

ANNALY CAPITAL MANAGEMENT INC
Form 424B5
January 24, 2008

**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	58,650,000	\$19.25	\$1,129,012,500	\$44,370.20

(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)

51,000,000 Shares

Annaly Capital Management, Inc.

Common Stock

We are offering 51,000,000 shares of our common stock to be sold in this offering. We expect to receive approximately \$981.8 million in aggregate gross proceeds plus up to approximately \$147.3 million in additional aggregate gross proceeds if the underwriters' overallotment is exercised in full. The last reported sales price of our common stock on January 23, 2008 was \$19.67 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007, which are incorporated by reference in the accompanying prospectus.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$19.25	\$981,750,000
Underwriting discount	\$.8181	\$41,724,375
Proceeds, before expenses, to us	\$18.43	\$940,025,625

We have granted the underwriters the option to purchase within 30 days from the date of this prospectus supplement up to an additional 7,650,000 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 January 29, 2008.

Merrill Lynch & Co.

Morgan Stanley

UBS Investment Bank

Wachovia Securities

Credit Suisse

Keefe, Bruyette & Woods

RBC Capital Markets

The date of this prospectus supplement is January 23, 2008.

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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," 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 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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 September 30, 2007, approximately 22% of our investment securities were adjustable-rate pass-through certificates, approximately 71% of our investment securities were fixed-rate pass-through certificates or CMOs, and approximately 7% 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, 2007, the weighted average yield on our portfolio of earning assets was 5.74% and the weighted average term to next rate adjustment on adjustable rate securities was 41 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, 2007, the weighted average cost of funds for all of our borrowings was 4.99%, the weighted average original term to maturity was 296 days, and the weighted average term to next rate adjustment of these borrowings was 250 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, 2007, our ratio of debt-to-equity was 9.9:1.

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.

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 September 30, 2007, FIDAC had under management approximately \$2.5 billion in net assets and \$13.9 billion in gross assets, compared to \$2.6 billion in net assets and \$14.6 billion in gross assets at September 30, 2006. Net investment advisory and service fees for the quarters ended September 30, 2007 and 2006 totaled \$4.4 million and \$4.3 million, respectively, net of fees paid to third parties pursuant to distribution service agreements for facilitating and promoting distribution of shares or units to 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 September 30, 2006 and September 30, 2007, gross assets under management decreased during the same time period, as leverage decreased on the assets under management. In addition, FIDAC is the external manager of Chimera Investment Corporation which consummated its initial public offering on November 21, 2007. See "Recent Developments" Chimera Investment Corporation in this prospectus supplement.

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:

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

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- 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

Public Offering

On October 17, 2007, we sold 71,300,000 shares of common stock in an underwritten public offering. We received net proceeds, after expenses, of approximately \$1.0 billion, which were used to purchase mortgage-backed securities and for general corporate purposes, including additional investments.

Dividend Declarations

On December 19, 2007, we declared our fourth quarter 2007 common stock dividend of \$0.34 per share for distribution to stockholders of record on December 31, 2007. This dividend will be paid on January 28, 2008.

On November 14, 2007, we declared our fourth 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 December 3, 2007. This dividend was paid on December 31, 2007.

On November 14, 2007, we declared our fourth 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 December 3, 2007. This dividend was paid on December 31, 2007.

Chimera Investment Corporation

On November 21, 2007, Chimera Investment Corporation, or Chimera, consummated its initial public offering in which it raised net proceeds of approximately \$478.3 million. Chimera is a newly-formed specialty finance company that invests in residential mortgage loans, residential mortgage-backed securities, real estate-related securities and various other asset classes. Concurrent with the public offering, we acquired approximately 3.6 million shares of Chimera's common stock for approximately \$54.3 million. Chimera intends to elect and qualify to be taxed as a REIT for federal income tax purposes.

Chimera is externally managed by FIDAC. Pursuant to the terms of the management agreement between Chimera and FIDAC, FIDAC is entitled to receive a quarterly base management fee calculated on Chimera's shareholder equity and may receive a performance fee if Chimera's core earnings exceeds a specified threshold.

