ANNALY CAPITAL MANAGEMENT INC
Form 424B5
February 10, 2010

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-164783

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee(2)
4.00% Convertible Senior Notes due 2015	$575,000,000	100%	$575,000,000	$40,997.50

(1) Includes principal amount of notes which may be purchased by the underwriter to cover over-allotments, if any.

(2) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended (or the Securities Act).

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED FEBRUARY 8, 2010

$500,000,000

Annaly Capital Management, Inc.

4.00% Convertible Senior Notes Due 2015

We are offering $500,000,000 aggregate principal amount of our 4.00% Convertible Notes due 2015. The notes will bear interest at a rate of 4.00% per year. Interest on the notes will be payable semiannually in arrears on February 15 and August 15 of each year, beginning on August 15, 2010. The notes will mature on February 15, 2015, unless earlier converted or repurchased by us.

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

The initial conversion rate will be 46.6070 shares of our common stock per $1,000 principal amount of notes, equivalent to a conversion price of $21.456 per share of common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for accrued interest.

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

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

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

Our common stock is listed on the New York Stock Exchange under the symbol “NLY.” The last reported sale price of our common stock on the New York Stock Exchange on February 8, 2010 was $17.88 per share.

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

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

	Price to Public(1)	**Underwriting Discounts and Commissions**	**Proceeds to Annaly(1)**
Per Note	98.00%	1.00%	97.00%
Total	$490,000,000	$5,000,000	$485,000,000

(1) Plus accrued interest, if any, from February 12, 2010

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company and its participants, including Clearstream and the Euroclear system, on or about February 12, 2010.

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

Credit Suisse

The date of this prospectus supplement is February 9, 2010.

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Prospectus Supplement

Prospectus

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

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement, and certain statements contained in our future filings with the Securities and Exchange Commission (or the SEC or the Commission), in our press releases or in our other public or stockholder communications may not be based on historical facts and are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, anticipate, continue, or simila or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to:

changes in interest rates;

changes in the yield curve;

changes in prepayment rates;

the availability of mortgage-backed securities for purchase;

the availability of financing and, if available, the terms of any financing;

changes in the market value of our assets;

changes in business conditions and the general economy;

our ability to consummate any contemplated investment opportunities;

risks associated with the investment advisory business of our wholly-owned subsidiaries, including:

- the removal by clients of assets managed;
- their regulatory requirements; and
- competition in the investment advisory business;

risks associated with the broker-dealer business of our subsidiary;

changes in government regulations affecting our business; and

our ability to maintain our qualification as a REIT for federal income tax purposes.

No forward-looking statements can be guaranteed and actual future results may vary materially and we caution you not to place undue reliance on these forward-looking statements. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the risks set forth under the caption Risk Factors in this prospectus supplement, in the accompanying prospectus, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference in the accompanying prospectus. We do not undertake, and specifically disclaim any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

PROSPECTUS SUPPLEMENT SUMMARY

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

The Company

We own, manage, and finance a portfolio of investment securities, including mortgage pass-through certificates, collateralized mortgage obligations (or CMOs), agency callable debentures, and other securities representing interests in or obligations backed by pools of mortgage loans. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our investment securities and the cost of borrowings to finance our acquisition of investment securities, and from dividends we receive from our subsidiaries. We are a Maryland corporation that commenced operations on February 18, 1997. We are self-advised and self-managed.

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

Assets

Under our capital investment policy, at least 75% of our total assets must be comprised of high-quality mortgage-backed securities and short-term investments. High quality securities means securities that (1) are rated within one of the two highest rating categories by at least one of the nationally recognized rating agencies, (2) are unrated but are guaranteed by the United States government or an agency of the United States government, or (3) are unrated but we determine them to be of comparable quality to rated high-quality mortgage-backed securities.

The remainder of our assets, comprising not more than 25% of our total assets, may consist of other qualified REIT real estate assets that are unrated or rated less than high quality, but which are at least investment grade (rated BBB or better by Standard & Poor s Rating Services, a division of The McGraw-Hill Companies, Inc. (or S&P) or the equivalent by another nationally recognized rating agency) or, if not rated, we determine them to be of comparable credit quality to an investment which is rated BBB or better. In addition, we may directly or indirectly invest part of this remaining 25% of our assets in other types of securities, including without limitation, unrated debt, equity or derivative securities, to the extent consistent with our REIT qualification requirements.

We may acquire mortgage-backed securities backed by single-family residential mortgage loans as well as securities backed by loans on multi-family, commercial or other real estate-related properties. To date, all of the mortgage-backed securities that we have acquired have been backed by single-family residential mortgage loans.

To date, substantially all of the mortgage-backed securities that we have acquired have been agency mortgage-backed securities that, although not rated, carry an implied AAA rating. Agency mortgage-backed securities are mortgage-backed securities for which a government agency or federally chartered corporation, such as the Federal Home Loan Mortgage Corporation (or FHLMC or Freddie Mac), the Federal National Mortgage Association (or FNMA or Fannie Mae), or the Government National Mortgage Association (or GNMA or Ginnie Mae), guarantees payments of principal or interest on the securities. Agency mortgage-backed securities consist of agency pass-through certificates and CMOs issued or guaranteed by an agency. Pass-through certificates provide for a pass-through of the monthly interest and principal payments made by the borrowers on the underlying mortgage loans. CMOs divide a pool of mortgage loans into multiple tranches with different principal and interest payment characteristics.

At September 30, 2009, approximately 24% of our investment securities were adjustable-rate pass-through certificates and approximately 71% of our investment securities were fixed-rate pass-through certificates or CMOs, and approximately 5% of our investment securities were adjustable rate CMOs (or CMO floaters). Our adjustable-rate pass-through certificates are backed by adjustable-rate mortgage loans and have coupon rates which adjust over time, subject to interest rate caps and lag periods, in conjunction with changes in short-term interest rates. Our fixed-rate pass-through certificates are backed by fixed-rate mortgage loans and have coupon rates which do not adjust over time. CMO floaters are tranches of mortgage-backed securities where the interest rate adjusts in conjunction with changes in short-term interest rates. CMO floaters may be backed by fixed-rate mortgage loans or, less often, by adjustable-rate mortgage loans. In this prospectus supplement, except where the context indicates otherwise, we use the term adjustable-rate securities or adjustable-rate investment securities to refer to adjustable-rate pass-through certificates, CMO floaters, and agency debentures. At September 30, 2009, the weighted average yield on our portfolio of earning assets was 4.55% and the weighted average term to next rate adjustment on adjustable rate securities was 33 months.

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

Borrowings

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

We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from time to time depending upon market conditions and other factors that our management deems relevant. For purposes of calculating this ratio, our equity is equal to the value of our investment portfolio on a mark-to-market basis, less the book value of our obligations under repurchase agreements and other collateralized borrowings. At September 30, 2009, our ratio of debt-to-equity was 6.0:1.

