HSBC HOLDINGS PLC
Form 6-K
December 02, 2013

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of December
HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.............).

HSBC Holdings plc received a notification from JPMorgan Chase & Co on
2 December 2013 that they had released an announcement to The Stock Exchange of Hong Kong Limited on 2 December 2013 pursuant to s.324 of Part XV of the Hong Kong Securities and Futures Ordinance (Cap. 571).

To view the announcement click here:

http://www.rns-pdf.londonstockexchange.com/rns/4820U_-2013-12-2.pdf

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: Ben J S Mathews

Title: Group Company Secretary

Date: 02 December 2013

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED

DECEMBER 31, 2009 and 2008:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial condition of Annaly Capital Management, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report On Internal Control Over Financial Reporting at Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Annaly Capital Management, Inc. and subsidiaries as of December 31, 2009 and 2008, and the

results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
New York, New York
February 24, 2010
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Part I
Item1. Financial Statements

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2009 AND 2008
(dollars in thousands)

	December 31, 2009		December 31, 2008	
ASSETS				
Cash and cash equivalents	$	1,504,568	$	909,353
Reverse repurchase agreements with affiliate		328,757		562,119
Reverse repurchase agreements		425,000		-
Mortgage-Backed Securities, at fair value		64,805,725		55,046,995
Agency debentures, at fair value		915,752		598,945
Investment with affiliates		242,198		52,795
Securities borrowed		29,077		-
Receivable for Mortgage-Backed Securities sold		732,134		75,546
Accrued interest and dividends receivable		318,919		282,532
Receivable from Prime Broker		3,272		16,886
Receivable for advisory and service fees		12,566		6,103
Intangible for customer relationships, net		10,491		12,380
Goodwill		27,917		27,917
Interest rate swaps, at fair value		5,417		-
Other assets		14,397		6,044
Total assets	$	69,376,190	$	57,597,615
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Repurchase agreements	$	54,598,129	$	46,674,885
Payable for Investment Securities purchased		4,083,786		2,062,030
Accrued interest payable		89,460		199,985
Dividends payable		414,851		270,736
Securities loaned		29,057		-
Accounts payable and other liabilities		10,005		8,380
Interest rate swaps, at fair value		533,362		1,102,285
Total liabilities		59,758,650		50,318,301
6.00% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized 2,604,614 and 4,496,525 shares issued and outstanding, respectively.		63,114		96,042
Commitments and contingencies		-		-
Stockholders' Equity:				
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 shares authorized, issued and outstanding		177,088		177,088
Common stock: par value $.01 per share; 987,987,500 shares		5,531		5,415

authorized, 553,134,877 and, 541,475,366 issued and outstanding, respectively						
Additional paid-in capital		7,817,454			7,633,438	
Accumulated other comprehensive income		1,891,317			252,230	
Accumulated deficit		(336,964	)		(884,899	)
Total stockholders' equity		9,554,426			7,183,272	
Total liabilities, Series B Cumulative Convertible Preferred Stock and stockholders' equity	$	69,376,190		$	57,597,615	

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(dollars in thousands, except per share amounts)

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Interest income			
Investments	$ 2,922,499	$ 3,115,428	$ 2,355,447
Securities loaned	103	-	-
Total interest income	2,922,602	$ 3,115,428	$ 2,355,447
Interests expense			
Repurchase agreements	1,295,670	1,888,912	1,926,465
Securities borrowed	92	-	-
Total interest expense	1,295,762	1,888,912	1,926,465
Net interest income	1,626,840	1,226,516	428,982
Other income (loss):			
Investment advisory and service fees	48,952	27,891	22,028
Gain on sale of Investment Securities	99,128	10,713	19,062
Gain on termination of interest rate swaps	-	-	2,096
Income from trading securities	-	9,695	19,147
Dividend income from available-for-sale equity securities	17,184	2,713	91
Loss on other-than-temporarily impaired securities	-	(31,834)	(1,189)
Loss on receivable from Prime Broker	(13,613)	-	-
Unrealized gain (loss) on interest rate swaps	349,521	(768,268)	-
Total other income (loss)	501,172	(749,090)	61,235
Expenses:			
Distribution fees	1,756	1,589	3,647
General and administrative expenses	130,152	103,622	62,666
Total expenses	131,908	105,211	66,313
Income before loss on equity method investments, income taxes and noncontrolling interest	1,996,104	372,215	423,904
Loss on equity method investment	252	-	-
Income taxes	34,381	25,977	8,870
Net income	1,961,471	346,238	415,034

Noncontrolling interest		-		58		650
Net income attributable to controlling interest		1,961,471		346,180		414,384
Dividends on preferred stock		18,501		21,177		21,493
Net income available to common shareholders	$	1,942,970	$	325,003	$	392,891
Net income available per share to common shareholders:						
Basic	$	3.55	$	0.64	$	1.32
Diluted	$	3.52	$	0.64	$	1.31
Weighted average number of common shares outstanding:						
Basic		546,973,036		507,024,596		297,488,394
Diluted		553,130,643		507,024,596		306,263,766
Net income attributable to controlling interest	$	1,961,471	$	346,180	$	414,384
Other comprehensive income (loss):						
Unrealized gain on available-for-sale securities		1,513,397		319,226		322,264
Unrealized gain (loss) on interest rate swaps		224,818		64,080		(378,380)
Reclassification adjustment for net (gains) loss included in net income		(99,128)		21,121		(19,969)
Other comprehensive income (loss)		1,639,087		404,427		(76,085)
Comprehensive income attributable to controlling interest	$	3,600,558	$	750,607	$	338,299

See notes to consolidated financial statements.

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(dollars in thousands, except per share data)

	Preferred Stock	Common Stock Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
BALANCE, DECEMBER 31, 2006	177,088	2,053	2,615,016	(76,112)	(175,004)	2,543,041
Net income attributable to controlling interest	-	-	-	-	414,384	-
Other comprehensive loss	-	-	-	(76,085)	-	-
Comprehensive income	-	-	-	-	-	338,299
Exercise of stock options	-	-	576	-	-	576
Stock option expense and long-term compensation expense	-	-	1,355	-	-	1,355
Net proceeds from follow-on offerings	-	1,829	2,483,700	-	-	2,485,529
Net proceeds from ATM program	-	56	80,862	-	-	80,918
Net proceeds from direct purchase and dividend reinvestment	-	80	116,413	-	-	116,493
Preferred Series A dividends declared $1.97 per share	-	-	-	-	(14,593)	(14,593)
Preferred Series B dividends declared $1.50 per share	-	-	-	-	(6,900)	(6,900)
Common dividends declared, $1.04 per share	-	-	-	-	(339,780)	(339,780)
BALANCE, DECEMBER 31, 2007	177,088	4,018	5,297,922	(152,197)	(121,893)	5,204,938
Net income attributable to controlling interest	-	-	-	-	346,180	-
Other comprehensive income	-	-	-	404,427	-	-
Comprehensive income	-	-	-	-	-	750,607
Exercise of stock options and stock grants	-	3	2,777	-	-	2,780
Stock option expense and long-term compensation expense	-	-	2,534	-	-	2,534
Conversion of Series B cumulative convertible Preferred Stock	-	13	15,411	-	-	15,424
Stock granted in acquisition	-	2	3,123	-	-	3,125
Net proceeds from follow-on offerings	-	1,277	2,146,266	-	-	2,147,543
	-	44	71,788	-	-	71,832

