court of competent jurisdiction determines that any portion of this Agreement is in violation of any statute or public policy, only the portions of this Agreement that violate such statute or public policy shall be stricken. All portions of this Agreement that do not violate any statute or public policy shall continue in full force and effect. Further, any court order striking any portion of this Agreement shall modify the stricken terms as narrowly as possible to give as much effect as possible to the intentions of the parties under this Agreement.

19. Indemnification; Directors and Officers Insurance. The Company shall indemnify and hold Executive harmless to the maximum extent permitted by Section 2-418 of the Maryland General Corporations Law or its successor statute. During the Term and for six years following the date of the Executive's termination as an officer of the Company, the Company (or any successor thereto) shall provide comprehensive coverage under the Company's officers and directors insurance policy (or policies) on substantially the same terms and levels that it provides to its senior executive officers, at the Company's sole cost.

20. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

21. Successor Sections. References herein to sections, rules or regulations of the Code or other applicable law shall be deemed to include any successor sections, rules or regulations.

22. Arbitration. Any dispute, claim or controversy arising out of or in relation to this Agreement, which the Executive and the Company are unable to resolve shall be determined by the decision of a board of arbitration consisting of three (3) members (the "Board of Arbitration") selected by the American Arbitration Association upon application made to it for such purpose by either the Company or the Executive. The arbitration proceedings shall take place in New York, New York or such other place as shall be agreed to by the parties. The Board of Arbitration shall reach and render a decision in writing. In connection with rendering its decision, the Board of Arbitration shall adopt and follow such rules and procedures as a majority of the members of the Board of Arbitration deems necessary or appropriate. Any award shall be rendered on the basis of the substantive law governing this Agreement and shall be

concurred in by a majority of the arbitrators. To the extent practical, decisions of the arbitrators shall be rendered no more than thirty (30) calendar days following commencement of the arbitration proceedings with respect thereto.

Any decision made by the Board of Arbitration (either prior to or after the expiration of such thirty (30) calendar day period) shall be final, binding and conclusive on the Executive and the Company and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction. The Company shall bear all of the costs of arbitration, except for the attorneys' fees incurred by the Executive, which fees shall be subject to Section 11 hereof.

[REMAINDER OF THE PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and the Executive has hereunto signed this Agreement, as of the date first above written.

ANNALY CAPITAL MANAGEMENT, INC.

By: /s/ Michael A.J. Farrell
Michael A.J. Farrell

By: /s/ Kevin Keyes
Kevin Keyes

Exhibit 21.1

Subsidiaries of Registrant

Fixed Income Discount Advisory Company, Delaware corporation
RCap Securities Inc, Maryland corporation
Merganser Capital Management, Inc., Delaware corporation
FIDAC Housing Cycle Fund, LLC, Delaware limited liability company
FHC Master Fund, Ltd., a Cayman Islands exempted company (wholly owned subsidiary of FIDAC Housing Cycle Fund, LLC)
Shannon Funding LLC, Delaware limited liability company
Charlesfort Capital Management LLC, Delaware limited liability company

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements No. 333-151069 and No. 333-164783 on Forms S-3 and Registration Statement No. 333-169923 on Form S-8 of our report dated February 25, 2011, relating to the consolidated financial statements of Annaly Capital Management, Inc., and the effectiveness of Annaly Capital Management, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Annaly Capital Management, Inc. for the year ended December 31, 2010.

/s/ Deloitte & Touche LLP
New York, New York
February 25, 2011

Exhibit 31.1

CERTIFICATIONS

I, Michael A.J. Farrell, certify that:

1. I have reviewed this annual report on Form 10-K of Annaly Capital Management, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2011

/s/Michael A.J. Farrell
Chairman of the Board of Directors, Chief Executive Officer,
President and principal executive officer

Exhibit 31.2

CERTIFICATIONS

I, Kathryn Fagan, certify that:

1. I have reviewed this annual report on Form 10-K of Annaly Capital Management, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2011

/s/Kathryn Fagan
Chief Financial Officer and Treasurer

Exhibit 32.1

ANNALY CAPITAL MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
SUITE 2902
NEW YORK, NEW YORK 10036