Hedging

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

Compliance with REIT and Investment Company Requirements

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

Investment Advisory Services

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

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

Our Business Strategy

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

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

to acquire mortgage-backed securities that we believe:

- we have the necessary expertise to evaluate and manage;
- we can readily finance;

- are consistent with our balance sheet guidelines and risk management objectives; and
- provide attractive investment returns in a range of scenarios;

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

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

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

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

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

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

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

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

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

Recent Developments

Dividend

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

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

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

Earnings

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

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

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

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

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

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

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

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

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

Corporate Information

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

SUMMARY FINANCIAL INFORMATION

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

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

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

Income (loss) before noncontrolling interest	1,232,136	853,217	346,238	415,034	94,140	(9,247)	248,592
Noncontrolling interest		58	58	650	324		
Net income (loss)	1,232,136	853,159	346,180	414,384	93,816	(9,247)	248,592
Dividends on preferred stock	13,876	16,042	21,177	21,493	19,557	14,593	7,745
Net income available (loss related) to common shareholders	$ 1,218,260	$ 837,117	$ 325,003	$ 392,891	$ 74,259	($ 23,840)	$ 240,847
Basic net income (loss) per average common share	$ 2.24	$ 1.69	$ 0.64	$ 1.32	$ 0.44	($ 0.19)	$ 2.04
Diluted net income (loss) per average common share	$ 2.22	$ 1.67	$ 0.64	$ 1.31	$ 0.44	($ 0.19)	$ 2.03
Dividends declared per common share	$ 1.79	$ 1.58	$ 2.08	$ 1.04	$ 0.57	$ 1.04	$ 1.98
Dividends declared per preferred Series A share	$ 1.4776	$ 1.4776	$ 1.97	$ 1.97	$ 1.97	$ 1.97	$ 1.45
Dividends declared per preferred Series B share	$ 1.125	$ 1.125	$ 1.50	$ 1.50	$ 1.08		

	As of or for the nine months ended September 30,		As of or for the years ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(dollars in thousands, except per share amounts)						
Balance Sheet Data							
Mortgage-Backed Securities, at fair value	$ 66,837,761	$ 54,840,928	$ 55,046,995	$ 52,879,528	$ 30,167,509	$ 15,929,864	$ 19,038,386
Agency Debentures, at fair value	625,615	618,352	598,945	253,915	49,500		390,509
Total assets	70,162,678	59,965,582	57,597,615	53,903,514	30,715,980	16,063,422	19,560,299
Repurchase agreements	55,842,840	51,075,758	46,674,885	46,046,560	27,514,020	13,576,301	16,707,879
Total liabilities	60,792,420	52,821,154	50,318,301	48,585,536	28,056,149	14,559,399	17,859,829
Stockholders equity	9,307,144	7,035,471	7,183,272	5,204,938	2,543,041	1,504,023	1,700,470
Number of common shares outstanding	552,778,531	540,189,101	541,475,366	401,822,703	205,345,591	123,684,931	121,263,000
Other Data							
Average total assets	$ 64,186,201	$ 58,776,574	$ 58,540,508	$ 41,834,831	$ 23,130,057	$ 18,724,075	$ 17,293,174
Average investment securities	57,362,827	56,670,470	55,962,519	40,800,148	23,029,195	18,543,749	16,399,184
Average borrowings	51,175,514	51,166,524	50,270,226	37,967,215	21,399,130	17,408,828	15,483,118
Average equity	8,400,900	6,529,803	6,679,431	3,710,821	2,006,206	1,614,743	1,550,076
Yield on average interest earning assets	5.05%	5.59%	5.57%	5.77%	5.31%	3.80%	3.25%
Cost of funds on average interest bearing liabilities	2.63%	3.75%	3.76%	5.07%	4.93%	3.27%	1.74%
Interest rate spread	2.42%	1.84%	1.81%	0.70%	0.38%	0.53%	1.51%
Financial Ratios							
Net interest margin (net interest income/average total assets)	2.41%	2.13%	2.10%	1.03%	0.72%	0.73%	1.52%
G&A expense as a percentage of average total assets	0.19%	0.17%	0.18%	0.15%	0.17%	0.14%	0.14%
G&A expense as a percentage of average equity	1.48%	1.57%	1.55%	1.69%	2.00%	1.63%	1.55%
Return on average total assets	2.56%	1.94%	0.59%	0.99%	0.41%	(0.05)%	1.44%
Return on average equity	19.56%	17.42%	5.18%	11.17%	4.68%	(0.57)%	16.04%

THE OFFERING

Issuer	Annaly Capital Management, Inc.
Notes	$500.0 million aggregate principal amount ($575.0 million if the underwriter exercises its over-allotment option in full) of 4.00% Convertible Senior Notes.
Maturity	The notes will mature on February 15, 2015, unless previously repurchased or converted in accordance with their terms prior to such date.
Interest	4.00% per annum. Interest will accrue from February 12, 2010, and will be payable semi-annually in arrears on February 15 and August 15 each year commencing on August 15, 2010.
Covenants	The notes do not contain any restrictive covenants and we are not restricted from paying dividends or issuing or repurchasing our other securities.
Conversion Rights	Noteholders may convert each of their notes at the applicable conversion rate at any time prior to the close of business on the second business day immediately preceding the stated maturity date (excluding such maturity date). The initial conversion rate for the notes is 46.6070 shares of our common stock per $1,000 principal amount of notes, equivalent to a conversion price of $21.456 per share, subject to adjustment upon the occurrence of certain events as described in this prospectus supplement. If noteholders elect to convert notes in connection with certain corporate transactions that occur prior to maturity of the notes, the noteholders may be entitled to receive additional shares of our common stock based on a premium over the principal amount of the notes being converted in addition to the shares such noteholders are otherwise entitled to receive upon conversion. See Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Certain Events. Noteholders will not receive any cash payment or additional shares representing accrued and unpaid interest upon conversion of a note, except in limited circumstances. Instead, interest will be deemed paid by the delivery of shares of our common stock to noteholders upon conversion.
Mandatory Conversion	At any time, we may, at our option, cause the notes, in whole or in part, to be automatically converted into shares of our common stock. We may exercise this right only if the Daily VWAP (as defined Description of Notes Conversion Rights Settlement of Change of Control and Coupon Make-Whole) of our common stock exceeds 130% of the applicable conversion price for at least 10 trading days in a period of 15 consecutive trading days. If we require the notes to be converted, noteholders will be

	entitled to receive a coupon make-whole equal to the dollar amount of the remaining scheduled payments of interest that would have been made on the notes to be converted had such notes remained outstanding from the conversion date until maturity. Any coupon make-whole is payable in additional shares of our common stock. See Description of Notes Conversion Rights Mandatory Conversion
Fundamental Change	If we undergo a fundamental change (as defined under Description of Notes Fundamental Change Permits Noteholders to Require Us to Purchase Notes), noteholders may require us to repurchase all or a portion of their notes at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest up to, but excluding, the repurchase date. We will pay for all notes so repurchased with shares of our common stock using a price per share equal to the average daily VWAP of our common stock for the 20 consecutive trading days ending on the trading day immediately prior to the occurrence of the fundamental change.
Events of Default	If there is an event of default under the notes, the principal amount of the notes, plus accrued and unpaid interest, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.
Ranking	The notes will be our general unsecured obligations and will rank senior in right of payment to any of our future indebtedness that is expressly subordinated in right of payment to the notes and equally in right of payment with all our existing and future indebtedness and liabilities that are not so subordinated. However, the notes will be effectively subordinated to any of our secured indebtedness, which includes our repurchase agreements, to the extent of the value of the assets securing such indebtedness, and will be effectively subordinated to all liabilities of our subsidiaries. As of September 30, 2009, we had outstanding $55.8 billion of repurchase agreements with weighted average borrowing rates of 2.15% (after giving effect to our interest rate swaps), and weighted average remaining maturities of 165 days, with investment securities with an estimated fair value of $60.1 billion pledged as collateral.
Restrictions on Ownership; Limitation on Shares Issuable Upon Conversion	Our charter contains restrictions on the number of our shares that a person may own that are intended to assist us in maintaining the qualification as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. Among other things, our charter provides that, subject to exceptions, no person may beneficially or constructively own shares in excess of 9.8% in value or number, whichever is more restrictive, of our outstanding shares, excluding shares not treated as outstanding for U.S.