Net proceeds from ATM program										
Net proceeds from direct purchase and dividend reinvestment		-		58		93,617		-		-		93,675
Preferred Series A dividends declared $1.97 per share		-		-		-		-		(14,594)		(14,594)
Preferred Series B dividends declared $1.50 per share		-		-		-		-		(6,583)		(6,583)
Common dividends declared, $2.08 per share		-		-		-		-		(1,088,009)		(1,088,009)
BALANCE, DECEMBER 31, 2008	$	177,088	$	5,415	$	7,633,438	$	252,230	$	(884,899)	$	7,183,272
Net income		-		-		-		-		1,961,471		-
Other comprehensive income		-		-		-		1,639,087		-		-
Comprehensive income		-		-		-		-		-		3,600,558
Exercise of stock options and stock grants		-		4		4,911		-		-		4,915
Stock option expense and long-term compensation expense		-		-		4,514		-		-		4,514
Conversion of Series B cumulative convertible Preferred Stock		-		28		32,900		-		-		32,928
Net proceeds from direct purchase and dividend reinvestment		-		84		141,691		-		-		141,775
Preferred Series A dividends declared $1.97 per share		-		-		-		-		(14,593)		(14,593)
Preferred Series B dividends declared $1.50 per share		-		-		-		-		(3,908)		(3,908)
Common dividends declared, $2.54 per share		-		-		-		-		(1,395,035)		(1,395,035)
BALANCE, DECEMBER 31, 2009	$	177,088	$	5,531	$	7,817,454	$	1,891,317	$	(336,964)	$	9,554,426

See notes to consolidated financial statements

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ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(dollars in thousands)

	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
Cash flows from operating activities:			
Net income	$ 1,961,471	$ 346,238	$ 415,034
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income attributable to non controlling interest	-	(58)	(650)
Amortization of Mortgage Backed Securities premiums and discounts, net	253,683	99,603	65,185
Amortization of intangibles	2,316	4,133	1,377
Amortization of trading securities premiums and discounts	-	(3)	(11)
(Gain) loss on sale of Investment Securities	(99,128)	(10,713)	(19,062)
Gain on termination of interest rate swaps	-	-	(2,096)
Stock option and long-term compensation expense	4,514	2,534	1,355
Unrealized (gain) loss on interest rate swaps	(349,521)	768,268	-
Loss on investment with affiliate, equity method	252	-	-
Net realized gain on trading investments	-	(12,578)	(4,430)
Unrealized depreciation (appreciation) on trading investments	-	2,994	(11,013)
Loss on other-than-temporarily impaired securities	-	31,834	1,189
Increase in accrued interest and dividend receivable	(35,574)	(8,405)	(123,322)
(Increase) decrease in other assets	(8,780)	340	(2,264)
Purchase of trading securities	-	(13,048)	(18,479)
Proceeds from sale of trading securities	-	30,986	23,640
Purchase of trading securities sold, not yet purchased	-	(22,290)	(13,620)
Proceeds from trading securities sold, not yet purchased	-	21,483	21,489
Proceeds from repurchase agreements from Broker Dealer	301,505,728	-	-
Payments on repurchase agreements from Broker Dealer	(291,820,728)	-	-
Proceeds from reverse repo from Broker Dealer	(3,595,580)	-	-
Payments on reverse repo from Broker Dealer	3,100,827	-	-
Proceeds from securities borrowed	152,027	-	-
Payments on securities borrowed	(181,104)	-	-
Proceeds from securities loaned	197,100	-	-
Payments on securities loaned	(168,043)	-	-
(Increase) decrease in advisory and service fees receivable	(6,462)	345	(420)
(Decrease) increase in interest payable	(110,524)	(57,623)	173,610
	1,624	(28,867)	17,872

Increase (decrease) in accounts payable and other liabilities			
Loss on receivable from Prime Broker	13,613	(16,886)	-
Reduction of net assets in the fund	-	(28,704)	-
Net cash provided by operating activities	10,817,711	1,109,583	525,384
Cash flows from investing activities:			
Purchase of Mortgage-Backed Securities	(24,992,434)	(25,281,183)	(32,832,687)
Proceeds from sale of Investment Securities	4,029,801	15,491,408	4,847,909
Principal payments of Mortgage-Backed Securities	13,796,269	8,619,102	6,831,406
Agency debentures called	602,000	(500,000)	-
Purchase of agency debentures	(918,765)	-	(256,241)
Investment in affiliates	(157,995)	(26,283)	(54,324)
Payments on reverse repurchase agreements	(10,051,980)	(562,119)	-
Proceeds from reverse repurchase agreements	10,355,095	-	-
Investment to purchase subsidiary	-	(12,628)	-
Net cash used in investing activities	(7,338,009)	(2,271,703)	(21,463,937)
Cash flows from financing activities:			
Proceeds from repurchase agreements	327,758,745	434,042,799	393,750,907
Principal payments on repurchase agreements	(329,520,501)	(433,414,474)	(375,218,367)
Proceeds from exercise of stock options	4,914	2,780	576
Proceeds from termination of interest rate swaps	-	-	2,096
Proceeds from direct purchase and dividend reinvestment	141,775	93,675	116,493
Net proceeds from follow-on offerings	-	2,147,543	2,485,529
Net proceeds from ATM programs	-	71,832	80,918
Noncontrolling interest	-	(1,574)	(3,750)
Dividends paid	(1,269,420)	(975,068)	(263,671)
Net cash (used) provided by financing activities	(2,884,487)	1,967,513	20,950,731
Net increase in cash and cash equivalents	595,215	805,393	12,178
Cash and cash equivalents, beginning of period	909,353	103,960	91,782
Cash and cash equivalents, end of period	$ 1,504,568	$ 909,353	$ 103,960
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,406,287	$ 1,946,535	$ 1,752,855
Taxes paid	$ 42,268	$ 18,866	$ 10,272
Noncash investing activities:			
Receivable for Investment Securities Sold	$ 732,134	$ 75,546	$ 276,737
Payable for Investment Securities Purchased	$ 4,083,786	$ 2,062,030	$ 1,677,131
Net change in unrealized gain (loss) on available-for-sale securities and interest rate swaps, net of reclassification adjustment	$ 1,639,087	$ 404,427	$ (76,085)
Noncash financing activities:			
Dividends declared, not yet paid	$ 414,851	$ 270,736	$ 136,618

See notes to consolidated financial statements.

ANNALY CAPITAL MANAGEMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Annaly Capital Management, Inc. ("Annaly" or the "Company") was incorporated in Maryland on November 25, 1996. The Company commenced its operations of purchasing and managing an investment portfolio of mortgage-backed securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital, and completed its initial public offering on October 14, 1997. The Company is a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. Fixed Income Discount Advisory Company ("FIDAC") is a registered investment advisor and is a wholly owned taxable REIT subsidiary of the Company. On June 27, 2006, the Company made a majority equity investment in an affiliated investment fund (the "Fund"), which is now wholly owned by the Company. During the third quarter of 2008, the Company formed RCap Securities Inc. ("RCap"). RCap was granted membership in the Financial Industry Regulatory Authority ("FINRA") on January 26, 2009, and operates as broker-dealer. RCap is a wholly owned taxable REIT subsidiary of the Company. On October 31, 2008, the Company acquired Merganser Capital Management, Inc. ("Merganser"). Merganser is a registered investment advisor and is a wholly owned taxable REIT subsidiary of the Company.