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 nine months ended September 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, in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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 September 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 nine months ended		For the years ended December 31,				2002
	September 30, 2007	2006	2006	2005	2004	2003	
Statement of Operations Data	(dollars in thousands, except per share amounts)						
Interest income	\$ 1,634,522	\$ 814,790	\$ 1,221,882	\$ 705,046	\$ 532,328	\$ 337,433	\$ 404,000
Interest expense	1,368,030	705,711	1,055,013	568,560	270,116	182,004	191,000
Net interest income	266,492	109,079	166,869	136,486	262,212	155,429	213,000
Other income (loss):							
Investment advisory and service fees	16,392	17,173	22,351	35,625	12,512	-	-
Gain (loss) on sale of investment securities	17,233	(8,691)	(3,862)	(53,238)	5,215	40,907	21,000
Gain on termination of interest rate swaps	2,096	8,414	10,674	-	-	-	-
Income from trading securities	11,960	612	3,994	-	-	-	-
Loss on other-than-temporarily impaired securities	(1,189)	(46,844)	(52,348)	(83,098)	-	-	-
Total other income (loss)	46,492	(29,336)	(19,191)	(100,711)	17,727	40,907	21,000
Expenses:							
Distribution fees	2,865	2,649	3,444	8,000	2,860	-	-
General and administrative expenses	42,492	27,844	40,063	26,278	24,029	16,233	13,000
Total Expenses	45,357	30,493	43,507	34,278	26,889	16,233	13,000
Impairment of intangible for customer relationships	-	2,493	2,493	-	-	-	-
Income before income taxes and minority interest	267,627	46,757	101,678	1,497	253,050	180,103	219,000
Income taxes	5,770	6,250	7,538	10,744	4,458	-	-
Income (loss) before minority interest	261,857	40,507	94,140	(9,247)	248,592	180,103	219,000
Minority interest	405	28	324	-	-	-	-

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Net income (loss)	261,452	40,479	93,816	(9,247)	248,592	180,103	219,000
Dividends on preferred stock	16,119	14,184	19,557	14,593	7,745	-	-
Net income available (loss related) to common shareholders	\$245,333	\$26,295	\$74,259	(\$23,840)	\$240,847	\$180,103	\$219,000
Basic net income (loss) per average common share	\$0.92	\$0.17	\$0.44	(\$0.19)	\$2.04	\$1.95	\$1.95
Diluted net income (loss) per average common share	\$0.91	\$0.16	\$0.44	(\$0.19)	\$2.03	\$1.94	\$1.94
Dividends declared per common share	\$0.70	\$0.38	\$0.57	\$1.04	\$1.98	\$1.95	\$1.95
Dividends declared per preferred Series A share	\$1.48	\$1.48	\$1.97	\$1.97	\$1.45	-	-

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Dividends declared per preferred Series B share	\$ 1.13	\$ 0.70	\$ 1.08	-	-
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**As of or for the nine months ended
September 30,**

As of or for the years ended Decem

2007

2006

2006

2005

2004

Balance Sheet Data

(dollars in thou

Mortgage-Backed Securities, at fair value	\$ 44,641,352	\$ 28,348,027	\$ 30,167,509	\$ 15,929,864	\$ 19,038,386	\$
Agency Debentures, at fair value	249,281	-	49,500	-	390,509	
Total assets	45,782,678	28,614,384	30,715,980	16,063,422	19,560,299	
Repurchase agreements	40,140,113	24,901,420	27,514,020	13,576,301	16,707,879	
Total liabilities	41,737,952	26,014,681	28,056,149	14,559,399	17,859,829	
Stockholders' equity	3,931,931	2,483,209	2,543,041	1,504,023	1,700,470	
Number of common shares outstanding	330,509,203	204,845,591	205,345,591	123,684,931	121,263,000	

Other Data

Average total assets	\$ 38,817,661	\$ 21,226,016	\$ 23,130,057	\$ 18,724,075	\$ 17,293,174	\$
Average investment securities	37,860,246	21,075,942	23,029,195	18,543,749	16,399,184	
Average borrowings	35,532,027	19,492,706	21,399,130	17,408,828	15,483,118	
Average equity	3,309,425	1,844,131	2,006,206	1,614,743	1,550,076	
Yield on average interest earning assets	5.75%	5.15%	5.31%	3.80%	3.25%	
Cost of funds on average interest bearing liabilities	5.13%	4.83%	4.93%	3.27%	1.74%	
Interest rate spread	0.62%	0.32%	0.38%	0.53%	1.51%	