	federal income tax purposes. In addition, our charter, subject to exceptions, prohibits any person from beneficially owning our shares to the extent that such ownership of shares would result in failing to qualify as a REIT. For more information about these restrictions, see Restrictions on Ownership and Transfer in the accompanying prospectus.
	The indenture will, in general, provide that, notwithstanding any other provision of the indenture or the notes, no noteholder shall be entitled to convert such notes into our shares of common stock to the extent that the receipt of such common stock would violate any of the limitations on ownership of our shares contained in our charter. See Description of Notes Ownership Limit.
Use of Proceeds	The net proceeds from the sale of the notes will be approximately $484.8 million (or approximately $557.5 million if the underwriter s overallotment option is exercised in full) after deducting the underwriter s discount and estimated offering expenses. We intend to use substantially all of the net proceeds to purchase mortgage-backed securities, with the remaining proceeds to be used for general corporate purposes, which may include additional investments. See Use of Proceeds.
Book-Entry Form	The notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Investors may elect to hold interests in the notes through DTC, Clearstream Banking Luxembourg S.A. or Euroclear Bank S.A./N.A. if they are participants of such systems, or indirectly through organizations which are participants in such systems. Beneficial interests in any of the notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee, and any such interests may not be exchanged for certificated securities, except in limited circumstances.
Absence of a Public Market for the Notes	The notes are new securities, and there is currently no established market for the notes. Accordingly, we cannot assure you as to the development or liquidity of any market for the notes. The underwriter has advised us that it currently intends to make a market in the notes. However, it is not obligated to do so, and it may discontinue any market making with respect to the notes without notice.
	We do not intend to apply for a listing of the notes on any securities exchange.
Material U.S. Federal Income Tax Considerations	You should read carefully the section Additional Material U.S. Federal Income Tax Considerations in this prospectus supplement and the section Material Federal Income Tax Considerations in the prospectus, as well as the tax risk factors that are included and incorporated or deemed incorporated by reference herein, for certain U.S.

	federal income tax considerations relevant to an investment in the notes and the common stock into which the notes are convertible.
New York Stock Exchange Symbol for Our Common Stock	Our shares of common stock are listed on the NYSE under the symbol NLY.
Trustee, Paying Agent and Conversion Agent	Wells Fargo Bank, National Association
Risk Factors	Investing in the notes and our shares of common stock into which the notes are convertible involves risks. You should read carefully the Risk Factors beginning on page S-12 of this prospectus supplement, as well as the risk factors that are described in the documents incorporated or deemed incorporated by reference in this prospectus supplement, for certain considerations relevant to an investment in the notes and the common stock into which the notes are convertible.

RISK FACTORS

Investing in the notes and our shares of common stock into which the notes are convertible involves risks. You should carefully review the following risk factors and the risks discussed under the caption Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference in this prospectus supplement, or any similar caption in the documents that we subsequently file with the SEC that are deemed to be incorporated by reference in this prospectus supplement. You should also carefully review the other risks and uncertainties discussed in this prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference in this prospectus supplement. The risks and uncertainties discussed below and in the documents referred to above, as well as other matters discussed in this prospectus supplement and in those documents, could materially and adversely affect our business, financial condition, liquidity and results of operations and the market price of the notes and the common stock into which the notes, in certain circumstances, are convertible. Moreover, the risks and uncertainties discussed below and in the foregoing documents are not the only risks and uncertainties that we face, and our business, financial condition, liquidity and results of operations and the market price of the notes and our shares of common stock could be materially adversely affected by other matters that are not known to us or that we currently do not consider to be material risks to our business.

Risks Related to the Notes

The effective subordination of the notes may limit our ability to satisfy our obligations under the notes.

The notes will be our senior unsecured obligations and will rank equally with all of our other indebtedness that is not expressly subordinated to the notes. However, the notes will be effectively subordinated to all of our secured indebtedness, which includes our repurchase agreements, interest rate swaps, and other financing arrangements, to the extent of the value of the collateral securing such indebtedness. As of September 30, 2009, our total secured indebtedness was approximately $55.8 billion, with investment securities pledged as collateral under these repurchase agreements and interest rate swaps had an estimated fair value of $60.1 billion pledged as collateral. The indenture governing the notes will not prohibit us or our subsidiaries from incurring additional secured indebtedness in the future. Consequently, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, the holders of any secured indebtedness will be entitled to proceed directly against the collateral that secures such secured indebtedness. Therefore, such collateral will not be available for satisfaction of any amounts owed under our unsecured indebtedness, including the notes, until such secured indebtedness is satisfied in full.

The notes also will be effectively subordinated to all liabilities and preferred equity of all of our subsidiaries. In the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to any such subsidiary, we are an equity owner of such subsidiary, and therefore holders of our debt, including the notes, will be subject to the prior claims of such subsidiary s creditors, including trade creditors, and preferred equity holders. The indenture governing the notes will not prohibit us or our subsidiaries from incurring additional indebtedness or issuing preferred equity in the future. In addition, certain debt and security agreements entered into by our subsidiaries may contain various restrictions, including restrictions on payments by our subsidiaries to us and the transfer by our subsidiaries of assets pledged as collateral.

The notes do not contain restrictive financial covenants and we may incur substantially more debt or take other actions which may affect our ability to satisfy our obligations under the notes.

The notes are not subject to any financial or restrictive covenants and we are not restricted from paying dividends or issuing or repurchasing our other securities nor are we required to achieve or maintain any minimum financial results relating to our financial position or results of operations.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes could have the effect of diminishing our ability to make payments on the notes when due, and require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of cash flow to fund our operations, working capital and capital expenditures.

There is currently no trading market for the notes, and an active liquid trading market for the notes may not develop or, if it develops, be maintained.

The notes are a new issue of securities, and there is currently no existing trading market for the notes. We do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes on any quotation system. Although the underwriter has advised us that it intends to make a market in the notes, it is not obligated to do so and may discontinue any market-making at any time without notice. Accordingly, an active public trading market may not develop for the notes and, even if one develops, may not be maintained. If an active public trading market for the notes does not develop or is not maintained, the market price and liquidity of the notes is likely to be adversely affected and noteholders may not be able to sell their notes at desired times and prices or at all. If any of the notes are traded after their purchase, they may trade at a discount from their purchase price.

The liquidity of the trading market, if any, and future trading prices of the notes will depend on many factors, including, among other things, the market price of our shares of common stock, prevailing interest rates, our financial condition, results of operations, business, prospects and credit quality relative to our competitors, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in any of these factors, some of which are beyond our control and others of which would not affect debt that is not convertible or exchangeable into capital stock. Historically, the market for convertible or exchangeable debt has been volatile. Market volatility could materially and adversely affect the notes, regardless of our financial condition, results of operations, business, prospects or credit quality.

The notes have a number of features that may adversely affect the value and trading prices of the notes, including the lack of financial covenants. Furthermore, volatile or depressed market prices for our shares of common stock are likely to have a similar effect on the trading price of the notes. It is impossible to assure noteholders that the closing sale price of our shares of common stock in the future will not have an adverse effect on the trading prices of the notes.

Noteholders will not be entitled to any rights with respect to our shares of common stock, but will be subject to all changes made with respect to our shares of common stock.

Noteholders as such will not be entitled to any rights with respect to our shares of common stock (including, without limitation, voting rights and rights to receive any distributions on our shares of common stock), but noteholders will be subject to all changes affecting our shares of common stock. Noteholders will be entitled to the rights afforded our shares of common stock only if and when our shares of common stock are delivered to them upon the conversion of their notes. For example, in the event that an amendment is proposed to our charter requiring approval of holders of shares of common stock and the record date for determining the holders of shares of common stock of record entitled to vote on the amendment occurs prior to a noteholder s receipt of our shares of common stock upon the conversion of notes, such noteholder will not be entitled to vote on the amendment, although such noteholder will nevertheless be subject to any changes affecting our shares of common stock.