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

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

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

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

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

Mortgage-Backed Securities and Agency Debentures - The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans, and certificates guaranteed by the Government National Mortgage

Association ("GNMA") (collectively, "Mortgage-Backed Securities"). The Company also invests in agency debentures issued by Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Federal National Mortgage Association ("FNMA"). The Mortgage-Backed Securities and agency debentures are collectively referred to herein as "Investment Securities."

The Company is required to classify its Investment Securities as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Accordingly, the Company classifies all of its Investment Securities as available-for-sale. All assets classified as available-for-sale are reported at estimated fair value, based on market prices from independent sources, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. The Company's investment in Chimera Investment Corporation ("Chimera") is accounted for as available-for-sale equity securities. The Company's investment in CreXus Investment Corp. ("CreXus") is accounted for under the equity method.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines if it (1) has the intent to sell the Investment Securities, (2) is more likely than not that it will be required to sell the securities before recovery, or (3) does not expect to recover the entire amortized cost basis of the Investment Securities. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the statement of earnings, while the balance of impairment related to other factors will be recognized in other comprehensive income ("OCI"). There were no losses on other-than-temporarily impaired securities for the year ended December 31, 2009. The loss on other-than-temporarily impaired securities was $31.8 million and $1.2 million during the years ended December 31, 2008 and 2007, respectively.

The estimated fair value of Investment Securities, available-for-sale equity securities, receivable from prime broker and interest rate swaps is equal to their carrying value presented in the consolidated statements of financial condition. Cash and cash equivalents, reverse repurchase agreements, securities borrowed, receivable for Mortgage-Backed Securities sold, accrued interest and dividends receivable, receivable for advisory and service fees, repurchase agreements with maturities shorter than one year, payable for Investment Securities purchased, securities loaned, dividends payable, accounts payable and other liabilities, and accrued interest payable, generally approximates fair value at December 31, 2009 due to the short term nature of these financial instruments. The estimated fair value of long term structured repurchase agreements is reflected in the Note 9 to the financial statements.

Interest income is accrued based on the outstanding principal amount of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized into interest income over the projected lives of the securities using the interest method. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, consensus prepayment speeds, and current market conditions. Dividend income on available-for-sale equity securities is recorded on the ex-date on an accrual basis.

Investment Securities transactions are recorded on the trade date. Purchases of newly-issued securities are recorded when all significant uncertainties regarding the characteristics of the securities are removed, generally shortly before settlement date. Realized gains and losses on sales of Investment Securities are determined on the specific identification method.

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

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

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

Market Risk - The current situation in the mortgage sector and the current weakness in the broader mortgage market could adversely affect one or more of the Company's lenders and could cause one or more of the Company's lenders to be unwilling or unable to provide additional financing. This could potentially increase the Company's 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 government mortgage securities. This could negatively impact the value of the securities in the Company's portfolio, thus reducing its net book value. Furthermore, if many of the Company's lenders are unwilling or unable to provide additional financing, the Company could be forced to sell its Investment Securities at an inopportune time when prices are depressed. Even with the current situation in the mortgage sector, the Company does not anticipate having difficulty converting its assets to cash or extending financing terms due to the fact that its Investment Securities have an actual or implied “AAA” rating and principal payment is guaranteed by FHLMC, FNMA, or GNMA.

Trading Securities and Trading Securities sold, not yet purchased - Trading securities and trading securities sold, not yet purchased, are presented in the consolidated statements of financial conditions as a result of consolidating the financial statements of the Fund, and are carried at fair value. The realized and unrealized gains and losses, as well as other income or loss from trading securities, are recorded in the income from trading securities balance in the accompanying consolidated statements of operations.

Trading securities sold, not yet purchased, represent obligations of the Fund to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices.

Repurchase Agreements - The Company finances the acquisition of its Investment Securities through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

Cumulative Convertible Preferred Stock - The Series B Preferred Stock contains fundamental change provisions that allow the holder to redeem the Series B Preferred Stock for cash if certain events occur. As redemption under these provisions is not solely within the Company's control, the Company has classified the Series B Preferred Stock as temporary equity in the accompanying consolidated statements of financial condition. The Company has analyzed whether the embedded conversion option should be bifurcated and has determined that bifurcation is not necessary.

Income Taxes - The Company has elected to be taxed as a REIT and intends to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), with respect thereto. Accordingly, the Company will not be subjected to federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met. The Company and each of its subsidiaries, FIDAC, Merganser, and RCap have made separate joint election to treat the subsidiaries as a taxable REIT subsidiary. As such, each of the taxable REIT subsidiaries are taxable as a domestic C corporation and subject to federal, state, and local income taxes based upon its taxable income. The affiliated investment fund is a partnership and the income and expense flow through to the Company.

Use of Estimates - The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. All assets classified as available-for-sale and interest rate swaps are reported at their estimated fair value, based on market prices. The Company's policy is to obtain fair values from independent sources. Fair values from independent sources are compared to internal prices for reasonableness. Actual results could differ from those estimates.

Goodwill and Intangible assets - The Company's acquisitions of FIDAC and Merganser were accounted for using the purchase method. Under the purchase method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. In addition, the costs of FIDAC and Merganser were allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair values at the date of acquisition. The excess of purchase price over the fair value of the net assets acquired was recognized as goodwill. Goodwill and intangible assets are periodically (but not less frequently than annually) reviewed for potential impairment. Intangible assets with an estimated useful life are expected to amortize over a 10.5 year weighted average time period. During the years ended December 31, 2009, 2008 and 2007, there were no impairment losses.

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

The Company recognizes compensation expense on a straight-line basis over the requisite service period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award). The Company estimated fair value using the Black-Scholes valuation model.

A Summary of Recent Accounting Pronouncements Follows:

General Principles

Generally Accepted Accounting Principles

In June 2009, the Financial Accounting Standards Board ("FASB") issued The Accounting Standards Codification (Codification) which revises the framework for selecting the accounting principles to be used in the preparation of financial statements that are presented in conformity with Generally Accepted Accounting Principles ("GAAP"). The objective of the Codification is to establish the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB. Codification was effective for interim and annual periods ended after September 15, 2009. In adopting the Codification, all non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. Codification requires any references within the Company's consolidated financial statements be modified from FASB issues to ASC. However, in accordance with the FASB Accounting Standards Codification Notice to Constituents (v 2.0), the Company will not reference specific sections of the ASC but will use broad topic references.

The Company's recent accounting pronouncements section has been reformatted to reflect the same organizational structure as the ASC. Broad topic references will be updated with pending content as they are released.

Assets

Investments in Debt and Equity Securities (ASC 320)

New guidance was provided to make impairment guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments ("OTTI") on debt and equity securities in financial statements. This guidance was also the result of the Securities and Exchange Commission ("SEC") mark-to-market study mandated under the Emergency Economic Stabilization Act of 2008 ("EESA"). The SEC's recommendation was to "evaluate the need for modifications (or the elimination) of current OTTI guidance to provide for a more uniform system of impairment testing standards for financial instruments." The guidance revises the OTTI evaluation methodology. Previously the analytical focus was on whether the company had the "intent and ability to retain its investment in the debt security for a period of time sufficient to allow for any anticipated recovery in fair value." Now the focus is on whether the company (1) has the intent to sell the Investment Securities, (2) is more likely than not that it will be required to sell the Investment Securities before recovery, or (3) does not expect to recover the entire amortized cost basis of the Investment Securities. Further, the security is analyzed for credit loss, (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the statement of operations, while the balance of impairment related to other factors will be recognized in OCI. This guidance became effective for all of the Company's interim and annual reporting periods ending June 30, 2009 with early adoption permitted for periods ending March 31, 2009 and the Company decided to early adopt. For the year ended December 31, 2009, the Company did not have unrealized losses in Investment Securities that were deemed other-than-temporary.