Financial Ratios

Net interest margin (net interest income/average total assets)	0.92%	0.69%	0.72%	0.73%	1.52%	
G&A expense as a percentage of average total assets	0.15%	0.17%	0.17%	0.14%	0.14%	
G&A expense as a percentage of average equity	1.71%	2.0%	2.00%	1.63%	1.55%	
Return on average total assets	0.90%	0.25%	0.41%	(0.05)%	1.44%	
Return on average equity	10.53%	2.93%	4.68%	(0.57)%	16.04%	

The Offering

Issuer	Annaly Capital Management, Inc.
Common stock offered by us	51,000,000 shares (plus up to an additional 7,650,000 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	452,822,703 shares, based upon 401,822,703 shares of common stock outstanding as of January 22, 2008. Does not include up to an additional 7,650,000 shares of our common stock that we may issue and sell upon the exercise of the underwriters' overallotment option. Does not include 3,437,267 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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 January 22, 2008. Unless otherwise indicated, that number of shares of common stock does not include the 7,650,000 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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 fail, 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 \$939.8 million (\$1,080.8 million if the underwriters' overallotment option is exercised in full) calculated at an offering price of \$19.25 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 January 17, 2008 concerning our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position Held With the Company</u>
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	41	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 more than 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. Mr. Kazel joined us in December 2001. We had 36 full-time employees at September 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
Fourth quarter	\$0.34	\$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	\$0.50	\$0.490000	-
Fourth quarter	\$0.50	\$0.494375	-

We have not established a minimum distribution payment level on our common stock and our ability to pay distributions on our common stock may be adversely affected for as a result of 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007, which are incorporated by reference in the accompanying prospectus. 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.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2007 (i) on a historical basis, (ii) as adjusted for the sale of 71,300,000 shares of our common stock at an offering price of \$15.10 per share which was consummated on October 17, 2007, and (iii) as adjusted for the sale of 51,000,000 shares of our common stock at an offering price of \$19.25 per share. This presentation 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, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007, in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 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, which is incorporated by reference into the accompanying prospectus.

	As of September 30, 2007		
	Actual	As Adjusted for the October offering(1)	As Adjusted for this offering and the October offering(1)(2)
	(dollars in thousands, except per share amounts)		
6% Series B Cumulative Convertible Preferred Stock:			
4,600,000 shares authorized, issued and outstanding	\$ 111,466	\$ 111,466	\$ 111,466
Stockholders' equity:			
7.875% Series A Cumulative Redeemable Preferred Stock:			
7,637,500 shares authorized, 7,412,500 shares issued and outstanding	177,088	177,088	177,088
Common stock: par value \$.01 per share; 487,762,500 shares authorized, 330,509,203, 401,809,203 and 452,809,203 shares issued and outstanding, respectively (2)(3)	3,305	4,018	4,528
Additional paid-in capital (2)(3)	4,270,330	5,297,549	6,236,815
Accumulated other comprehensive loss	(385,960)	(385,960)	(385,960)
Accumulated deficit	(132,832)	(132,832)	(132,832)
Total stockholders' equity	3,931,931	4,959,863	5,899,639
Total capitalization	4,043,397	5,071,329	6,011,105

- (1) Reflects the consummation on October 17, 2007 of the sale of 71,300,000 shares at an offering price of \$15.10 per share of our common stock from which we received net proceeds of approximately \$1,027.9 million, net of underwriting discounts and commission and other estimated expenses.
- (2) Reflects the consummation of this offering of 51,000,000 shares at an offering price of \$19.25 per share of our common stock from which we expect to receive net proceeds of approximately \$939.8 million, net of underwriting discounts and commission and other estimated expenses. Does not include up to an additional 7,650,000 shares of our common stock that we may issue and sell upon the exercise of the underwriters' overallotment option.
- (3) Does not include 3,437,267 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to our long-term incentive plan as of January 22, 2008. Does not include shares of our common stock issuable upon the conversion of 4,600,000 shares of our Series B Preferred Stock.