The premium payable on notes converted in connection with certain fundamental changes or a mandatory conversion may not adequately compensate you for any lost value of your notes as a result of such transaction.

Noteholders who convert their notes in connection with certain fundamental changes or whose notes are converted in connection with our decision to mandatorily convert the notes will be entitled to receive a premium in the form of change of control make-whole or the coupon make-whole, as applicable. See Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Certain Events and Description of Notes Conversion Rights Mandatory Conversion. The change of control make-whole or coupon make-whole will be determined based on the date on which the fundamental change becomes effective or the mandatory conversion date, as applicable, and the conversion value of the notes being converted in the case of a fundamental change and the principal amount of notes being converted in the case of a mandatory conversion, as described below under Description of Notes Conversion Rights Adjustments to Shares Delivered Upon Conversion Upon Certain Fundamental Changes and Description of Notes Conversion Rights Mandatory Conversion. Any premium you may receive in connection with these events may not adequately compensate you for any lost value of your notes as a result of such transaction. In addition, with respect to a fundamental change for which a noteholder is entitled to receive the change of control make-whole, if the conversion value is greater than 600.00% or less than 83.33%, no change of control make-whole will be provided to noteholders. Our obligation to provide a premium could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness and equitable remedies.

In addition, our obligation to provide noteholders with the change of control make-whole or the coupon make-whole will be satisfied in the form of additional shares of our common stock. The change of control make-whole that a noteholder will receive upon conversion may be adversely affected by decreases in the price of our common stock.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for certain events, including, but not limited to, certain distributions on our shares of common stock, the issuance of certain rights or warrants to holders of our shares of common stock, subdivisions or combinations of our shares of common stock, certain distributions of assets, indebtedness, capital stock or cash to holders of our shares of common stock and certain tender or exchange offers as described under Description of Notes Conversion Rate Adjustments. The conversion rate will not be adjusted for other events, such as an issuance of our shares of common stock for cash, that may adversely affect the trading price of the notes and our shares of common stock. There can be no assurance that an event will not occur that is adverse to the interests of the noteholders and their value but does not result in an adjustment to the conversion rate.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the notes.

Upon the occurrence of a fundamental change, you will have the right to require us to repurchase the notes. However, the fundamental change provisions will not afford protection to noteholders in the event of certain transactions. For example, any leveraged recapitalization, refinancing, restructuring, or acquisition initiated by us will generally not constitute a fundamental change requiring us to repurchase the notes. In the event of any such transaction, noteholders will not have the right to require us to repurchase the notes, even though any of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the noteholders.

We may not have the shares necessary to repurchase the notes following certain fundamental changes.

Noteholders have the right to require us to repurchase the notes in exchange for share of our common stock upon the occurrence of certain fundamental changes. Any of our future debt agreements or securities may contain similar provisions. We may not have a sufficient number of authorized shares to make the required repurchase of notes at the applicable time and, in such circumstances, may not be able to amend our Charter to increase the number of authorized shares in time to satisfy this obligation. However, our failure to make the required repurchase would constitute an event of default under the indenture governing the notes which, in turn, could constitute an event of default under other debt agreements or securities, thereby resulting in their acceleration and required prepayment and further restrict our ability to make such payments and repurchases. In addition, we may not be able to deliver to you registered shares of our common stock in connection with such repurchase of the notes, which means we may not be able to make the required repurchase unless an exemption from registration is available. If we purchase the notes with unregistered shares, the shares you receive will be subject to transfer restrictions and will not be listed for trading on the NYSE which will further reduce the liquidity of the shares which may have an adverse effect on the price of your shares.

You may receive less proceeds than expected upon our purchase of the notes in connection with a fundamental change.

Noteholders may require us to purchase their notes upon a fundamental change in exchange for shares of our common stock as described under Description of Notes Fundamental Change Permits Noteholders to Require Us to Purchase Notes. The issuance and sale of such shares of our common stock could adversely impact the market price of our common stock. If the market price of our common stock on the fundamental change purchase date is below the average of the Daily VWAP of our common stock for the 20 consecutive trading days ending on the trading day immediately prior to the occurrence of the fundamental change, the value of any shares of our common stock that you will receive upon repurchase will be less than the value used to determine the number of shares you will receive.

We will have the right, at any time, to cause the notes to be converted into shares of our common stock.

At any time, we may at our option cause the notes, in whole or in part, to be automatically converted into shares of our common stock, but only if the Daily VWAP of our shares of common stock for 10 or more trading days in a period of 15 consecutive trading days ending on the trading day prior to the date we provide notice of our election to convert your notes exceeds 130% of the conversion price in effect on each such trading day. If we exercise our option to mandatorily convert your notes, you will no longer own notes and for all purposes you will be treated as an owner of shares of our common stock, including if we were to become insolvent or enter bankruptcy or liquidation.

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

As of February 2, 2010, 553,155,945 shares of our common stock were outstanding. If we issue a significant number of shares of common stock or securities convertible into common stock in a short period of time, there could be a dilution of the existing common stock and a decrease in the market price of the common stock.

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

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

regulatory changes affecting our industry generally or our business;

general market and economic conditions; and

future sales of our shares of common stock or securities convertible into, or exchangeable or exercisable for, our shares of common stock.

Because the notes are convertible into shares of our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the notes. Noteholders who receive our shares of common stock upon conversion of their notes will be subject to the risk of volatile market prices and wide fluctuations in the market price of our shares of common stock. In addition, many of the factors listed above are beyond our control. These factors may cause the market price of our shares of common stock to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure you that the market prices of our shares of common stock will not fall in the future.

The issuance of common stock upon conversion of the notes or the exercise of the repurchase right will dilute the ownership interest of our existing holders of shares of our common stock, including noteholders who had previously converted their notes.

The issuance of common stock upon conversion of some or all of the notes or upon the exercise of the repurchase right will dilute the ownership interests of our existing holders of our shares of common stock. Any sales in the public market of our shares of common stock issuable upon such conversion could adversely affect prevailing market prices of our shares of common stock. The issuance of common stock upon conversion of the notes or upon the exercise of the repurchase right may also have the effect of reducing our net income per share to unexpected levels and could reduce the market price of our shares of common stock unless revenue growth or cost savings sufficient to offset the effect of such issuance can be achieved. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes or exercise of the repurchase right could depress the market price of our shares of common stock.

Future sales of a significant number of our shares of common stock in the public markets, or the perception that such sales could occur, could depress the market price of our shares of common stock or the trading price of the notes, or both.

Sales of a substantial number of our shares of common stock or other equity-related securities in the public markets, or the perception that such sales could occur, could depress the market price of our shares of common stock or the trading price of the notes, or both, and impair our ability to raise capital through the sale of additional equity securities. We cannot predict the effect that future sales of our shares of common stock or other equity-related securities would have on the market price of our shares of common stock or the trading price of the notes. The market price of our shares of common stock could be adversely affected by possible sales of our shares of common stock by investors who view the notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that may occur involving our shares of common stock. This hedging or arbitrage could, in turn, adversely affect the market price of the notes.

The repurchase right in the notes triggered by a fundamental change could discourage a potential acquiror.

The repurchase rights in the notes triggered by a fundamental change, as described under the heading Description of notes Fundamental change permits noteholders to require us to purchase notes, could discourage a potential acquiror. The term fundamental change is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. Our obligation to offer to repurchase the notes upon a fundamental change would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

Recent developments in the convertible debt markets may adversely affect the market value of the notes.

