ANNALY CAPITAL MANAGEMENT INC
Form 424B3
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This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated February 8, 2010

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated February 8, 2010)

$500,000,000

Annaly Capital Management, Inc.

% Convertible Senior Notes Due 2015

We are offering $500,000,000 aggregate principal amount of our % Convertible Notes due 2015. The notes will bear interest at a rate of % per year. Interest on the notes will be payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2010. The notes will mature on February 15, 2015, unless earlier converted or repurchased by us.

Noteholders may convert their notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date (excluding such maturity date). Noteholders will not receive any cash payment or additional shares representing accrued and unpaid interest upon conversion of a note, except in limited circumstances. Instead, interest will be deemed paid by the delivery of shares of common stock to noteholders upon conversion.

The initial conversion rate will be shares of our common stock per $1,000 principal amount of notes, equivalent to a conversion price of approximately $ per share of common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest.

We may not redeem the notes at our option prior to maturity. If we undergo a fundamental change, as described in this prospectus supplement, noteholders may require us to repurchase the notes in whole or in part at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the repurchase date in exchange for shares of our common stock. In addition, following a fundamental change, a noteholder who elects to convert its notes in certain circumstances may be entitled to receive additional shares of our common stock based on a premium over the principal amount of the notes being converted, in addition to the shares such noteholders are otherwise entitled to receive upon conversion.

If, at any time, the daily VWAP of our common stock exceeds 130% of the applicable conversion price for 10 trading days during any consecutive 15 trading day period, we may, at our option, cause all or a portion of the notes to be automatically converted into shares of common stock. If we require the notes to be converted, noteholders will be entitled to receive additional shares of our common stock equal to the dollar amount of the remaining scheduled payments of interest that would have been made on the notes to be converted had such notes remained outstanding from the conversion date until maturity, in addition to the shares such noteholders are otherwise entitled to receive upon conversion.

The notes will rank equally with all our existing and future senior debt and senior to all our future subordinated debt. The notes will be effectively subordinated to our secured indebtedness. The notes are new securities, and there is currently no established market for the notes. Accordingly, we cannot assure you as to the development or liquidity of any market for the notes. We do not intend to apply for a listing of the notes on any securities exchange.

Our common stock is listed on the New York Stock Exchange under the symbol NLY. The last reported sale price of our common stock on the New York Stock Exchange on February 5, 2010 was $18.00 per share.

Investing in the notes or our common stock issuable upon conversion of the notes involves risks. See Risk Factors beginning on page S-12 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	**Total**
Price to Public(1)	%	$
Underwriting discount	%	$
Proceeds, before expenses, to us	%	$

(1) Plus accrued interest, if any, from February , 2010

The underwriter will have a 30-day option to purchase up to an additional $75,000,000 aggregate principal amount of notes, solely to cover over-allotments, if any.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company and its participants, including Clearstream and the Euroclear system, on or about February , 2010.

Credit Suisse

The date of this prospectus supplement is , 2010.

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Prospectus Supplement

Prospectus

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these notes. The information in this document may only be accurate on the date of this document.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement, and certain statements contained in our future filings with the Securities and Exchange Commission (or the SEC or the Commission), in our press releases or in our other public or stockholder 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 simila 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 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 risks set forth under the caption Risk Factors in this prospectus supplement, in the accompanying prospectus, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference in the accompanying prospectus. 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.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in our notes, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the risks set forth under the caption Risk Factors in this prospectus supplement, in the accompanying prospectus, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference in the accompanying prospectus, and the information set forth under the caption Where You Can Find More Information on page 62 of the accompanying prospectus, as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. All references to we, our and us in this prospectus supplement mean Annaly Capital Management, Inc. and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriter s overallotment option is not exercised.

The Company

We own, manage, and finance a portfolio of investment securities, 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 investment securities and the cost of borrowings to finance our acquisition of investment securities, and from dividends we receive from our subsidiaries. We are a Maryland corporation that commenced operations on February 18, 1997. We are self-advised and self-managed.

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, 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 investment securities 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 that are unrated or rated less than high quality, but which are at least investment grade (rated BBB or better by Standard & Poor s Rating Services, a division of The McGraw-Hill Companies, Inc. (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.