Broad Transactions

Business Combinations (ASC 805)

This guidance establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in a business combination at their fair value at acquisition date. ASC 805 alters the treatment of acquisition-related costs, business combinations achieved in stages (referred to as a step acquisition), the treatment of gains from a bargain purchase, the recognition of contingencies in business combinations, the treatment of in-process research and development in a business combination as well as the treatment of recognizable deferred tax benefits. ASC 805 is effective for business combinations closed in fiscal years beginning after December 15, 2008 and is applicable to business acquisitions completed after January 1, 2009. The Company did not make any business acquisitions during the year ended December 31, 2009. The adoption of ASC 805 did not have a material impact on the Company's consolidated financial statements.

Consolidation (ASC 810)

On January 1, 2009, FASB amended the guidance concerning noncontrolling interests in consolidated financial statements, which requires the Company to make certain changes to the presentation of its financial statements. This guidance requires the Company to classify noncontrolling interests (previously referred to as "minority interest") as part of consolidated net income and to include the accumulated amount of noncontrolling interests as part of stockholders' equity. Similarly, in its presentation of stockholders' equity, the Company distinguishes between equity amounts attributable to controlling interest and amounts attributable to the noncontrolling interests – previously classified as minority interest outside of stockholders' equity. In addition to these financial reporting changes, this guidance provides for significant changes in accounting related to noncontrolling interests; specifically, increases and decreases in its controlling financial interests in consolidated subsidiaries will be reported in equity similar to treasury stock transactions. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are re-measured with the gain or loss reported in net earnings.

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

On January 27, 2010, the FASB voted to indefinitely defer the effective date of ASU 2009-17 for a reporting enterprises interest in entities for which it is industry practice to issue financial statements in accordance with investment company standards (ASC 946). This deferral is expected to most significantly affect reporting entities in the investment management industry. The Company is evaluating the effect of this update, however, as it stands, the update would have no material effect on the financial statements.

Derivatives and Hedging (ASC 815)

Effective January 1, 2009 and adopted by the Company prospectively, the FASB issued additional guidance attempting to improve the transparency of financial reporting by mandating the provision of additional information about how derivative and hedging activities affect an entity's financial position, financial performance and cash flows. This guidance changed the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosure about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. To adhere to this guidance, qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts, gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements must be made. This disclosure framework is intended to better convey the purpose of derivative use in terms of the risks that an entity is intending to manage. The effect of the adoption of this guidance was an increase in financial statement note disclosures.

Fair Value Measurements and Disclosures (ASC 820)

In response to the deterioration of the credit markets, FASB issued guidance clarifying how Fair Value Measurements should be applied when valuing securities in markets that are not active. The guidance provides an illustrative example, utilizing management's internal cash flow and discount rate assumptions when relevant observable data do not exist. It further clarifies how observable market information and market quotes should be considered when measuring fair value in an inactive market. It reaffirms the notion of fair value as an exit price as of the measurement date and that fair value analysis is a transactional process and should not be broadly applied to a group of assets. The guidance was effective upon issuance including prior periods for which financial statements had not been issued. The implementation of this guidance did not have a material effect on the fair value of the Company's assets since the Company previous methodology is consistent with the new guidance.

In October 2008 the EESA was signed into law. Section 133 of the EESA mandated that the SEC conduct a study on mark-to-market accounting standards. The SEC provided its study to the U.S. Congress on December 30, 2008. Part of the recommendations within the study indicated that "fair value requirements should be improved through development of application and best practices guidance for determining fair value in illiquid or inactive markets." As a result of this study and the recommendations therein, on April 9, 2009, the FASB issued additional guidance for determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). This guidance became effective for the Company June 30, 2009 with early adoption permitted for periods ending after March 31, 2009. The adoption does not have a major impact on the manner in which we estimate fair value, nor does it have any impact on our financial statement disclosures.

In August 2009, FASB provided further guidance (ASU 2009-05) regarding the fair value measurement of liabilities. The guidance states that a quoted price for the identical liability when traded as an asset in an active market is a Level 1 fair value measurement. If the value must be adjusted for factors specific to the liability, then the adjustment to the quoted price of the asset shall render the fair value measurement of the liability a lower level measurement. This guidance has no material effect on the fair valuation of the Company's liabilities.

In September 2009, FASB issued guidance (ASU 2009-12) on measuring the fair value of certain alternative investments. This guidance offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share. If an investment falls within the scope of the ASU, the reporting entity is permitted, but not required to use the investment's NAV to estimate its fair value. This guidance has no material effect on the fair valuation of the Company's assets, as the Company does not hold any assets qualifying under this guidance.

In January 2010, FASB issued guidance (ASU 2010-06) which increases disclosure regarding the fair value of assets. The key provisions of this guidance include the requirement to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 including a description of the reason for the transfers. Previously this was only required of transfers between Level 2 and Level 3 assets. Further, reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities; a class is potentially a subset of the assets or liabilities within a line item in the statement of financial position. Additionally, disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements are required for either Level 2 or Level 3 assets. This portion of the guidance is effective for the Company for December 31, 2009. The guidance also requires that the disclosure on any Level 3 assets presents separately information about purchases, sales, issuances and settlements. In other words, Level 3 assets are presented on a gross basis rather than as one net number. However, this last portion of the guidance is not effective for the Company until December 15, 2010. Adoption of this guidance results is increased financial statement note disclosure for the Company.

Financial Instruments (ASC 820)

On April 9, 2009, the FASB issued guidance which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. The guidance became effective for the Company on June 30, 2009. The adoption did not have any impact on financial reporting as all financial instruments are currently reported at fair value in both interim and annual periods.

Subsequent Events (ASC 855)

ASC 855 provides general standards governing accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 also provides guidance on the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions occurring after the balance sheet date. The Company adopted the guidance effective June 30, 2009, and adoption had no impact on the Company's consolidated financial statements. The Company evaluated subsequent events through February 24, 2010.

Transfers and Servicing (ASC 860-10-50)

In February 2008 FASB issued guidance addressing whether transactions where assets purchased from a particular counterparty and financed through a repurchase agreement with the same counterparty can be considered and accounted for as separate transactions, or are required to be considered "linked" transactions and may be considered derivatives. This guidance requires purchases and subsequent financing through repurchase agreements be considered linked transactions unless all of the following conditions apply: (1) the initial purchase and the use of repurchase agreements to finance the purchase are not contractually contingent upon each other; (2) the repurchase financing entered into between the parties provides full recourse to the transferee and the repurchase price is fixed; (3) the financial assets are readily obtainable in the market; and (4) the financial instrument and the repurchase agreement are not coterminous. This guidance was effective for the Company on January 1, 2009 and the implementation did not have a material effect on the financial statements of the Company.

On June 12, 2009, the FASB issued guidance an amendment update to the accounting standards governing the transfer and servicing of financial assets .This amendment updates the existing standard and eliminates the concept of a Qualified Special Purpose Entity ("QSPE"); clarifies the surrendering of control to effect sale treatment; and modifies the financial components approach – limiting the circumstances in which a financial asset or portion thereof should be derecognized when the transferor maintains continuing involvement. It defines the term "Participating Interest". Under this standard update, the transferor must recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer, including any retained beneficial interest. Additionally, the amendment requires

enhanced disclosures regarding the transferors risk associated with continuing involvement in any transferred assets. The amendment is effective beginning January 1, 2010. The Company believes the amendment has no material effect on the financial statements.