Governmental actions that interfere with the ability of convertible debt investors to effect short sales of the underlying shares of our common stock could significantly affect the market value of the notes. Such government actions would make the convertible arbitrage strategy that many convertible debt investors employ difficult to execute for outstanding convertible debt of any company whose shares of common stock are subject to such actions. The convertible debt markets have experienced unprecedented disruptions resulting from, among other things, the instability in the credit and capital markets and the emergency orders issued by the SEC on September 17 and 18, 2008 (and extended on November 1, 2008). These orders were issued as a stop-gap measure while the U.S. Congress worked to provide a comprehensive legislative plan to stabilize the credit and capital markets. Among other things, these orders temporarily imposed a prohibition on effecting short sales of common stock of certain financial companies. As a result, the SEC orders made the convertible arbitrage strategy that many convertible debt investors employ difficult to execute for outstanding convertible debt of those companies whose common stock was subject to the short sale prohibition. Although the SEC orders expired on November 8, 2008, the SEC is currently considering instituting other limitations on effecting short sales (such as the up-tick rule) and other regulatory organizations may do the same. Among the approaches to restrictions on short selling currently under consideration by the SEC, one would apply on a market wide and permanent basis, including adoption of a new uptick rule or an alternative uptick rule that would allow short selling only at an increment above the national best bid, while another would apply only to a particular security during severe market declines in that security, and would involve, among other limitations, bans on short selling in a particular security during a day if there was a severe decline in price in that security. If such limitations are instituted by the SEC or any other regulatory agencies, the market value of the notes could be adversely affected.

You may be deemed to receive a taxable distribution without the receipt of any cash or property.

The conversion rate of the notes will be adjusted in certain circumstances. See the discussion under the heading Description of Notes Conversion Rights Conversion Rate Adjustments and Description of Notes Conversion Rights Adjustment to Shares Delivered Upon Certain Events. Adjustments to the conversion rate of the notes that have the effect of increasing your proportionate interest in our assets or earnings may in some circumstances result in a taxable constructive distribution to you for U.S. federal income tax purposes, notwithstanding the fact that you do not receive an actual distribution of cash or property. In addition, you may be subject to U.S. federal withholding taxes in connection with such a constructive distribution. If we pay withholding taxes on your behalf as a result of an adjustment to the conversion rate of the notes, we may, at our option and pursuant to certain provisions of the first supplemental indenture, set off such payments against payments of cash and common stock on the notes. You are urged to consult your tax advisors with respect to the U.S. federal income tax consequences resulting from an adjustment to the conversion rate of the notes. See the discussions under the headings Additional Material U.S. Federal Income Tax Considerations Tax Treatment of U.S. Holders Constructive Distributions and Tax Treatment of Foreign Holders Distribution on Common Stock and Constructive Distributions.

Ownership limitations in our charter may impair the ability of noteholders to convert notes for our common stock.

In order to assist us in maintaining our qualification as a REIT for U.S. federal income tax purposes, our charter provides that no person may own, directly or by the attribution provisions of the U.S. federal tax laws, more than 9.8% of the lesser of the number or value of the issued and outstanding shares of our common stock. See Restrictions on Ownership and Transfer in the accompanying prospectus. Additionally, the first supplemental indenture will provide that notwithstanding any other provision of the notes, no noteholder will be entitled to convert such notes for shares of our common stock to the extent that receipt of our common stock would cause such noteholder (together with such noteholder s affiliates) to exceed the ownership limit contained in our charter. See Description of Notes Ownership Limit.

USE OF PROCEEDS

We will receive net proceeds of approximately $484.8 million ($557.5 million if the underwriter s overallotment option is exercised in full) from this offering of Convertible Senior Notes, after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds from this offering as follows:

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

for general corporate purposes, which may include additional investments.

MANAGEMENT

The following table sets forth certain information as of February 8, 2010 concerning our executive officers:

Name	Age	Position Held With the Company
Michael A.J. Farrell	58	Chairman of the Board, President and Chief Executive Officer
Wellington J. Denahan-Norris	45	Vice Chairman of the Board, Chief Investment Officer and Chief Operating Officer
Kathryn F. Fagan	43	Chief Financial Officer and Treasurer
R. Nicholas Singh	50	General Counsel, Secretary and Chief Compliance Officer
James P. Fortescue	36	Managing Director and Head of Liabilities
Kristopher Konrad	35	Managing Director and Co-Head Portfolio Management
Rose-Marie Lyght	36	Managing Director and Co-Head Portfolio Management
Jeremy Diamond	46	Managing Director
Ronald Kazel	41	Managing Director
Matthew Lambiase	43	Managing Director
Eric Szabo	35	Managing Director and Chief Risk Officer

Mr. Farrell and Ms. Denahan-Norris have an average of more than 26 years experience in the investment banking and investment management industries where, in various capacities, they have each managed portfolios of mortgage-backed securities, arranged collateralized borrowings and utilized hedging techniques to mitigate interest rate and other risk within fixed-income portfolios. Ms. Fagan is a certified public accountant and, prior to becoming our Chief Financial Officer and Treasurer, served as Chief Financial Officer and Controller of a publicly owned savings and loan association. Mr. Singh joined us in February 2005. Prior to that, he was a partner in the law firm of McKee Nelson LLP. Mr. Fortescue joined us in 1997. Mr. Konrad joined us in 1997. Ms. Lyght joined us in April 1999. Mr. Diamond joined us in March 2002. Mr. Kazel joined us in December 2001. Mr. Lambiase joined us in June 2004. Mr. Szabo joined us in April 2004. We had 84 full-time employees at September 30, 2009.

PRICE RANGE OF COMMON SHARES AND DISTRIBUTIONS

Shares of our common stock are listed on the NYSE under the symbol NLY . As of February 2, 2010, we had 553,155,945 share of common stock outstanding. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common shares as reported on the NYSE.

	Stock Prices High	Stock Prices Low
Year Ended December 31, 2010		
First Quarter (through February 5, 2010)	$ 18.16	$ 17.03
Year Ended December 31, 2009		
Fourth Quarter Ended December 31, 2009	$ 18.99	$ 16.74
Third Quarter Ended September 30, 2009	19.74	14.96
Second Quarter Ended June 30, 2009	15.56	13.21
First Quarter Ended March 31, 2009	16.29	12.07
Year Ended December 31, 2008		
Fourth Quarter Ended December 31, 2008	$ 16.50	$ 9.94
Third Quarter Ended September 30, 2008	17.85	12.32
Second Quarter Ended June 30, 2008	18.03	15.08
First Quarter Ended March 31, 2008	20.50	11.50
Year Ended December 31, 2007		
Fourth Quarter Ended December 31, 2007	$ 18.33	$ 14.87
Third Quarter Ended September 30, 2007	16.80	12.14
Second Quarter Ended June 30, 2007	16.39	13.75
First Quarter Ended March 31, 2007	15.56	13.46

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

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

	Cash Distributions Declared Per Common Share	Cash Distributions Declared Per Series A Preferred Share	Cash Distributions Declared Per Series B Preferred Share
2009			
First quarter	$ 0.50	$ 0.492188	$ 0.375000
Second quarter	$ 0.60	$ 0.492188	$ 0.375000
Third quarter	$ 0.69	$ 0.492188	$ 0.375000
Fourth quarter	$ 0.75	$ 0.492188	$ 0.375000
2008			
First quarter	$ 0.48	$ 0.492188	$ 0.375000
Second quarter	$ 0.55	$ 0.492188	$ 0.375000
Third quarter	$ 0.55	$ 0.492188	$ 0.375000
Fourth quarter	$ 0.50	$ 0.492188	$ 0.375000
2007			
First quarter	$ 0.20	$ 0.492188	$ 0.375000
Second quarter	$ 0.24	$ 0.492188	$ 0.375000
Third quarter	$ 0.26	$ 0.492188	$ 0.375000
Fourth quarter	$ 0.34	$ 0.492188	$ 0.375000

We have not established a minimum distribution payment level on our common stock and our ability to pay distributions on our common stock may be adversely affected for as a result of the risks set forth under the caption

Risk Factors in this prospectus supplement, in the accompanying prospectus, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference in the accompanying prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2009 (i) on a historical basis and (ii) as adjusted for the sale of $500.0 million aggregate principal amount of our Convertible Senior Notes, assuming no exercise of the underwriter s overallotment option. This presentation should be read in conjunction with our more detailed information contained in the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2009, and in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference into the accompanying prospectus and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, which are incorporated by reference into the accompanying prospectus.