UNDERWRITING

We intend to offer the shares through the underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as representatives of the underwriters named below. Subject to the terms and conditions described in a purchase agreement among us and the underwriters, the underwriters severally have agreed to purchase from us the number of shares listed opposite their names below.

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	19,890,000
Morgan Stanley & Co. Incorporated	11,985,000
UBS Securities LLC	5,610,000
Wachovia Capital Markets, LLC	5,610,000
Credit Suisse Securities (USA) LLC	3,060,000
Keefe, Bruyette & Woods, Inc.	3,060,000
RBC Capital Markets Corporation	1,785,000
Total	51,000,000

The underwriters have agreed to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus supplement and to dealers at that price less a concession not in excess of \$.49 per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$.10 per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their overallotment options.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	\$19.25	\$981,750,000	\$1,129,012,500
Underwriting discount	\$.8181	\$41,724,375	\$47,983,031
Proceeds, before expenses, to us	\$18.43	\$940,025,625	\$1,081,029,469

The expenses of the offering, not including the underwriting discount, are estimated at \$250,000 and are payable by us.

Overallotment Option

We have granted options to the underwriters to purchase up to 7,650,000 additional shares at the public offering price less the underwriting discount. The underwriters may exercise these options for 30 days from the date of this prospectus supplement solely to cover any overallotments. If the underwriters exercise these options, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

Pursuant to certain "lock-up" agreements, we and our executive officers and directors have agreed, subject to certain exceptions, not to offer, sell, contract to sell, announce any intention to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any common shares or securities convertible into or exchangeable or exercisable for any common shares without the prior written consent of Merrill Lynch for a period of 90 days after the date of this prospectus supplement. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. The 90-day restricted period will be automatically extended if (1) during the last 17 days of the 90-day restricted period issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce that we will release earnings results or becomes aware that material news or a material event will occur during the 16-day-period beginning on the last day of the 90-day restricted period, in which case the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. The exceptions permit us, among other things and subject to restrictions, to: (a) issue common stock or options pursuant to our long term stock incentive plan or pursuant to the exercise of employee stock options or other awards, and (b) issue common stock pursuant to our stock dividend reinvestment plan.

New York Stock Exchange Listing

Our shares of common stock are listed on the New York Stock Exchange under the symbol "NLY."

Price Stabilization, Short Positions

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Selling Restrictions

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (or, individually, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (or the Relevant Implementation Date) it has not made and will not make an offer of common stock to the public in that Relevant Member State prior to the publication of a prospectus in relation to the common stock which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of common stock to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of common stock to the public" in relation to any common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the common stock to be offered so as to enable an investor to decide to purchase or subscribe the common stock, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has represented and agreed that:

- it has not made and will not make an offer of the common stock to the public in the United Kingdom prior to the publication of a prospectus in relation to the common stock and the offer that has been approved by the FSA or, where appropriate, approved in another Member State and notified to the FSA, all in accordance with the Prospectus Directive, except that it may make an offer of the common stock to persons who fall within the definition of "qualified investor" as that

term is defined in Section 86 (7) of FSMA, or otherwise in circumstances which do not result in an offer of transferable securities to the public in the United Kingdom within the meaning of FSMA;

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of any common stock in circumstances in which Section 21(1) of FSMA does not apply to it; and
- it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom.

Internet Distribution

Merrill Lynch will be facilitating internet distribution for this offering to certain of its internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus supplement is available on the internet web site maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch web site is not part of this prospectus supplement.

Other Relationships

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses. In addition, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, UBS Securities LLC, Credit Suisse Securities (USA) LLC, and RBC Capital Markets Corporation or their respective affiliates have been or are lenders under one or more of our secured repurchase credit facilities, and we have entered into interest rate swap agreements with certain of the underwriters. Certain of the underwriters and their respective affiliates are or have been counterparties to securities and other trading activities with us. Merrill Lynch, Pierce, Fenner & Smith Incorporated acts as a sales agent under our ATM Equity OfferingSM Sales Agreement. UBS Securities LLC acts as a sales agent under our ATM Equity Sales Agreement.