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the annual report on Form 10-K of Annaly Capital Management, Inc. (the “Company”) for the period ended December 31, 2010 to be filed with Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael A.J. Farrell, Chairman of the Board, President, and Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Michael A.J. Farrell
Michael A.J. Farrell
Chairman of the Board of Directors, Chief
Executive Officer and President
February 25, 2011

Exhibit 32.2

ANNALY CAPITAL MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
SUITE 2902
NEW YORK, NEW YORK 10036

CERTIFICATION
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 10 U.S.C. SECTION 1350

In connection with the annual report on Form 10-K of Annaly Capital Management, Inc. (the "Company") for the period ended December 31, 2010 to be filed Kathryn F. Fagan, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates of, and for the periods covered by, the Report.

It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934.

/s/ Kathryn F. Fagan
Kathryn F. Fagan
Chief Financial Officer and Treasurer
February 25, 2011

Corporate Officers

Michael A. J. Farrell
Chairman, President and
Chief Executive Officer

Wellington J. Denahan-Norris
Vice Chairman,
Chief Investment Officer and
Chief Operating Officer

Kathryn F. Fagan
Chief Financial Officer and Treasurer

Jeremy Diamond
Managing Director, Head of Research
and Corporate Communications

James P. Fortescue
Managing Director, Head of
Liabilities and Chief of Staff

Ronald D. Kazel
Managing Director, Head of
Asset Management Group

Kevin Keyes
Chief Strategic Officer, Head of
Capital Markets Group

Kristopher R. Konrad
Managing Director,
Head Portfolio Manager

Matthew Lambiase
Managing Director,
Head of Business Development

Rose-Marie Lyght
Managing Director,
Chief Investment Officer-FIDAC

R. Nicholas Singh
Chief Legal Officer, Chief
Compliance Officer and Secretary

Board Of Directors

Michael A. J. Farrell
Chairman, President and
Chief Executive Officer

Wellington J. Denahan-Norris
Vice Chairman,
Chief Investment Officer and
Chief Operating Officer

Kevin P. Brady
Chief Executive Officer
ARMtech, LLC

Jonathan D. Green
Former Vice Chairman,
President and CEO
Rockefeller Group International, Inc.

Michael Haylon
Head of Investment
Product Management
General RE-New England
Asset Management, Inc.

John A. Lambiase
Former Managing Director
Salomon Brothers, Inc.

E. Wayne Nordberg
Chairman and Chief
Executive Officer
Hollow Brook Associates, LLC

Donnell A. Segalas
Managing Partner and
Chief Executive Officer
Pinnacle Asset Management, L.P.

Corporate Information

Corporate Headquarters
Annaly Capital Management, Inc.
1211 Avenue of the Americas
Suite 2902
New York, NY 10036

Legal Counsel
K&L Gates LLP
1601 K Street, N.W.
Washington, DC 20006

Independent Registered Public Accounting Firm
Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281

Stock Transfer Agent
Shareholder inquiries concerning dividend payments, lost certificates and change of address should be directed to:

BNY Mellon
480 Washington Boulevard
Jersey City, NJ 07310
1-800-301-5234
www.bnymellon.com/shareowner/equityaccess

Stock Exchange Listing
The common stock is listed on the New York Stock Exchange (symbol: NLY). The Series A preferred stock is listed on the New York Stock Exchange (symbol: NLY-A).

Shareholder Communications
Copies of the Company's Annual Report and 2010 Form 10-K may be obtained by writing the Secretary, by calling the investor relations hotline at 1–888–8ANNALY, or by visiting our website at www.annaly.com.

Additional Information

The Company has included as exhibits to its Annual Report on Form 10-K for fiscal year ended 2010 certificates of the Company's Chief Executive Officer and Chief Financial Officer certifying the quality of the Company's public disclosure controls, and the Company has submitted to the New York Stock Exchange (NYSE) in 2010, a certificate of the Company's Chief Executive Officer certifying that he is not aware of any violations by the Company of the NYSE corporate governance listing standards.

Designed and produced by Taylor & Ives, Inc., NYC

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www.annaly.com