	As of September 30, 2009	
	Actual	**As Adjusted (1)**
	(dollars in thousands, except per share amounts)	
Liabilities:		
Repurchase agreements	$ 55,842,840	$ 55,842,840
Payable for Investment Securities purchased	3,644,420	3,644,420
Accrued interest payable	97,693	97,693
Dividends payable	381,411	381,411
Accounts payable and other liabilities	37,991	37,991
Interest rate swaps, at fair value	788,065	788,065
4.00% Convertible Senior Notes due 2015		500,000
Total Liabilities	60,792,420	61,292,420
6% Series B Cumulative Convertible Preferred Stock: 4,600,000 shares authorized, 2,604,614 shares issued and outstanding, respectively	$ 63,114	$ 63,114
Stockholders equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: 7,412,500 shares authorized, issued and outstanding	177,088	177,088
Common stock: par value $.01 per share; 987,987,500 shares authorized, 552,778,531 and 552,778,531 shares issued and outstanding, respectively*(2)*	5,528	5,528
Additional paid-in capital *(2)*	7,811,356	7,811,356
Accumulated other comprehensive loss	1,959,994	1,959,994
Accumulated deficit	(646,822)	(646,822)
Total stockholders equity	9,307,144	9,307,144
Total liabilities, Series B Cumulative Convertible Preferred Stock and Stockholders Equity	$ 70,162,678	$ 70,662,678

(1) Reflects the consummation of this offering of $500.0 million aggregate principal amount of our Convertible Senior Notes assuming no exercise of the underwriter s overallotment option.

(2) Does not include 7.6 million shares of our common stock issuable upon the exercise of outstanding options granted pursuant to our long-term incentive plan as of September 30, 2009. Does not include shares of our common stock issuable upon the conversion of 2,604,614 shares of our Series B Preferred Stock. Does not include shares of our common stock issuable upon conversion of our Convertible Senior Notes.

DESCRIPTION OF NOTES

The notes will be issued under the indenture dated as of February 12, 2010 (the original indenture), between Annaly and Wells Fargo Bank, National Association, as trustee, as supplemented by the first supplemental indenture dated as of February 12, 2010 (the first supplemental indenture), between Annaly and the trustee. The form of the original indenture is incorporated by reference as an exhibit to the registration statement of which the accompanying prospectus is a part. We will file the original indenture and the first supplemental indenture by means of a Current Report on Form 8-K. References in this prospectus supplement and the accompanying prospectus to the trustee for our debt securities mean Wells Fargo Bank, National Association. The terms of the notes include those expressly set forth in the original indenture to the extent not superseded or modified by the first supplemental indenture, the first supplemental indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act).

You may request a copy of the first supplemental indenture and the indenture from us as described under Where You Can Find More Information in the accompanying prospectus.

The following description and the description under Description of Debt Securities in the accompanying prospectus summarize the material provisions of the notes and do not purport to be complete. This summary is subject to and is qualified by reference to all of the provisions of the notes, the first supplemental indenture and the indenture, including the definitions of certain terms used in the first supplemental indenture and the indenture. We urge you to read these documents because they, and not this description, define your rights as a noteholder.

For purposes of this description, references to the Company, we, our and us refer only to Annaly Capital Management, Inc. and do not include any of Annaly s current or future subsidiaries. References to noteholders refer to holders of the notes offered hereby.

General

The notes

- will be our general unsecured obligations;
- will rank as described in Ranking below;
- will initially be limited to an aggregate principal amount of $500,000,000 (or $575,000,000 if the underwriter s over-allotment option with respect to the notes is exercised in full);
- will bear interest at a rate of 4.00% per year, payable semiannually in arrears on February 15 and August 15 of each year, beginning August 15, 2010;
- will mature on February 15, 2015 (the stated maturity date), unless earlier converted or repurchased;
- will be subject to mandatory conversion, as described in Conversion Rights Mandatory Conversion below;
- will be issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof; and
- will be represented by one or more registered notes in global form, but in certain limited circumstances may be represented by notes in definitive form. See Book-Entry, Delivery and Form.

The notes may be converted into shares of our common stock at a conversion rate of 46.6070 shares of common stock per $1,000 principal amount of notes (equivalent to a conversion price of $21.456 per share of common stock) at any time prior to the second scheduled trading day immediately preceding the stated maturity date (excluding such maturity date). The conversion rate is subject to adjustment if certain events occur. Upon conversion of a note, we will deliver shares of common stock based upon the then-applicable conversion rate. A noteholder that surrenders its notes for conversion will not receive any separate cash payment for interest or additional interest, if any, accrued and unpaid to the conversion date except under the limited circumstances described below.

The indenture does not limit the amount of debt which may be issued by us or our subsidiaries under the indenture or otherwise. The indenture does not contain any financial covenants and does not restrict us from paying dividends or issuing or repurchasing our other securities. Other than as described in the accompanying prospectus under Description of Debt Securities Merger, Consolidation and Transfer of Assets and other than the restrictions described in this prospectus supplement under Fundamental Change Permits Noteholders to Require Us to Purchase Notes below and except for the provisions set forth under Conversion Rights Adjustment to Shares Delivered Upon Conversion Upon Certain Fundamental Changes, there are no covenants or other provisions designed to afford noteholders protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such noteholders.

We may, from time to time, without notice to, or the consent of noteholders, issue additional notes under the first supplemental indenture with the same terms and with the same CUSIP numbers as the notes offered hereby in an unlimited aggregate principal amount, provided that such additional notes must be part of the same issue as the notes offered hereby for federal income tax purposes. We may also from time to time repurchase notes in open market purchases or negotiated transactions without prior notice to noteholders. Any notes purchased by us will be deemed to be no longer outstanding under the indenture.

The terms of the notes allow us to reduce or otherwise set-off against any payments made or deemed made by us to a holder in respect of the notes or common stock for any amounts we believe we are required to withhold by law. For example, non-U.S. holders may, under some circumstances, be subject to U.S. federal withholding tax with respect to payments of interest on the notes. Moreover, holders of convertible debt instruments such as the notes may, in certain circumstances, be deemed to receive taxable distributions if the conversion rate of such instruments is adjusted even though such holders do not receive any actual cash or property. In this case, U.S. holders may be subject to U.S. federal backup withholding tax and non-U.S. holders may be subject to U.S. federal withholding tax with respect to such deemed distributions. See generally the discussion under the heading Additional Material U.S. Federal Income Tax Considerations.

Prior to or upon the occurrence of any event that results in an actual or deemed payment by us to a holder in respect of the notes or common stock, the terms of the notes allow us (or the trustee or other paying agent acting on our behalf) to request a holder to furnish any appropriate documentation that may be required in order to determine our withholding obligations under applicable law (including, without limitation, a U.S. Internal Revenue Service Form W-9, Form W-8BEN, Form W-8ECI, as appropriate). Upon the receipt of any such documentation, or in the event no such documentation is provided, we (or the trustee or other paying agent acting on our behalf) will withhold from any actual or deemed payments by us to a holder in respect of the notes or common stock to the extent required by applicable law. See generally the discussion under the heading Additional Material U.S. Federal Income Tax Considerations.