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon for us by Kirkpatrick & Lockhart Preston Gates Ellis LLP, Washington, D.C. In addition, the description of federal income tax consequences contained in the section of the accompanying prospectus entitled "Material Federal Income Tax Considerations" is based on the opinion of McKee Nelson LLP. Certain legal matters relating to this offering will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

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PROSPECTUS

Annaly Mortgage Management, Inc.

Common Stock and Preferred Stock

By this prospectus, we may offer, from time to time, shares of our:

- common stock;
- preferred stock; or
- any combination of the foregoing.

We will provide specific terms of each issuance of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you decide to invest.

This prospectus may not be used to consummate sales of these securities unless it is accompanied by a prospectus supplement.

The New York Stock Exchange lists our common stock under the symbol "NLY" and our 7.875% Series A Cumulative Redeemable Preferred Stock under the symbol "NLY PrA."

To assist us in qualifying as a real estate investment trust (or REIT) for federal income tax purposes, no person may own more than 9.8% of the outstanding shares of any class of our common stock or our preferred stock, unless our Board of Directors waives this limitation.

Consider carefully the risk factors in our most recent Annual Report on Form 10-K, and any subsequent Quarterly Reports on Form 10-Q, which are incorporated by reference in this prospectus.

We may sell these securities to or through underwriters, dealers or agents, or we may sell the securities directly to investors on our own behalf.

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

The date of this prospectus is May 23, 2006

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (or SEC) using a "shelf" registration process. Under this process, we may offer and sell any combination of common stock and preferred stock in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities, we will provide a supplement to this prospectus that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. It is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information on Annaly."

You should rely only on the information incorporated by reference or set forth in this prospectus or the applicable prospectus supplement. We have not authorized anyone else to provide you with additional or different information. You should not assume that the information in this prospectus, the applicable prospectus supplement or any other offering material is accurate as of any date other than the dates on the front of those documents.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus and in the documents incorporated by reference herein or in the incorporated documents may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (or the Exchange Act). 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 for purchase;
- the availability and terms of financing;
- changes in the market value of our assets;
- changes in business conditions and the general economy;

risks associated with the investment advisory business of our wholly owned subsidiary, Fixed Income Discount Advisory Company (which we refer to as FIDAC), including:

- the removal by FIDAC's clients of assets FIDAC manages;
 - 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 information under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which is incorporated by reference in this 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.

ABOUT ANNALY MORTGAGE MANAGEMENT, INC.

General

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.

We have elected and believe that we are organized and have operated in a manner that enables us to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (or the Code). Provided 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. Substantially all of our assets, other than FIDAC, our taxable REIT subsidiary, consist of qualified REIT real estate assets (as 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.

Stock Listing

Our common stock is traded on the New York Stock Exchange under the symbol "NLY" and our 7.875% Series A Cumulative Redeemable Preferred Stock (which we refer to as our Series A Preferred Stock) is traded on the New York Stock Exchange under the symbol "NLY PrA." Our 6% Series B Cumulative Convertible Preferred Stock (which we refer to as our Series B Preferred Stock) is not listed on a national securities exchange or the National Association of Securities Dealers Automated Quotation system.

Principal Executive Offices and Telephone Number

Our principal executive offices are located at 1211 Avenue of the Americas, Suite 2902, New York, New York 10036. Our telephone number is (212) 696-0100.

RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described under "Risk Factors" in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q (which descriptions are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus or in any prospectus supplement hereto before making a decision to invest in our securities. See "Where You Can Find More Information On Annaly," below.

USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospectus supplement, we intend to use the net proceeds from the sale of the securities offered by this prospectus and the related accompanying prospectus supplement for the purchase of mortgage-backed securities. We then intend to increase our investment assets by borrowing against these mortgage-backed securities and using the proceeds to acquire additional mortgage-backed securities.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratios of earnings to combined fixed charges and preferred stock dividends for the years ended December 31,

	2005	2004	2003	2002	2001
Ratio of earnings to combined fixed charges and preferred stock dividends	0.98x	1.88x	1.99x	2.14x	1.55x

The ratios of earnings to combined fixed charges and preferred stock dividends were computed by dividing earnings as adjusted by fixed charges and preferred stock dividends (where applicable). For this purpose, earnings consist of net income from continuing operations and fixed charges. Fixed charges consist of interest expense and preferred stock dividends paid on our outstanding shares of Series A Preferred Stock. For the year ended December 31, 2005, fixed charges exceeded earnings by approximately \$12.5 million.

DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK

General

Our authorized capital stock consists of 500 million shares of capital stock, par value \$.01 per share. Pursuant to our articles of incorporation, as amended, our Board of Directors has the right to classify or reclassify any unissued shares of common stock into one or more classes or series of common stock or preferred stock. As of May 19, 2006, our Board of Directors had classified 7,637,500 unissued shares of common stock as 7,637,500 shares of Series A Preferred Stock, and classified 4,600,000 unissued shares of common stock as 4,600,000 shares of Series B Preferred Stock. As of May 19, 2006, we had 163,328,656 shares of common stock outstanding, not including 3,047,866 shares of common stock issuable upon the exercise of options granted pursuant to our Long-Term Incentive Plan. In addition, as of May 19, 2006, we had 7,412,500 shares of Series A Preferred Stock outstanding and 4,600,000 shares of Series B Preferred Stock outstanding.

Common Stock

All shares of common stock offered hereby will be duly authorized, fully paid and nonassessable. The statements below describing the common stock are in all respects subject to and qualified in their entirety by reference to our articles of incorporation, as amended, by-laws, as amended and restated, and any articles supplementary to our articles of incorporation, as amended.

□ Voting

Each of our common stockholders is entitled to one vote for each share held of record on each matter submitted to a vote of common stockholders.

Our by-laws, as amended and restated, provide that annual meetings of our stockholders will be held each calendar year on the date determined by our Board of Directors, and special meetings may be called by a majority of our Board of Directors, our Chairman, a majority of our independent directors, our President or generally by stockholders entitled to cast at least 25% of the votes which all stockholders are entitled to cast at the meeting. Our articles of incorporation, as amended, may be amended in accordance with Maryland law.

□ Dividends; Liquidation; Other Rights

Common stockholders are entitled to receive dividends when declared by our Board of Directors out of legally available funds. The right of common stockholders to receive dividends is subordinate to the rights of preferred stockholders or other senior stockholders. If we have a liquidation, dissolution or winding up, our common stockholders will share ratably in all of our assets remaining after the payment of all of our liabilities and the payment of all liquidation and other preference amounts to preferred stockholders and other senior stockholders. Common stockholders have no preemptive or other subscription rights, and there are no conversion rights, or redemption or sinking fund provisions, relating to the shares of common stock.

□ Classification or Reclassification of Common Stock or Preferred Stock

Our articles of incorporation, as amended, authorize our Board of Directors to reclassify any unissued shares of common or preferred stock into other classes or series of shares, to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations, and restrictions on ownership, limitations as to dividends or other distributions, qualifications, and terms or conditions of redemption for each class or series.

Preferred Stock

The following description sets forth general terms and provisions of the preferred stock to which any prospectus supplement may relate. The statements below describing the preferred stock are in all respects subject to and qualified in their entirety by reference to our articles of incorporation, as amended, by-laws, as amended and restated, and any articles supplementary to our articles of incorporation, as amended, designating terms of a series of preferred stock. The preferred stock, when issued, will be validly issued, fully paid, and non-assessable. Because our Board of Directors has the power to establish the preferences, powers and rights of each series of preferred stock, our Board of Directors may afford the holders of any series of preferred stock preferences, powers and rights, voting or otherwise, senior to the rights of common stockholders.

The rights, preferences, privileges and restrictions of each series of preferred stock will be fixed by the articles supplementary relating to the series. A prospectus supplement, relating to each series, will specify the terms of the preferred stock, as follows:

the title and stated value of the preferred stock;

the voting rights of the preferred stock, if applicable;

the preemptive rights of the preferred stock, if applicable;

the restrictions on alienability of the preferred stock, if applicable;

the number of shares offered, the liquidation preference per share and the offering price of the shares;

liability to further calls or assessment of the preferred stock, if applicable;

the dividend rate(s), period(s) and payment date(s) or method(s) of calculation applicable to the preferred stock;

the date from which dividends on the preferred stock will accumulate, if applicable;

the procedures for any auction and remarketing for the preferred stock;

the provision for a sinking fund, if any, for the preferred stock;