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2. MORTGAGE-BACKED SECURITIES

The following tables present the Company's available-for-sale Mortgage-Backed Securities portfolio as of December 31, 2009 and 2008 which were carried at their fair value:

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

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

December 31, 2008	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
	(dollars in thousands)			
Mortgage-Backed Securities, gross	$ 19,898,430	$ 32,749,123	$ 1,259,118	$ 53,906,671
Unamortized discount	(26,733)	(36,647)	(787)	(64,167)
Unamortized premium	212,354	381,433	25,694	619,481
Amortized cost	20,084,051	33,093,909	1,284,025	54,461,985
Gross unrealized gains	297,366	468,824	14,606	780,796
Gross unrealized losses	(71,195)	(123,443)	(1,148)	(195,786)
Estimated fair value	$ 20,310,222	$ 33,439,290	$ 1,297,483	$ 55,046,995

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Adjustable rate	$ 19,509,017	$ 287,249	$ (178,599)	$ 19,617,667

Fixed rate	34,952,968	493,547	(17,187)	35,429,328
Total	$ 54,461,985	$ 780,796	$ (195,786)	$ 55,046,995

Actual maturities of Mortgage-Backed Securities are generally shorter than stated contractual maturities because actual maturities of Mortgage-Backed Securities are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal. The following table summarizes the Company's Mortgage-Backed Securities on December 31, 2009 and 2008, according to their estimated weighted-average life classifications:

	December 31, 2009		December 31, 2008	
Weighted-Average Life	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(dollars in thousands)			
Less than one year	$2,796,707	$2,762,873	$4,147,646	$4,181,282
Greater than one year and less than five years	55,780,372	54,070,493	37,494,312	37,102,706
Greater than or equal to five years	6,228,646	6,004,479	13,405,037	13,177,997
Total	$64,805,725	$62,837,845	$55,046,995	$54,461,985

The weighted-average lives of the Mortgage-Backed Securities at December 31, 2009 and 2008 in the table above are based upon data provided through subscription-based financial information services, assuming constant principal prepayment rates to the reset date of each security. The prepayment model considers current yield, forward yield, steepness of the yield curve, current mortgage rates, mortgage rate of the outstanding loans, loan age, margin and volatility. The actual weighted average lives of the Mortgage-Backed Securities could be longer or shorter than estimated.

The following table presents the gross unrealized losses, and estimated fair value of the Company's Mortgage-Backed Securities by length of time that such securities have been in a continuous unrealized loss position at December 31, 2009 and December 31, 2008.

	Unrealized Loss Position For:					
					(dollars in thousands)	
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2009	$ 4,818,239	$ (22,869)	$ 2,802,920	$ (67,010)	$ 7,621,159	$ (89,879)
December 31, 2008	$ 4,631,897	$ (65,790)	$ 4,267,448	$ (129,996)	$ 8,899,345	$ (195,786)

The decline in value of these securities is solely due to market conditions and not the quality of the assets. Substantially all of the Mortgage-Backed Securities are "AAA" rated or carry an implied "AAA" rating. The investments are not considered other-than-temporarily impaired because the Company currently has the ability and intent to hold the investments to maturity or for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments or we are required to sell for regulatory or other reasons. Also, the Company is guaranteed payment of the principal amount of the securities by the government agency which created them.

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every nine months) and lifetime caps. The weighted average lifetime cap was 10.1% at December 31, 2009 and 10.0% at December 31, 2008.

During the year ended December 31, 2009, the Company sold $4.6 billion of Mortgage-Backed Securities, resulting in a realized gain of $99.1 million. During the year ended December 31, 2008, the Company sold $15.1 billion of Mortgage-Backed Securities, resulting in a realized gain of $10.7 million.

3. AGENCY DEBENTURES

At December 31, 2009, the Company owned agency debentures with a carrying value of $915.8 million, including an unrealized loss of $3.0 million. At December 31, 2008, the Company owned agency debentures with a carrying value of $598.9 million including an unrealized loss of $2.8 million.

4. AVAILABLE FOR SALE EQUITY SECURITIES

All of the available-for-sale equity securities are shares of Chimera and are reported at fair value. The Company owned approximately 45.0 million shares of Chimera at a fair value of approximately $174.5 million at December 31, 2009 and approximately 15.3 million shares of Chimera at fair value of approximately $52.8 million at December 31, 2008. At December 31, 2009 and December 31, 2008, the investment in Chimera had an unrealized gain of $35.7 million and $4.0 million, respectively. Chimera is externally managed by FIDAC pursuant to a management agreement.

Although the Company has the intent and ability to retain the investment in Chimera indefinitely, the Company determined that an other-than-temporarily impaired charge of $31.8 million was appropriate in the third quarter of 2008 and is reflected in the income statement for the year ended of December 31, 2008. This determination is based on the extent of the decline in value of the Chimera shares combined with the current state of the mortgage and credit markets.

5. INVESTMENT IN AFFILIATE, EQUITY METHOD

During the year ended December 31, 2009, the Company acquired 4,527,778 shares of CreXus Investment Corp. ("CreXus") common stock at a price of $15.00 per share. The Company owns 25% of CreXus and accounts for its investment using the equity method. CreXus is externally managed by FIDAC pursuant to a management agreement. The quoted fair value of the Company's investment in CreXus was $63.2 million at December 31, 2009.

6. REVERSE REPURCHASE AGREEMENT

At December 31, 2009 and 2008, the Company had lent $259.0 million and $562.1 million, respectively, to Chimera in a reverse repurchase agreement which is callable weekly. This amount is included in the principal amount which approximates fair value in the Company's Statements of Financial Condition. The interest rate at December 31, 2009 and December 31, 2008 was at the rate of 1.72% and 1.43%, respectively. The collateral for this loan is mortgage-backed securities with a fair value of $314.3 million and $680.8 million at December 31, 2009 and 2008, respectively.

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

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

7. RECEIVABLE FROM PRIME BROKER

The net assets of the investment fund owned by the Company are subject to English bankruptcy law, which governs the administration of Lehman Brothers International (Europe) (in administration) ("LBIE"), as well as the law of New York, which governs the contractual documents. The Company invested approximately $45.0 million in the fund and has redeemed approximately $56.0 million. The current assets of the fund still remain at LBIE and affiliates of LBIE

and the ultimate recovery of such amount remains uncertain. The Company has entered into the Claims Resolution Agreement (the “CRA”) between LBIE and certain eligible offerees effective December 29, 2009 with respect to these assets.

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

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

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

8. FAIR VALUE MEASUREMENTS

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

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

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

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

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

	Weighted Average Coupon on Fixed Rate Securities	Weighted Average Coupon on Adjustable Rate Securities	Weighted Average Yield	Weighted Average Lifetime Cap on Adjustable Rate Securities	Weighted Average Term to Next Adjustment on Adjustable Rate Securities
At December 31, 2009	5.78%	4.55%	4.51%	10.09%	33 months
At December 31, 2008	6.13%	4.75%	5.15%	10.00%	36 months

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

	Level 1	Level 2	Level 3
At December 31, 2009	(dollars in thousands)		
Assets:			
Mortgage-Backed Securities	$ -	$64,805,725	-
Agency debentures	-	915,752	-
Available for sale equity securities	174,533	-	-
Interest rate swaps		5,417	
Liabilities:			
Interest rate swaps	-	533,362	-
At December 31, 2008			
Assets:			
Mortgage-Backed Securities	$ -	$55,046,995	-
Agency debentures	-	598,945	-
Available for sale equity securities	52,795	-	-
Liabilities:			
Interest rate swaps	-	1,102,285	-

The classification of assets and liabilities by level remains unchanged at December 31, 2009, when compared to the previous quarter.

