ANNALY CAPITAL MANAGEMENT INC
Form 424B5
October 12, 2007
Filed Pursuant to Rule 424(b)(5)

Registration No. 333-134404

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee(1)
Common Stock	71,300,000	$15.10	$1,076,630,000	$33,052.55

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended (or the Securities Act). Payment of the registration fee at the time of filing of the registration statement on May 23, 2006 was deferred pursuant to Rule 456(b) of the Securities Act and paid herewith.

PROSPECTUS SUPPLEMENT

(To prospectus dated May 23, 2006)

62,000,000 Shares

Annaly Capital Management, Inc.

Common Stock

We are offering 62,000,000 shares of our common stock to be sold in this offering. We expect to receive approximately $936.2 million in aggregate gross proceeds plus up to approximately $140.4 million in additional aggregate gross proceeds if the underwriters overallotment is exercised in full. The last reported sales price of our common stock on October 11, 2007 was $15.34 per share.

Our common stock is subject to certain restrictions on ownership designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of Common Stock and Preferred Stock on page 4 of the accompanying prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol NLY.

Investing in our common stock involves risks that are described under the caption Risk Factors beginning on page S-9 in the accompanying prospectus, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, which are incorporated by reference in the accompanying prospectus.

	Per Share	Total

Public offering price	$15.10	$936,200,000
Underwriting discount	$.6795	$42,129,000
Proceeds, before expenses, to us	$14.4205	$894,071,000

We have granted the underwriters the option to purchase within 30 days from the date of this prospectus supplement up to an additional 9,300,000 shares of common stock at the public offering price per share, less discounts and commissions, to cover overallotments.

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.

The shares will be ready for delivery on or about October 17, 2007.

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Merrill Lynch & Co.

Citi

Morgan Stanley

UBS Investment Bank

Deutsche Bank Securities

Keefe, Bruyette & Woods

RBC Capital Markets

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The date of this prospectus supplement is October 11, 2007.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission and incorporated by reference, is only accurate as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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, 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 for purchase;
- the availability of 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 subsidiary, Fixed Income Discount Advisory Company (or FIDAC), including:
  - the removal by FIDAC s clients of assets FIDAC manages;
  - the consummation of any transaction contemplated by FIDAC;
  - FIDAC s regulatory requirements; and
  - competition in the investment advisory business;
- changes in government regulations affecting our business; and
- our ability to maintain our qualification as a REIT for federal income tax purposes.

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, 2006, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, 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 common stock, 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, 2006, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, 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 31 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 underwriters 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 FIDAC. We are a Maryland corporation that commenced operations on February 18, 1997. We are self-advised and self-managed. FIDAC is a registered investment advisor.

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. 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, our taxable REIT subsidiary, consist of qualified REIT real estate assets (of the type described in Section 856(c)(5)(B) of the Code).

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 June 30, 2007, approximately 19% of our investment securities were adjustable-rate pass-through certificates, approximately 76% 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 June 30, 2007, the weighted average yield on our portfolio of earning assets was 5.71% and the weighted average term to next rate adjustment on adjustable rate securities was 32 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 June 30, 2007, the weighted average cost of funds for all of our borrowings was 5.10%, the weighted average original term to maturity was 249 days, and the weighted average term to next rate adjustment of these borrowings was 209 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 June 30, 2007, our ratio of debt-to-equity was 11.2:1.

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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.

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.

Fixed Income Discount Advisory Company

FIDAC is a registered investment advisor which specializes in managing fixed income securities. 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. FIDAC generally receives annual net investment advisory fees of approximately 10 to 20 basis points of the gross assets it manages, assists in managing or supervises. At June 30, 2007, FIDAC had under management approximately $2.6 billion in net assets and $15.7 billion in gross assets, compared to $2.6 billion in net assets and $14.1 billion in gross assets at June 30, 2006. Net investment advisory and service fees for the quarters ended June 30, 2007 and 2006 totaled $4.5 million and $4.4 million, respectively, net of fees paid to third parties pursuant to distribution service agreements for facilitating and promoting distribution of shares or units to FIDAC s clients. Gross assets under management will vary from time to time because of changes in the amount of net assets FIDAC manages as well as changes in the amount of leverage used by the various funds and accounts FIDAC manages. Although net assets under management were approximately equal in June 30, 2006 and June 30, 2007, gross assets under management increased during the same time period, as leverage increased on the assets under management.