the provision for and any restriction on redemption, if applicable, of the preferred stock;

the provision for and any restriction on repurchase, if applicable, of the preferred stock;

any listing of the preferred stock on any securities exchange;

the terms and provisions, if any, upon which the preferred stock will be convertible into common stock, including the conversion price (or manner of calculation) and conversion period;

the terms under which the rights of the preferred stock may be modified, if applicable;

any other specific terms, preferences, rights, limitations or restrictions of the preferred stock;

a discussion of certain material federal income tax considerations applicable to the preferred stock;

the relative ranking and preferences of the preferred stock as to dividend rights and rights upon the liquidation, dissolution or winding-up of our affairs;

any limitation on issuance of any series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividend rights and rights upon the Liquidation, dissolution or winding-up of our affairs; and

any limitations on direct or beneficial ownership and restrictions on transfer of the preferred stock, in each case as may be appropriate to preserve our qualification as a REIT.

Restrictions on Ownership and Transfer

To assist us in qualifying as a REIT, our articles of incorporation, as amended, prohibit anyone from acquiring or holding, directly or constructively, ownership of a number of shares of any class of our capital stock in excess of 9.8% of the outstanding shares. For this purpose the term "ownership" generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code.

The constructive ownership provisions of Section 544 of the Code generally attribute ownership of securities owned by a corporation, partnership, estate or trust proportionately to its stockholders, partners or beneficiaries; attribute ownership of securities owned by family members to other members of the same family; and set forth rules for attributing securities constructively owned by one person to another person. To determine whether a person holds or would hold capital stock in excess of the 9.8% ownership limit, a person will be treated as

owning not only shares of capital stock actually owned, but also any shares of capital stock attributed to that person under the attribution rules described above. Accordingly, a person who individually owns less than 9.8% of the shares outstanding may nevertheless be in violation of the 9.8% ownership limit.

Any transfer of shares of capital stock that would cause us to be disqualified as a REIT or that would (a) create a direct or constructive ownership of shares of capital stock in excess of the 9.8% ownership limit, or (b) result in the shares of capital stock being beneficially owned (within the meaning of Section 856(a) of the Code) by fewer than 100 persons (determined without reference to any rules of attribution), or (c) result in us being "closely held" within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee (the "purported transferee") will acquire no rights to those shares. These restrictions on transferability and ownership will not apply if our Board of Directors determines that it is no longer in our best interests to continue to qualify as a REIT.

Any purported transfer of shares of capital stock that would result in a purported transferee owning (directly or constructively) shares of capital stock in excess of the 9.8% ownership limit due to the unenforceability of the transfer restrictions described above will constitute "excess securities." Excess securities will be transferred by operation of law to a trust that we will establish for the exclusive benefit of a charitable organization, until such time as the trustee of the trust retransfers the excess securities. The trustee will be a banking institution designated by us that is not affiliated with the purported transferee or us. While the excess securities are held in trust, the purported transferee will not be entitled to vote or to share in any dividends or other distributions with respect to the securities. Subject to the 9.8% ownership limit, excess securities may be transferred by the trust to any person (if such transfer would not result in excess securities) at a price not to exceed the price paid by the purported transferee (or, if no consideration was paid by the purported transferee, the fair market value of the excess securities on the date of the purported transfer), at which point the excess securities will automatically cease to be excess securities.

Upon a purported transfer of excess securities, the purported transferee shall cease to be entitled to distributions, voting rights and other benefits with respect to the shares of capital stock except the right to payment of the purchase price for the shares of capital stock on the retransfer of securities as provided above. Any dividend or distribution paid to a purported transferee on excess securities prior to our discovery that shares of capital stock have been transferred in violation of our articles of incorporation, as amended, shall be repaid to us upon demand. If these transfer restrictions are determined to be void, invalid or unenforceable by a court of competent jurisdiction, then the purported transferee of any excess securities may be deemed, at our option, to have acted as an agent on our behalf in acquiring the excess securities and to hold the excess securities on our behalf.

All certificates representing shares of capital stock will bear a legend referring to the restrictions described above.