We do not intend to list the notes on a national securities exchange or interdealer quotation system.

Payment

We will pay the principal amount of and any premium and interest on the notes as described under Description of Debt Securities Registration, Transfer and Payment in the accompanying prospectus.

Registration and Transfer

A noteholder may transfer or exchange notes as described under Description of Debt Securities Registration, Transfer and Payment in the accompanying prospectus.

Interest

The notes will bear interest at a rate of 4.00% per year. Interest on the notes will accrue from and including February 12, 2010 or from and including the most recent date on which interest has been paid or duly provided for. Interest will be payable semiannually in arrears on February 15 and August 15 of each year (each such date, an interest payment date), beginning August 15, 2010. At our election, we will pay additional interest, if any, under the circumstances described under Events of Default.

Interest will be paid to the person in whose name a note is registered at the close of business on February 1 or August 1, as the case may be, immediately preceding the relevant interest payment date (each such date, a regular record date). Interest on the notes will be computed on the basis of a 360-day year composed of twelve 30-day months.

If any interest payment date (other than an interest payment date coinciding with the stated maturity date or earlier required repurchase date upon a fundamental change as defined in Fundamental Change Permits Noteholders to Require Us to Purchase Notes) of a note falls on a day that is not a business day, such interest payment date will be postponed to the next succeeding business day. If the stated maturity date would fall on a day that is not a business day, the required payment of interest (and additional interest), if any, and principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date to such next succeeding business day. If a fundamental change purchase date would fall on a day that is not a business day, we will purchase the notes on the next succeeding business day, and no interest or additional interest will accrue for the period from the earlier fundamental change purchase date to such next succeeding business day. We will pay the fundamental change purchase price promptly following the later of such next succeeding business day or the time of book-entry transfer or the delivery of the notes as described in Fundamental Change Permits Noteholders to Require Us to Purchase Notes. The term business day means any day other than a Saturday or Sunday that is not a day on which banking institutions are authorized or obligated by law or executive order to close in The City of New York.

Ranking

The notes will be our general unsecured obligations and will rank senior in right of payment to any of our future indebtedness that is expressly subordinated in right of payment to the notes and equally in right of payment with all our existing and future indebtedness and liabilities that are not so subordinated. The notes will be effectively subordinated to any of our secured indebtedness, which includes our repurchase agreements, interest rate swaps, and other financing arrangements, to the extent of the value of the assets securing such indebtedness, and will be effectively subordinated to all liabilities of our subsidiaries. In the event of bankruptcy, liquidation, reorganization or other winding up of the Company, our assets that secure secured debt will be available to pay obligations on the notes only after all indebtedness under such secured debt has been repaid in full from such assets. In addition to the noteholders, the holders of our other equally ranking unsecured indebtedness and liabilities will have claims against any assets remaining after the payment of all such secured debt. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all of the notes then outstanding.

As of September 30, 2009, we had outstanding $55.8 billion of repurchase agreements with weighted average borrowing rates of 2.15% (after giving effect to our interest rate swaps), and weighted average remaining maturities of 165 days, with investment securities with an estimated fair value of $60.1 billion pledged as collateral. As of September 30, 2009, our total consolidated indebtedness was approximately $55.8 billion. After giving pro forma effect to the sale of the notes (assuming no exercise of the underwriter s over-allotment option), and the use of proceeds therefrom, our as-adjusted total consolidated indebtedness would have been approximately $56.3 billion. The notes will be effectively subordinated to all debt and other liabilities of our subsidiaries. The ability of our subsidiaries to pay dividends and make other payments to us is also restricted by, among other things, applicable corporate and other laws and regulations as well as agreements to which our subsidiaries may become a party.

No Optional Redemption

The notes will not be redeemable by us prior to the stated maturity date. No sinking fund is provided for the notes.

Conversion Rights

General

Noteholders may convert each of their notes at the applicable conversion rate at any time prior to the close of business on the second business day immediately preceding the stated maturity date (excluding such maturity date), subject to certain ownership limitations more fully described in Ownership Limit. The conversion rate will initially be 46.6070 shares of common stock per $1,000 principal amount of notes (equivalent to a conversion price of $21.456 per share of common stock). The trustee will initially act as the conversion agent.

Upon conversion of a note, we will deliver shares of our common stock based on the then-applicable conversion rate. We will not issue fractional shares of our common stock upon conversion of notes. Instead, we will pay cash in lieu of fractional shares based on the Daily VWAP (as defined below under Conversion Rights Settlement of Change of Control and Coupon Make-Whole) of our common stock on the applicable conversion date.

The conversion rate and the equivalent conversion price in effect at any given time are referred to as the applicable conversion rate and the applicable conversion price, respectively, and will be subject to adjustment as described below. The applicable conversion price at any given time will be computed by dividing $1,000 by the applicable conversion rate at such time. A noteholder may convert fewer than all of such holder s notes so long as the notes converted are $1,000 principal amount or an integral multiple thereof.

If a noteholder has submitted notes for repurchase upon a fundamental change, the noteholder may convert those notes only if the noteholder withdraws the repurchase election made by the noteholder in accordance with the terms of the first supplemental indenture. We will deliver the shares of common stock to converting noteholders and any cash in lieu of fractional shares by the third business day following the applicable conversion date (excluding such conversion date).

Upon conversion of a note, except in the limited circumstances described below and other than as described under Conversion Rights Mandatory Conversion, the holder of such note will not be entitled to any separate cash payment for accrued and unpaid interest or additional interest, if any. If notes are converted after 5:00 p.m., New York City time, on a regular record date for the payment of interest, holders of such notes at 5:00 p.m., New York City time, on such record date will receive the interest and additional interest, if any, payable on such notes on the corresponding interest payment date notwithstanding the conversion. Notes, upon surrender for conversion during the period from 5:00 p.m., New York City time, on any regular record date to 9:00 a.m., New York City time, on the immediately following interest payment date, must be accompanied by funds equal to the amount of interest and additional interest, if any, payable on such interest payment date on the notes so converted; provided that no such payment need be made:

- for conversions following the regular record date immediately preceding the maturity date;
- if we have given notice of a mandatory conversion date (as defined below);
- if we have specified a fundamental change purchase date that is after a regular record date and on or prior to the corresponding interest payment date; or
- to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such note.

Our delivery to noteholders of the full number of shares of our common stock into which a note is convertible, together with any cash payment in lieu of fractional shares will be deemed to satisfy in full our obligation to pay:

- the principal amount of the note; and

accrued and unpaid interest and additional interest, if any, to, but not including, the conversion date.

As a result, accrued and unpaid interest and additional interest, if any, to, but not including, the conversion date will be deemed to be paid in full rather than cancelled, extinguished or forfeited.

If a noteholder converts notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of any shares of our common stock upon the conversion, unless the tax is due because the noteholder requests any shares to be issued in a name other than the noteholder s name, in which case the noteholder will pay that tax.

Conversion Procedures

If you hold a beneficial interest in a global note (which is defined below under Book-Entry, Delivery and Form), to convert you must comply with DTC s, Clearstream s and/or Euroclear s procedures, as applicable, for converting a beneficial interest in a global note and, if required, pay funds equal to interest payable on the next interest payment date to which you are not entitled and, if required, pay all taxes or duties, if any.

If you hold a certificated note, to convert you must:

complete and manually sign the conversion notice on the back of the note, or a facsimile of the conversion notice;

deliver the conversion notice, which is irrevocable, and the note to the conversion agent;

if required, furnish appropriate endorsements and transfer documents;

if required, pay all transfer or similar taxes; and

if required, pay funds equal to interest payable on the next interest payment date to which you are not entitled.