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;

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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

Public Offering

On July 18, 2007, we sold 54,050,000 shares of common stock in an underwritten public offering. We received net proceeds, after expenses, of approximately $720.5 million, which were used to purchase mortgage-backed securities and for general corporate purposes, including additional investments.

Dividend Declarations

On September 19, 2007, we declared our third quarter 2007 common stock dividend of $0.26 per share for distribution to stockholders of record on October 1, 2007. This dividend will be paid on October 29, 2007.

On August 14, 2007, we declared our third quarter 2007 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 September 3, 2007. This dividend was paid on October 1, 2007.

On August 14, 2007, we declared our second quarter 2007 6% Series B Cumulative Convertible Preferred Stock (or Series B Preferred Stock) dividend of $0.375 per share for distribution to stockholders of record on September 3, 2007. This dividend was paid on October 1, 2007.

Chimera Investment Corporation

Chimera Investment Corporation, or Chimera, has filed a registration statement on Form S-11 with the Securities and Exchange Commission for an initial public offering of the common stock of Chimera. Chimera is a newly-formed specialty finance company that will invest in residential mortgage loans, residential mortgage-backed securities, real estate-related securities and various other asset classes. Chimera will be externally managed by FIDAC. Concurrent with the public offering pursuant to Chimera s registration statement, Annaly expects to

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acquire 9.8% of Chimera s outstanding shares of common stock at the initial public offering price after giving effect to the shares issued in the offering, excluding shares sold pursuant to the underwriters exercise of their overallotment option. Chimera intends to elect and qualify to be taxed as a REIT for federal income tax purposes. We can offer no assurances that the Chimera transaction will take place or if it will take place in the manner described.

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, 2006, 2005, 2004, 2003 and 2002 and our unaudited consolidated financial statements for the fiscal quarters ended June 30, 2007 and 2006. 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 in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, which are incorporated by reference into the accompanying prospectus 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, 2006 and in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, 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 six months ended June 30,		**For the years ended December 31,**				
	2007	**2006**	**2006**	**2005**	**2004**	**2003**	**2002**
Statement of Operations Data	(dollars in thousands, except per share amounts)						
Interest income	$1,005,826	$475,053	$1,221,882	$705,046	$532,328	$337,433	$404,165
Interest expense	848,912	409,985	1,055,013	568,560	270,116	182,004	191,758
Net interest income	156,914	65,068	166,869	136,486	262,212	155,429	212,407
Other income (loss):							
Investment advisory and service fees	10,928	12,206	22,351	35,625	12,512		
Gain (loss) on sale of investment securities	13,438	(8,245)	(3,862)	(53,238)	5,215	40,907	21,063
Gain on termination of interest rate swaps	67		10,674				
Income from trading securities	3,672		3,994				
Loss on other-than-temporarily impaired securities	(1,189)	(46,843)	(52,348)	(83,098)			
Total other income (loss)	26,916	(42,882)	(19,191)	(100,711)	17,727	40,907	21,063
Expenses:							
Distribution fees	1,765	1,925	3,444	8,000	2,860		
General and administrative expenses	25,158	16,162	40,063	26,278	24,029	16,233	13,963
Total Expenses	26,923	18,087	43,507	34,278	26,889	16,233	13,963
Impairment of intangible for customer relationships		2,493	2,493				
Income before income taxes and minority interest	156,907	1,606	101,678	1,497	253,050	180,103	219,507
Income taxes	3,443	3,977	7,538	10,744	4,458		
	153,464	(2,371)	94,140	(9,247)	248,592	180,103	219,507

Income (loss) before minority interest							
Minority interest	299		324				
Net income (loss)	153,165	(2,371)	93,816	(9,247)	248,592	180,103	219,507
Dividends on preferred stock	10,746	8,811	19,557	14,593	7,745		
Net income available (loss related) to common shareholders	$142,419	($11,182)	$74,259	($23,840)	$240,847	$180,103	$219,507
Basic net income (loss) per average common share	$0.59	($0.08)	$0.44	($0.19)	$2.04	$1.95	$2.68
Diluted net income (loss) per average common share	$0.58	($0.08)	$0.44	($0.19)	$2.03	$1.94	$2.67
Dividends declared per common share	$0.44	$0.24	$0.57	$1.04	$1.98	$1.95	$2.67
Dividends declared per preferred Series A share	$0.98	$0.98	$1.97	$1.97	$1.45		
Dividends declared per preferred Series B share	$0.75	$0.33	$1.08				