Any person who acquires shares in violation of our articles of incorporation, as amended, or any person who is a purported transferee such that excess securities results, must immediately give written notice or, in the event of a proposed or attempted transfer that would be void as set

forth above, give at least 15 days prior written notice to us of such event and shall provide us such other information as we may request in order to determine the effect, if any, of the transfer on our qualification as a REIT. In addition, every record owner of 5.0% or more (during any period in which the number of record stockholders is 2,000 or more) or 1.0% or more (during any period in which the number of record stockholders is greater than 200 but less than 2,000) or 1/2% or more (during any period in which the number of record stockholders is 200 or less) of the number or value of our outstanding shares must send us an annual written notice by January 30 stating the name and address of the record owner and the number of shares held and describing how the shares are held. Further, each stockholder is required to disclose to us in writing information with respect to the direct and constructive ownership of shares as the Board of Directors deems reasonably necessary to comply with the REIT provisions of the Code, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

Our Board of Directors may increase or decrease the 9.8% ownership limit. In addition, to the extent consistent with the REIT provisions of the Code, our Board of Directors may, pursuant to our articles of incorporation, as amended, waive the 9.8% ownership limit for a purchaser of our stock. In connection with any such waiver, we may require that the stockholder requesting the waiver enter into an agreement with us providing that we may repurchase shares from the stockholder under certain circumstances to ensure compliance with the REIT provisions of the Code. The repurchase would be at fair market value as set forth in the agreement between us and the stockholder. The consideration received by the stockholder in the repurchase might be characterized as the receipt by the stockholder of a dividend from us, and any stockholder entering into an agreement with us should consult its tax advisor. At present, we do not intend to waive the 9.8% ownership limit for any purchaser.

The provisions described above may inhibit market activity, and may delay, defer or prevent a change in control or other transaction and the resulting opportunity for the holders of our capital stock to receive a premium for their shares that might otherwise exist in the absence of such provisions. Such provisions also may make us an unsuitable investment vehicle for any person seeking to obtain ownership of more than 9.8% of the outstanding shares of our capital stock.

Classification of Board of Directors, Vacancies and Removal of Directors

Our by-laws, as amended and restated, provide for a staggered Board of Directors. Our by-laws, as amended and restated, provide for between three and fifteen directors divided into three classes, with terms of three years each. The number of directors in each class and the expiration of each class term is as follows:

Class I	2 Directors	Expires 2006
Class II	2 Directors	Expires 2007
Class III	3 Directors	Expires 2008

At each annual meeting of our stockholders, successors of the class of directors whose term expires at that meeting will be elected for a three-year term and the directors in the other two classes will continue in office. A classified Board of Directors may delay, defer or prevent a

change in control or other transaction that might involve a premium over the then prevailing market price for our common stock or other attributes that our stockholders may consider desirable. In addition, a classified Board of Directors could prevent stockholders who do not agree with the policies of our Board of Directors from replacing a majority of the Board of Directors for two years, except in the event of removal for cause.

Our by-laws, as amended and restated, provide that any vacancy on our Board of Directors may be filled by a majority of the remaining directors. Any individual so elected director will hold office for the unexpired term of the director he or she is replacing. Our bylaws, as amended and restated, provide that a director may be removed at any time only for cause upon the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors, but only by a vote taken at a stockholder meeting. These provisions preclude stockholders from removing incumbent directors, except for cause and upon a substantial affirmative vote, and filling the vacancies created by such removal with their own nominees.

Indemnification

Our articles of incorporation, as amended, obligate us to indemnify our directors and officers and to pay or reimburse expenses for them before the final disposition of a proceeding to the maximum extent permitted by Maryland law. The Corporations and Associations Article of the Annotated Code of Maryland (or the Maryland General Corporation Law) permits a corporation to indemnify its present and former directors and officers against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities, unless it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith, or (b) was the result of active and deliberate dishonesty, or (2) the director or officer actually received an improper personal benefit in money, property or services, or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

Limitation of Liability

The Maryland General Corporation Law permits the charter of a Maryland corporation to include a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except to the extent that (1) it is proved that the person actually received an improper benefit or profit in money, property or services, or (2) a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our articles of incorporation, as amended, provide for elimination of the liability of our directors and officers to us or our stockholders for money damages to the maximum extent permitted by Maryland law from time to time.