9. REPURCHASE AGREEMENTS

The Company had outstanding $54.6 billion and $46.7 billion of repurchase agreements with weighted average borrowing rates of 2.11% and 4.08%, after giving effect to the Company's interest rate swaps, and weighted average remaining maturities of 170 days and 238 days as of December 31, 2009 and December 31, 2008, respectively. Investment Securities pledged as collateral under these repurchase agreements and interest rate swaps had an estimated fair value of $57.9 billion at December 31, 2009 and $51.8 billion at December 31, 2008.

At December 31, 2009 and 2008, the repurchase agreements had the following remaining maturities:

	December 31, 2009	December 31, 2008
	(dollars in thousands)	
1 day	$ -	$ -
Within 30 days	38,341,206	32,025,186
30 to 59 days	7,163,255	5,205,352
60 to 89 days	192,005	209,673
90 to 119 days	139,966	254,674
Over 120 days	8,761,696	8,980,000
Total	$ 54,598,128	$ 46,674,885

The Company did not have an amount at risk greater than 10% of the equity of the Company with any counterparty as of December 31, 2009 or December 31, 2008.

The Company has entered into repurchase agreements which provide the counterparty with the right to call the balance prior to maturity date. These repurchase agreements totaled $7.0 billion and the fair value of the option to call was ($352.4 million) at December 31, 2009. The repurchase agreements totaled $8.1 billion and the fair value of the

option to call was ($574.3) at December 31, 2008. Management has determined that the call option is not required to be bifurcated as it is deemed clearly and closely related to the debt instrument, therefore the fair value of the option is not recorded in the consolidated financial statements.

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

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

10. INTEREST RATE SWAPS

In connection with the Company's interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts. As of December 31, 2009, such instruments are comprised of interest rate swaps, which in effect modify the cash flows on repurchase agreements. The use of interest rate swaps creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its Mortgage-Backed Securities pledged as collateral for swaps. The Company does not anticipate any defaults by its counterparties.
The Company's swaps are used to lock in the fixed rate related to a portion of its current and anticipated future 30-day term repurchase agreements.

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

	Location on Statement of Financial Condition	Notional Amount (dollars in thousands)	Net Estimated Fair Value/Carrying Value (dollars in thousands)
December 31, 2009	Liabilities	$ 18,823,300	$ 533,362
December 31, 2009	Assets	$ 2,700,000	$ 5,417
December 31, 2008	Liabilities	$ 17,615,750	$ 1,102,285

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

	Location on Statement of Operations and Comprehensive Income	
	Interest Expense (dollars in thousands)	Unrealized Gain (Loss) on Interest Rate Swaps
For the Year Ended December 31, 2009	$ 743,982	$ 349,521
For the Year Ended December 31, 2008	$ 327,402	$ (768,268)

The weighted average pay rate at December 31, 2009 was 3.85% and the weighted average receive rate was 0.25%. The weighted average pay rate at December 31, 2008 was 4.66% and the weighted average receive rate was 1.88%.

11. PREFERRED STOCK AND COMMON STOCK

(A) Common Stock Issuances

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

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

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

On May 13, 2008 the Company entered into an underwriting agreement pursuant to which it sold 69,000,000 shares of its common stock for net proceeds following underwriting expenses of approximately $1.1 billion. This transaction settled on May 19, 2008.

On January 23, 2008 the Company entered into an underwriting agreement pursuant to which it sold 58,650,000 shares of its common stock for net proceeds following underwriting expenses of approximately $1.1 billion. This transaction settled on January 29, 2008.

During the year ended December 31, 2008, the Company raised $93.7 million by issuing 5.8 million shares, through the Direct Purchase and Dividend Reinvestment Program.

During the year ended December 31, 2008, 300,000 options were exercised under the Long-Term Stock Incentive Plan, or Incentive Plan, for an aggregate exercise price of $2.8 million.

During the year ended December 31, 2008, 634,000 shares of Series B Preferred Stock were converted into 1.3 million shares of common stock, respectively.

On August 3, 2006, the Company entered into an ATM Equity Offering(sm) Sales Agreement with Merrill Lynch & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, relating to the sale of shares of the Company’s common stock from time to time through Merrill Lynch. Sales of the shares, if any, are made by means of ordinary brokers' transaction on the New York Stock Exchange. During the year ended December 31, 2009, there were no shares issued pursuant to this program. During the year ended December 31, 2008, 588,000 shares of the Company’s common stock were issued pursuant to this program, totaling $11.5 million in net proceeds.

On August 3, 2006, the Company entered into an ATM Equity Sales Agreement with UBS Securities LLC, relating to the sale of shares of the Company’s common stock from time to time through UBS Securities. Sales of the shares, if any, will be made by means of ordinary brokers' transaction on the New York Stock Exchange. During the year ended December 31, 2009, there were no shares issued pursuant to this program. During the year ended December 31, 2008, 3.8 million shares of the Company’s common stock were issued pursuant to this program, totaling $60.3 million in net proceeds.

(B) Preferred Stock

At December 31, 2009 and 2008, the Company had issued and outstanding 7,412,500 shares of Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”), with a par value $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series A Preferred Stock must be paid a dividend at a rate of 7.875% per year on the $25.00 liquidation preference before the common stock is entitled to receive any dividends. The Series A Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not declared) exclusively at the Company's option commencing on April 5, 2009 (subject to the Company's right under limited circumstances to redeem the Series A Preferred Stock earlier in order to preserve its qualification as a REIT). The Series A Preferred Stock is senior to the Company's common stock and is on parity with the Series B Preferred Stock with respect to dividends and distributions, including distributions upon liquidation, dissolution or winding up. The Series A Preferred Stock generally does not have any voting rights, except if the Company fails to pay dividends on the Series A Preferred Stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series A Preferred Stock, together with the Series B Preferred Stock, will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series A Preferred Stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares

of Series A Preferred Stock and Series B Preferred Stock. Through December 31, 2009, the Company had declared and paid all required quarterly dividends on the Series A Preferred Stock.

At December 31, 2009 and 2008, the Company had issued and outstanding 2,604,614 and 4,496,525, respectively, shares of Series B Cumulative Convertible Preferred Stock ("Series B Preferred Stock"), with a par value $0.01 per share and a liquidation preference of $25.00 per share plus accrued and unpaid dividends (whether or not declared). The Series B Preferred Stock must be paid a dividend at a rate of 6% per year on the $25.00 liquidation preference before the common stock is entitled to receive any dividends.