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, 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 that, although not rated, carry an implied AAA rating. Agency mortgage-backed securities are mortgage-backed securities for which a government agency or federally chartered corporation, such as the Federal Home Loan Mortgage Corporation (or FHLMC or Freddie Mac), the Federal National Mortgage Association (or FNMA or Fannie Mae), or the Government National Mortgage Association (or GNMA 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. 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 September 30, 2009, approximately 24% of our investment securities were adjustable-rate pass-through certificates and approximately 71% of our investment securities were fixed-rate pass-through certificates or CMOs, and approximately 5% of our investment securities were adjustable rate CMOs (or CMO floaters). 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 prospectus supplement, except where the context indicates otherwise, we use the term adjustable-rate securities or adjustable-rate investment securities to refer to adjustable-rate pass-through certificates, CMO floaters, and agency debentures. At September 30, 2009, the weighted average yield on our portfolio of earning assets was 4.55% and the weighted average term to next rate adjustment on adjustable rate securities was 33 months.

We may also invest in Federal Home Loan Bank (or FHLB), FHLMC, and FNMA debentures. We intend to continue to invest in adjustable-rate pass-through certificates, fixed-rate mortgage-backed securities, CMO floaters, and agency debentures. Although we have not done so to date, we may also invest on a limited basis in mortgage derivative securities representing the right to receive interest only or a disproportionately large amount of interest. We have not and will not invest in real estate mortgage investment conduit (or REMIC) residuals, other CMO residuals or any mortgage-backed securities, such as fixed income instruments with an interest rate that varies with a short term interest rate index in such a way that the yield is inversely related to the market rate of interest opposite of the floater, that have embedded leverage as part of their structural characteristics.

Borrowings

We attempt to structure our 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 investment securities. However, periodic rate adjustments on our borrowings are generally more frequent than rate adjustments on our investment securities. At September 30, 2009, the weighted average cost of funds for all of our borrowings was 2.15%, the weighted average original term to maturity was 305 days, and the weighted average term to next rate adjustment of these borrowings was 165 days.

We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from time to time depending upon market conditions and other factors that our management deems relevant. 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. At September 30, 2009, our ratio of debt-to-equity was 6.0:1.

Hedging

To the extent consistent with our election to qualify as a REIT, we enter into hedging transactions to attempt to protect our investment securities and related borrowings against the effects of major interest rate changes. This hedging would be used to mitigate declines in the market value of our investment securities during periods of increasing or decreasing interest rates and to limit or cap the interest rates on our borrowings. These transactions would be entered into solely for the purpose of hedging interest rate or prepayment risk and not for speculative purposes. At September 30, 2009, the notional amount of our derivative instruments was approximately $20.6 billion.

Compliance with REIT and Investment Company Requirements

We constantly monitor our investment securities and the income from these securities 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 exempt status under the Investment Company Act of 1940, as amended.

Investment Advisory Services

We acquired Fixed Income Discount Advisory Company (or FIDAC) on June 4, 2004 and Merganser Capital Management, Inc. (or Meganser) on October 31, 2008. Both are registered investment advisors and are taxable REIT subsidiaries. FIDAC and Merganser manage a number of investment vehicles and separate accounts for which they earn fee income. FIDAC expanded its line of business in 2006 to include the management of equity securities, initially for us and an affiliated person, and collateralized debt obligations. Our subsidiary, RCap Securities Inc. (or RCap), formed in 2008 as a broker-dealer, was granted membership in the Financial Industry Regulatory Authority (or FINRA) in January 2009. RCap is a taxable REIT subsidiary.

At September 30, 2009, FIDAC and Merganser had under management approximately $11.3 billion in net assets and $22.6 billion in gross assets, compared to $2.4 billion in net assets and $10.5 billion in gross assets at September 30, 2008 for FIDAC. Net investment advisory and service fees net of distribution fees for the nine months ended September 30, 2009 and 2008 totaled $32.8 million and $19.4 million, respectively. 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 and Merganser manage. In addition, FIDAC is the external manager of Chimera Investment Corporation, a NYSE listed REIT, and CreXus Investment Corp., a NYSE listed REIT, which consummated its initial public offering on September 22, 2009. As of September 30, 2009, we owned approximately 45.0 million shares of Chimera at a fair value of approximately $171.8 million and approximately 4.5 million shares of CreXus at a fair value of approximately of $64.2 million.

Our Business Strategy

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 FIDAC. To achieve our business objective and generate dividend yields, our strategy is:

to purchase mortgage-backed securities, the majority of which we expect to have adjustable interest rates based on changes in short-term market interest rates;

to acquire mortgage-backed 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 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 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 over time 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.

Recent Developments

Dividend

On December 17, 2009, our board of directors declared a quarterly distribution of $0.75 per share of our common stock. This dividend was paid on January 28, 2010 to common shareholders of record on December 29, 2009.

On November 12, 2009, we declared our fourth quarter 2009 7.875% Series A Cumulative Redeemable Preferred Stock (or Series A Preferred Stock) dividend of $0.492188 per share for distribution to stockholders of record on December 1, 2009. This dividend was paid on December 31, 2009.