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	As of or for the six months ended June 30,		As of or for the years ended December 31,				
	2007	**2006**	**2006**	**2005**	**2004**	**2003**	**2002**
Balance Sheet Data	(dollars in thousands, except per share amounts)						
Mortgage-Backed Securities, at fair value	$ 38,603,002	$23,474,006	$30,167,509	$15,929,864	$19,038,386	$11,956,512	$11,551,
Agency Debentures, at fair value	150,507		49,500		390,509	978,167	
Total assets	39,187,464	23,783,790	30,715,980	16,063,422	19,560,299	12,990,286	11,659,
Repurchase agreements	35,093,856	21,256,703	27,514,020	13,576,301	16,707,879	11,012,903	10,163,
Total liabilities	36,060,083	21,934,893	28,056,149	14,559,399	17,859,829	11,841,066	10,579,
Stockholders equity	3,010,292	1,732,426	2,543,041	1,504,023	1,700,470	1,149,220	1,080,0
Number of common shares outstanding	269,385,348	164,015,156	205,345,591	123,684,931	121,263,000	96,074,096	84,569,
Other Data							
Average total assets	$36,495,988	$18,773,307	$23,130,057	$18,724,075	$17,293,174	$12,975,039	$10,486,
Average investment securities	35,252,624	19,125,474	23,029,195	18,543,749	16,399,184	12,007,333	9,575,3
Average borrowings	33,197,283	17,678,936	21,399,130	17,408,828	15,483,118	11,549,368	9,128,9
Average equity	3,064,768	1,593,950	2,006,206	1,614,743	1,550,076	1,122,633	978,10
Yield on average interest earning assets	5.71 %	4.97 %	5.31 %	3.80 %	3.25 %	2.81 %	4.22
Cost of funds on average interest bearing liabilities	5.11 %	4.64 %	4.93 %	3.27 %	1.74 %	1.58 %	2.10
Interest rate spread	0.60 %	0.33 %	0.38 %	0.53 %	1.51 %	1.23 %	2.12
Financial Ratios							
Net interest margin (net interest income/average total assets)	0.86 %	0.69 %	0.72 %	0.73 %	1.52 %	1.20 %	2.03
G&A expense as a percentage of average total assets	0.14 %	0.17 %	0.17 %	0.14 %	0.14 %	0.13 %	0.13
G&A expense as a percentage of	1.64 %	2.03 %	2.00 %	1.63 %	1.55 %	1.45 %	1.43

average equity							
Return on average total assets	0.84 %	(0.03)%	0.41 %	(0.05)%	1.44 %	1.39 %	2.09
Return on average equity	10.00 %	(0.30)%	4.68 %	(0.57)%	16.04 %	16.04 %	22.44

The Offering

Issuer	Annaly Capital Management, Inc.
Common stock offered by us	62,000,000 shares (plus up to an additional 9,300,000 shares of our common stock that we may issue and sell upon the exercise of the underwriters overallotment option)
Common stock to be outstanding after this offering	392,509,204 shares, based upon 330,509,204 shares of common stock outstanding as of October 4, 2007. Does not include up to an additional 9,300,000 shares of our common stock that we may issue and sell upon the exercise of the underwriters overallotment option. Does not include 3,443,767 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to our long-term incentive plan. Does not include shares of our common stock issuable upon the conversion of 4,600,000 shares of our Series B Preferred Stock.
NYSE symbol	NLY .
Use of proceeds	We intend to use the net proceeds of this offering to purchase mortgage-backed securities. We then intend to increase our investment assets by borrowing against these mortgage-backed securities and using the proceeds of such borrowings to acquire additional mortgage-backed securities. We also intend to use the net proceeds from this offering for general corporate purposes, which may include additional investments.
Risk factors	See 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, 2006, in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, which are incorporated by reference in the accompanying prospectus, for a discussion of risks you should carefully consider before deciding to invest in our common stock.

Unless otherwise indicated, all offering information in this prospectus supplement is based on the number of shares of common stock and number of options to purchase shares of common stock outstanding as of October 4, 2007. Unless otherwise indicated, that number of shares of common stock does not include the 9,300,000 shares of common stock that may be issued if the underwriters overallotment option is exercised in full.

RISK FACTORS

In evaluating an investment in our common stock, you should carefully consider the following factors and 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, 2006, in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, which are incorporated by reference in the accompanying prospectus.