The Series B Preferred Stock is not redeemable. The Series B Preferred Stock is convertible into shares of common stock at a conversion rate that adjusts from time to time upon the occurrence of certain events, including if the Company distributes to its common shareholders in any calendar quarter cash dividends in excess of $0.11 per share. Initially, the conversion rate was 1.7730 shares of common shares per $25 liquidation preference. At December 31, 2008, the conversion ratio was 2.0650 shares of common stock per $25 liquidation preference. Commencing April 5, 2011, the Company has the right in certain circumstances to convert each Series B Preferred Stock into a number of common shares based upon the then prevailing conversion rate. The Series B Preferred Stock is also convertible into common shares at the option of the Series B preferred shareholder at anytime at the then prevailing conversion rate. The Series B Preferred Stock is senior to the Company's common stock and is on parity with the Series A Preferred Stock with respect to dividends and distributions, including distributions upon liquidation, dissolution or winding up. The Series B Preferred Stock generally does not have any voting rights, except if the Company fails to pay dividends on the Series B Preferred Stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock, together with the Series A Preferred Stock, will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding shares of Series B Preferred Stock and Series A Preferred Stock. Through December 31, 2009, the Company had declared and paid all required quarterly dividends on the Series B Preferred Stock. During the year ended December 31, 2009, 1.4 million shares of Series B Preferred Stock were converted into 2.8 million shares of common stock. During the year ended December 31, 2008, 634,000 shares of Series B Preferred Stock were converted into 1.3 million shares of common stock.

(C) Distributions to Shareholders

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

During the year ended December 31, 2008, the Company declared dividends to common shareholders totaling $1.1 billion or $2.08 per share, of which $270.7 million were paid to shareholders on January 29, 2009. During the year ended December 31, 2008, the Company declared dividends to Series A Preferred shareholders totaling approximately $14.6 million or $1.97 per share, and Series B shareholders totaling approximately $6.6 million or $1.50 per share, which were paid to shareholders on December 31, 2008.

12. NET INCOME PER COMMON SHARE

The following table presents a reconciliation of the net income and shares used in calculating basic and diluted earnings per share for the years ended December 31, 2009, 2008, and 2007.

	For the years ended (amounts in thousands)		
	December 31, 2009	December 31, 2008	December 31, 2007
Net income attributable to controlling interest	$ 1,961,471	$ 346,180	$ 414,384

Less: Preferred stock dividends	18,501	21,177	21,493
Net income available to common shareholders, prior to adjustment for Series B dividends, if necessary	1,942,970	325,003	392,891
Add: Preferred Series B dividends, if Series B shares are dilutive	3,908	-	6,900
Net income available to common shareholders, as adjusted	$ 1,946,877	$ 325,003	$ 399,791
Weighted average shares of common stock outstanding-basic	546,973	507,025	297,488
Add: Effect of dilutive stock options and Series B Cumulative Convertible Preferred Stock	6,158	-	8,775
Weighted average shares of common stock outstanding-diluted	553,131	507,025	306,263

Options to purchase 2.8 million shares of common stock, were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2009. Options to purchase 5.2 million shares of common stock, were outstanding and considered anti-dilutive as their exercise price and option expense exceeded the average stock price for the year ended December 31, 2008. The Series B Cumulative Convertible Preferred Stock was anti-dilutive for the year ended December 31, 2008.

13. LONG-TERM STOCK INCENTIVE PLAN

The Company has adopted a long term stock incentive plan for executive officers, key employees and non-employee directors (the "Incentive Plan"). The Incentive Plan authorizes the Compensation Committee of the board of directors to grant awards, including non-qualified options as well as incentive stock options as defined under Section 422 of the Code. The Incentive Plan authorizes the granting of options or other awards for an aggregate of the greater of 500,000 shares or 9.5% of the diluted outstanding shares of the Company's common stock, up to ceiling of 8,932,921 shares. Stock options are issued at the current market price on the date of grant, subject to an immediate or four year vesting in four equal installments with a contractual term of 5 or 10 years. The grant date fair value is calculated using the Black-Scholes option valuation model.

	For the year ended December 31, 2009		December 31, 2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of year	5,180,164	$ 15.87	3,437,267	$ 15.23
Granted	2,535,750	13.26	2,043,700	16.02
Exercised	(423,161)	11.72	(293,243)	9.59
Forfeited	(10,000)	15.61	(2,550)	15.84
Expired	(11,250)	17.32	(5,010)	20.67
Options outstanding at the end of period	7,271,503	$ 15.20	5,180,164	$ 15.87
Options exercisable at the end of the period	1,869,678	$ 16.96	2,119,964	$ 16.36

The weighted average remaining contractual term was approximately 7.6 years for stock options outstanding and approximately 4.7 years for stock options exercisable as of December 31, 2009. As of December 31, 2009, there was approximately $13.1 million of total unrecognized compensation cost related to nonvested share-based compensation awards. That cost is expected to be recognized over a weighted average period of 3.0 years.

The weighted average remaining contractual term was approximately 7.6 years for stock options outstanding and approximately 5.6 years for stock options exercisable as of December 31, 2008. As of December 31, 2008, there was approximately $9.3 million of total unrecognized compensation cost related to nonvested share-based compensation awards. That cost is expected to be recognized over a weighted average period of 3.0 years.

14. INCOME TAXES

As a REIT, the Company is not subject to federal income tax on earnings distributed to its shareholders. Most states recognize REIT status as well. The Company has decided to distribute the majority of its income and retain a portion of the permanent difference between book and taxable income arising from Section 162(m) of the Code pertaining to employee remuneration.

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

During the year ended December 31, 2008, FIDAC recorded $4.0 million of income tax expense for income attributable to FIDAC, and the portion of earnings retained based on Code Section 162(m) limitations. During the year ended December 31, 2008, Merganser recorded $94,000 of income tax expense for income attributable to Merganser. During the year ended December 31, 2008, the Company recorded $21.9 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations. The effective tax rate was 53% for the year ended December 31, 2008.

During the year ended December 31, 2007, the Company did not record income tax expense for income attributable to FIDAC, its taxable REIT subsidiary, and the portion of earnings retained based on Code Section 162(m) limitations. During the year ended December 31, 2007, the Company recorded $9.0 million of income tax expense for a portion of earnings retained based on Section 162(m) limitations. The effective tax rate was 51% for the year ended December 31, 2007.

The Company's effective tax rate was 52%, 53%, and 51%, for the years ended December 31, 2009, 2008, and 2007, respectively. These rates were calculated based on the Companies estimated taxable income after dividends paid deduction and differ from the federal statutory rate as a result of state and local taxes and permanent difference pertaining to employee remuneration as discussed above.

The statutory combined federal, state, and city corporate tax rate is 45%. This amount is applied to the amount of estimated REIT taxable income retained (if any, and only up to 10% of ordinary income as all capital gain income is distributed) and to taxable income earned at the taxable subsidiaries. Thus, as a REIT, the Company's effective tax rate is significantly less as it is allowed to deduct dividend distributions.

15. LEASE COMMITMENTS AND CONTINGENCIES

The Company has a non-cancelable lease for office space, which commenced in May 2002 and was to expire in December 2009. The Company amended this lease to increase the amount of space it leases and extended it to December 2015. Merganser has a non-cancelable lease for office space, which commenced on May 2003 and expires in May 2014. The Company's aggregate future minimum lease payments total $10.1 million. The following table details the lease payments, net of sub-lease receipts.

Year Ending December	Lease Commitment	Sublease Income	Net Amount
		(dollars in thousands)	
2010	$ 2,049	$ 56	$ 1,993
2011	2,120	-	2,120
2012	2,130	-	2,130
2013	2,170	-	2,170
Thereafter	1,677	-	1,677
	$ 10,146	$ 56	$ 10,090

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial statements and therefore no accrual is required as of December 31, 2009 and 2008.

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

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16. INTEREST RATE RISK

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Investment Securities and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Investment Securities pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels. Liquidation of collateral at losses could have an adverse accounting impact, as discussed in Note 1.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. The Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in the portfolio of Investment Securities by entering into interest rate agreements such as interest rate caps and interest rate swaps. As of December 31, 2009 and 2008, the Company entered into interest rate swaps to pay a fixed rate and receive a floating rate of interest, with a total notional amount of $21.5 billion and $17.6 billion, respectively.