On November 12, 2009, we declared our fourth quarter 2009 6% Series B Cumulative Convertible Preferred Stock (or Series B Preferred Stock) dividend of $0.375000 per share for distribution to stockholders of record on December 1, 2009. This dividend was paid on December 31, 2009.

Earnings

On February 2, 2010, we announced, in a press release, our financial results for the year ended December 31, 2009. The following presents an overview of those operating results.

We have not yet finalized our financial results for the fourth quarter and year ended December 31, 2009 and, accordingly, information regarding these periods is subject to adjustments that could be material as we finalize our results.

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

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

We provided a return on average equity of 22.69% for the year ended December 31, 2009, as compared to a return on average equity of 5.18% for the year ended December 31, 2008.

Leverage at December 31, 2009, was 5.7:1 compared to 6.4:1 at December 31, 2008, and 6.0:1 at September 30, 2009.

Fixed-rate securities comprised 74% of our portfolio at December 31, 2009. the balance of the portfolio was comprised of 21% adjustable-rate mortgages and 5% LIBOR floating-rate collateralized mortgage obligations.

The annualized interest rate spread during the quarter ended December 31, 2009, was 2.79%, compared to an annualized interest rate spread of 1.71% during the quarter ended December 31, 2008 and 2.65% during the quarter ended September 30, 2009.

At December 31, 2009, FIDAC and Merganser had under management approximately $11.5 billion in net assets and $19.1 billion in gross assets, as compared to $7.0 billion in net assets and $15.3 billion in gross assets at December 31, 2008 and $11.3 billion in net assets and $22.6 billion in gross assets at September 30, 2009.

Corporate Information

Our principal executive offices are located at 1211 Avenue of Americas, Suite 2902, New York, New York 10036. Our telephone number is (212) 696-0100. Our website is http://www.annaly.com. The contents of our website are not a part of this prospectus supplement or the accompanying prospectus. Our shares of common stock are traded on the New York Stock Exchange (or NYSE) under the symbol NLY.

SUMMARY FINANCIAL INFORMATION

The summary financial information set forth below is derived from our audited consolidated financial statements for the fiscal years ended December 31, 2008, 2007, 2006, 2005, and 2004 and our unaudited consolidated financial statements for the nine months ended September 30, 2009 and 2008. Our consolidated financial statements include, for the periods following June 4, 2004, the investment advisory business that we acquired from the stockholders of FIDAC on June 4, 2004. The following selected financial information should be read in conjunction with our more detailed information contained in the consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference into the accompanying prospectus.

In addition to our Series A Preferred Stock, which is equity, for the purpose of computing ratios relating to equity measures presented in the summary financial information below, equity includes our Series B Preferred Stock, which under GAAP has been treated as temporary equity.

	For the nine months ended September 30,		For the years ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(dollars in thousands, except per share amounts)						
Statement of Operations Data							
Interest income	$ 2,170,939	$ 2,375,146	$ 3,115,428	$ 2,355,447	$ 1,221,882	$ 705,046	$ 532,328
Interest expense	1,008,998	1,438,107	1,888,912	1,926,465	1,055,013	568,560	270,116
Net interest income	1,161,941	937,039	1,226,516	428,982	166,869	136,486	262,212
Other income (loss):							
Investment advisory and service fees	34,117	20,667	27,891	22,028	22,351	35,625	12,512
Gain (loss) on sale of investment securities	7,978	11,181	10,713	19,062	(3,862)	(53,238)	5,215
Gain on termination of interest rate swaps				2,096	10,674		
Dividend income from available-for-sale securities	9,537	2,101	2,713	91			
Loss on other-than-temporarily impaired securities		(31,834)	(31,834)	(1,189)	(52,348)	(83,098)	
Unrealized gain(loss) on interest rate swaps	137,065		(768,268)				
Income from trading securities		11,705	9,695	19,147	3,994		
Total other income (loss)	188,697	13,820	(749,090)	61,235	(19,191)	(100,711)	17,727
Expenses:							
Distribution fees	1,338	1,302	1,589	3,647	3,444	8,000	2,860
General and administrative expenses	93,272	76,665	103,622	62,666	40,063	26,278	24,029
Total Expenses	94,610	77,967	105,211	66,313	43,507	34,278	26,889
Impairment of intangible for customer relationships					2,493		
Income before income taxes and noncontrolling interest	1,256,028	872,892	372,215	423,904	101,678	1,497	253,050
Income taxes	23,892	19,675	25,977	8,870	7,538	10,744	4,458