A flat yield curve has adverse consequences to our operating results.

We generate income based upon the spread between the interest payments we earn on our investment securities and the interest payments we must make on our borrowings. We generally borrow on a short term basis and our investment securities earn a return based on relatively longer term interest rates. Accordingly, during periods of a flat yield curve, such as we have been recently experiencing, our returns are negatively impacted by interest rate spread compression relative to prior periods in which the yield curve was steeper. We can offer no assurances that we will not continue to be negatively impacted by a flat yield curve.

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 situation in the sub-prime mortgage sector, and the current weakness in the broader mortgage market, could adversely affect one or more of our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with additional financing. This could potentially increase our financing costs and reduce liquidity. If one or more major market participants fails, it could negatively impact the marketability of all fixed income securities, including agency mortgage-backed securities, and this could negatively impact the value of the securities in our portfolio, thus reducing our net book value. Furthermore, if many of our lenders are unwilling or unable to provide us with additional financing, we could be forced to sell our assets at an inopportune time when prices are depressed.

USE OF PROCEEDS

We expect that the net proceeds to us from this offering of our common stock (after deducting underwriting discounts and commissions and estimated offering expenses) will be approximately $893.8 million ($1,027.9 million if the underwriters overallotment option is exercised in full) calculated at an offering price of $15.10 per share. We intend to use the net proceeds from this offering as follows:

to purchase mortgage-backed securities. We then intend to increase our investment assets by borrowing against these mortgage-backed securities and using the proceeds of such borrowings to acquire additional mortgage-backed securities; and

for general corporate purposes, which may include additional investments.

MANAGEMENT

The following table sets forth certain information as of October 4, 2007 concerning our executive officers:

Name	Age	Position Held With the Company
Michael A.J. Farrell	56	Chairman of the Board, Chief Executive Officer and President
Wellington J. Denahan-Norris	43	Vice Chairman of the Board, Chief Investment Officer and Chief Operating Officer
Kathryn F. Fagan	40	Chief Financial Officer and Treasurer
R. Nicholas Singh	48	Executive Vice President, General Counsel, Secretary and Chief Compliance Officer
James P. Fortescue	34	Executive Vice President and Head of Liabilities
Kristopher Konrad	32	Executive Vice President and Co-Head Portfolio Management
Rose-Marie Lyght	34	Executive Vice President and Co-Head Portfolio Management
Jeremy Diamond	44	Managing Director
Ronald Kazel	39	Managing Director

Mr. Farrell and Ms. Denahan-Norris have an average of 25 years 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 us in February 2005. Prior to that, he was a partner in the law firm of McKee Nelson LLP. Mr. Fortescue joined us in 1997. Mr. Konrad joined us in 1997. Ms. Lyght joined us in April 1999. Mr. Diamond joined us in March 2002. From 1990 to 2002 he was President of Grant s Financial Publishing. Mr. Kazel joined us in December 2001. Prior to that he was a Senior Vice-President in Friedman Billings Ramsey s financial services investment banking group. We had 36 full-time employees at June 30, 2007.

DISTRIBUTIONS

To maintain our qualification as a REIT, we must distribute substantially all of our taxable income to our stockholders for 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 common stockholders to reinvest dividends automatically in additional shares of common stock.

The following table sets forth the cash distributions declared per common share during each fiscal quarter of our current fiscal year and our last three fiscal years and the cash distributions declared per share of Series A Preferred Stock and Series B Preferred Stock during each fiscal quarter of our current fiscal year and our last three fiscal years since the creation of the Series A Preferred Stock and Series B Preferred Stock.

	Cash Distributions Declared Per Common Share	Cash Distributions Declared Per Series A Preferred Share	Cash Distributions Declared Per Series B Preferred Share
2007			
First quarter	$0.20	$0.492188	$0.375000
Second quarter	$0.24	$0.492188	$0.375000
Third quarter	$0.26	$0.492188	$0.375000
2006			
First quarter	$0.11	$0.492188	
Second quarter	$0.13	$0.492188	$0.329167
Third quarter	$0.14	$0.492188	$0.375000
Fourth quarter	$0.19	$0.492188	$0.375000
2005			
First quarter	$0.45	$0.492188	
Second quarter	$0.36	$0.492188	
Third quarter	$0.13	$0.492188	
Fourth quarter	$0.10	$0.492188	
2004			
First quarter	$0.50	-	
Second quarter	$0.48	$0.470000	
Third quarter			