Changes in interest rates may also have an effect on the rate of mortgage principal prepayments and, as a result, prepayments on Mortgage-Backed Securities. The Company will seek to mitigate the effect of changes in the mortgage principal repayment rate by balancing assets purchased at a premium with assets purchased at a discount. To date, the aggregate premium exceeds the aggregate discount on the Mortgage-Backed Securities. As a result, prepayments, which result in the expensing of unamortized premium, will reduce net income compared to what net income would be absent such prepayments.

17. RELATED PARTY TRANSACTIONS

At December 31, 2009 and 2008, the Company had lent $259.0 million and $562.1 million, respectively, to Chimera in a reverse repurchase agreement that is callable weekly. This amount is included in the principal amount which approximates fair value in the Company's Statement of Financial Condition. The interest rate at December 31, 2009 and December 31, 2008 was at the rate of 1.72% and 1.43%, respectively.

At December 31, 2009, the Company had $8.8 billion of repurchase agreements outstanding with RCap. The weighted average interest rate is 0.35% and the terms are one to two months. These agreements are collateralized by agency mortgage backed securities, with an estimated market value of $9.2 billion. For the year ended December 31, 2009, RCap had $18.0 million in interest income from the Company.

On April 15, 2009, the Company purchased approximately 25.0 million shares of Chimera common stock at a price of $3.00 for aggregate proceeds of approximately $74.9 million. On May 27, 2009, the Company purchased approximately 4.7 million shares of Chimera common stock at a price of $3.22 for aggregate proceeds of approximately $15.2 million. On October 29, 2008, the Company purchased approximately 11.7 million shares of Chimera common stock at a price of $2.25 per share for aggregate proceeds of approximately $26.3 million. Chimera is managed by FIDAC, and the Company owns approximately 6.8% of Chimera's common stock.

18. SUBSEQUENT EVENTS

On February 9, 2010, the Company issued $500.0 million in aggregate principal amount of its 4% convertible senior notes due 2015. Interest on the notes will be paid semi-annually at a rate of 4% per year and the notes will mature on February 15, 2015 unless earlier repurchased or converted. The notes will be convertible into shares of Annaly's

common stock. The notes will be convertible at an initial conversion rate of 46.6070 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $21.456 per share of common stock, subject to adjustment in certain circumstances.

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19. SUMMARIZED QUARTERLY RESULTS (UNAUDITED)

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

	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
	(dollars in thousands, expect per share data)			
Interest income				
Investments	$716,015	$710,401	$744,523	$751,560
Securities loaned	-	-	-	103
Total interest income	716,015	710,401	744,523	751,663
Interest expense				
Investments	378,625	322,596	307,777	286,672
Securities borrowed	-	-	-	92
Total interest expense	378,625	322,596	307,777	286,764
Net interest income	337,390	387,805	436,746	464,899
Other income (loss)				
Investment advisory and service fees	7,761	11,736	14,620	14,835
Gain on sale of Mortgage-Backed Securities	5,023	2,364	591	91,150
Dividend income from available-for-sale equity securities	918	3,221	5,398	7,647
Loss from Prime Broker	-	-	-	(13,613)
Unrealized gain (loss) on interest rate swaps	35,545	230,207	(128,687)	212,456
Total other income (loss)	49,247	247,528	(108,078)	312,475
Expenses				
Distribution fees	428	432	478	418
General and administrative expenses	29,882	30,046	33,344	36,880
Total expenses	30,310	30,478	33,822	37,298
Income before loss on equity method investments and income taxes	356,327	604,855	294,846	740,076
Loss on equity method investment	-	-	-	252
Income taxes	6,434	7,801	9,657	10,489
Net income	349,893	597,054	285,189	729,335
Dividends on preferred stock	4,626	4,625	4,625	4,625
Net income available to common shareholders	$345,267	$592,429	$280,564	$724,710
Net income available per share to common shareholders:				

Basic	$0.64	$1.09	$0.51	$1.31
Diluted	$0.63	$1.08	$0.51	$1.30
Weighted average number of common shares outstanding:				
Basic	542,903,110	544,344,844	547,611,480	552,917,499
Diluted	548,551,328	550,099,709	553,376,285	559,332,320

The following is a presentation of the quarterly results of operations for the year ended December 31, 2008.

	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(dollars in thousands, except per share data)			
Interest income	$791,128	$773,359	$810,659	$740,282
Interest expense	537,606	442,251	458,250	450,805
Net interest income	253,522	331,108	352,409	289,477
Other income:				
Investment advisory and service fees	6,598	6,406	7,663	7,224
Gain (loss) on sale of Investment Securities	9,417	2,830	(1,066)	(468)
Income (loss) from trading securities	1,854	2,180	7,671	(2,010)
Dividend income from available-for-sale equity securities	941	580	580	612
Loss on other-than-temporarily impaired securities	-	-	(31,834)	-
Unrealized loss on interest rate swaps	-	-	-	(768,268)
Total other income (loss)	18,810	11,996	(16,986)	(762,910)
Expenses:				
Distribution fees	633	370	299	287
General and administrative expenses	23,995	27,215	25,455	26,957
Total expenses	24,628	27,585	25,754	27,244
Income (loss) before income taxes	247,704	315,519	309,669	(500,677)
Income taxes	4,610	7,527	7,538	6,302
Net income (loss)	243,094	307,992	302,131	(506,979)
Noncontrolling interest	58	-	-	-
Net income (loss) attributable to controlling interest	243,036	307,992	302,131	(506,979)
Dividends on preferred stock	5,373	5,334	5,335	5,135
Net income (loss) available (related) to common shareholders	$237,663	$302,658	$296,796	$(512,114)
Weighted average number of basic common shares outstanding	443,812,432	503,758,079	538,706,131	541,099,147
Weighted average number of diluted common shares outstanding	452,967,457	512,678,975	547,882,488	541,099,147
Net income available to common shareholders per average common share:				
Basic	$0.54	$0.60	$0.55	$(0.95)
Diluted	$0.53	$0.59	$0.54	$(0.95)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of New York, State of New York.

ANNALY CAPITAL MANAGEMENT, INC.

Date: February 24, 2010

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

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

Signature	Title	Date
/s/ KEVIN P. BRADY Kevin P. Brady	Director	February 24, 2010
/s/ KATHRYN F. FAGAN Kathryn F. Fagan	Chief Financial Officer and Treasurer (principal financial and accounting officer)	February 24, 2010
/s/ MICHAEL A.J. FARRELL Michael A. J. Farrell	Chairman of the Board, Chief Executive Officer, President and Director (principal executive officer)	February 24, 2010
/s/ JONATHAN D. GREEN Jonathan D. Green	Director	February 24, 2010
/s/ MICHAEL E. HAYLON Michael E. Haylon	Director	February 24, 2010
/s/ JOHN A. LAMBIASE John A. Lambiase	Director	February 24, 2010
/s/ E. WAYNE NORDBERG E. Wayne Nordberg	Director	February 24, 2010
/s/ DONNELL A. SEGALAS Donnell A. Segalas	Director	February 24, 2010
/s/ WELLINGTON DENAHAN-NORRIS Wellington Denahan-Norris	Vice Chairman of the Board, Chief Investment Officer, Chief Operating Officer and Director	February 24, 2010