The date you comply with these requirements is the conversion date.

If a noteholder has already delivered a purchase notice as described under Fundamental Change Permits Noteholders to Require Us to Purchase Notes with respect to a note, the noteholder may not surrender that note for conversion until the noteholder has withdrawn the notice in accordance with the first supplemental indenture. We will deliver the shares of common stock to converting noteholders and any cash in lieu of fractional shares by the (1) the mandatory conversion date in the case of a mandatory conversion (as discussed below) and (2) in all other cases, the third business day following the applicable conversion date (excluding such conversion date).

Mandatory Conversion

At any time we may at our option cause the notes, in whole or in part, to be automatically converted into shares of our common stock. Upon a mandatory conversion, each noteholder will be entitled to receive (1) a number of shares of our common stock based on the applicable conversion rate and (2) a coupon make-whole in the form of a number of additional shares of our common stock equal to the dollar amount of (A) one-half the interest rate of the notes (2.00%) multiplied by the principal amount of the notes to be converted, multiplied by (B) the number of interest payment dates remaining between the mandatory conversion date and the stated maturity date (including any interest payment date coinciding with the stated maturity date, but excluding any interest payment date for which the regular record date precedes the mandatory conversion date, in which case we will pay accrued and unpaid interest to the noteholder of record on such regular record date). The number of shares to be delivered in satisfaction of the coupon make-whole will be calculated as described under Conversion Rights Settlement of Change of Control and Coupon Make-Whole.

We may exercise this right only if the Daily VWAP of our common stock exceeds 130% of the applicable conversion price for at least 10 trading days in a period of 15 consecutive trading days, including the last scheduled trading day of such 15-day period, ending on the scheduled trading day prior to our issuance of a press release announcing the mandatory conversion as described below.

If we decide to convert the notes in part, the trustee will select the notes to be converted (in principal amounts of $1,000 and integral multiples thereof) on a pro rata basis or such other method it deems fair and appropriate. See Conversion Rights Settlement of Change of Control and Coupon Make-Whole for a discussion of the settlement procedures with respect to the coupon make-whole.

To exercise the mandatory conversion right described above, we must issue a press release for publication through Dow Jones & Company, Inc., Bloomberg Business News, BusinessWire, or PR Newswire or a substantially equivalent financial news organization no later than the third business day following any date on which the conditions described in the preceding paragraph are met, announcing such a mandatory conversion. We will also give notice by mail or by publication (with subsequent prompt notice by mail) to the noteholders (not more than four business days after the date of the press release) of the mandatory conversion announcing our intention to convert the notes.

The conversion date will be the tenth business day following our initial press release (which we refer to as the mandatory conversion date, excluding the date such press release is issued). If, however, we are required to adjust the conversion rate for the notes in accordance with the adjustments described under Conversion Rate Adjustments, and the mandatory conversion date would occur during the time period in which the average Daily VWAP of our common stock is being calculated for purposes of such an adjustment, then the mandatory conversion date will be the next business day following the effectiveness of such adjustment.

In addition to any information required by applicable law or regulation, the press release and notice of a mandatory conversion shall state, as appropriate:

- the mandatory conversion date;
- the number of shares of common stock to be issued upon conversion per $1,000 principal amount of notes;
- the aggregate amount of notes to be converted;
- the amount of the coupon make-whole payable to noteholders per $1,000 principal amount of notes;
- the dates of the five day trading-period that will be used for purposes of calculating the number of shares to be delivered in connection with the coupon make-whole (see Settlement of Change of Control and Coupon Make-Whole); and
- that interest on the notes to be converted will cease to accrue on the mandatory conversion date.

Notwithstanding the number of shares to be issued upon conversion that are specified in the press release and notice of a mandatory conversion, if following its publication, but prior to the mandatory conversion date, an adjustment to the applicable conversion rate as described below under Conversion Rate Adjustments is applicable, we will issue an additional press release reflecting the number of shares of common stock to be issued upon conversion per $1,000 principal amount of notes, taking into account such adjustment.

On and after the mandatory conversion date, interest will cease to accrue on the notes called for a mandatory conversion and all rights of holders of such notes will terminate except for the right to receive the shares of common stock issuable upon conversion thereof and the coupon make-whole and the right to receive any accrued and unpaid interest accruing prior to the mandatory conversion date. The interest payment with respect to the notes called for a mandatory conversion on a date during the period between the close of business on any regular record date for the payment of interest and the close of business on the corresponding interest payment date will be payable on such interest payment date to the record holder of the notes so called on such regular record date if the notes have been converted after such regular record date and prior to such interest payment date.

Conversion Rate Adjustments

The conversion rate will be adjusted as described below, except that we will not make any adjustments to the conversion rate if noteholders participate (as a result of holding the notes, and at the same time as common stockholders participate) in any of the transactions described below as if such noteholders held a number of shares of our common stock equal to the applicable conversion rate, multiplied by the principal amount (expressed in thousands) of notes held by such noteholders, without having to convert their notes.

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination, the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

CR_0 = the conversion rate in effect immediately prior to the ex-dividend date of such dividend or distribution or the effective date of such share split or combination, as applicable

CR_1 = the conversion rate in effect immediately after such ex-dividend date or effective date, as applicable

OS_0 = the number of shares of our common stock outstanding immediately prior to such ex-dividend date or effective date, as applicable

OS_1 = the number of shares of our common stock outstanding immediately prior to such ex-dividend date or effective date, as applicable, after giving pro forma effect to such dividend, distribution, share split or share combination

Such adjustment will become effective immediately after 9:00 a.m., New York City time, on the business day following the record date for such dividend or distribution, or the date fixed for determination for such share split or share combination. We may not pay any dividend or make any distribution on shares of common stock held in treasury. If any dividend or distribution of the type described in clause (1) above is declared but not so paid or made, the conversion rate will again be adjusted to the conversion rate that would then be in effect if such dividend or distribution had not been declared.

(2) If we distribute to holders of all or substantially all of our common stock any rights or warrants entitling them for a period of not more than 60 calendar days to subscribe for or purchase shares of our common stock, at a price per share less than the average of the Daily VWAP of our common stock for the 10 consecutive trading-day period ending on the trading day immediately preceding the date of announcement of such distribution (excluding such date of announcement), the conversion rate will be adjusted based on the following formula (provided that the conversion rate will be readjusted to the extent that such rights or warrants are not exercised prior to their expiration):

$$CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

CR_0 = the conversion rate in effect immediately prior the ex-dividend date for such distribution

CR_1 = the conversion rate in effect immediately after such ex-dividend date

OS_0 = the number of shares of our common stock outstanding immediately after such ex-dividend date

X = the total number of shares of our common stock issuable pursuant to such rights or warrants

Y = the number of shares of our common stock equal to the aggregate price payable to exercise such rights or warrants divided by the average of the Daily VWAP of our common stock over the 10 consecutive trading-day period ending on the trading day immediately preceding the date of announcement of the distribution of such rights or warrants (excluding such date of announcement)

Such adjustment will be successively made whenever any such rights or warrants are issued and will become effective immediately after 9:00 a.m., New York City time, on the business day following the date fixed for such determination. We may not issue any such rights, options or warrants in respect of shares of common stock held in treasury. To the extent that shares of common stock are not delivered after the expiration of such rights or warrants, or such rights or warrants are not exercised prior to their expiration, the conversion rate will be readjusted to the conversion rate that would then be in effect had the adjustments made upon the issuance of such rights or warrants been made on the basis of delivery of only the number of shares of common stock actually delivered. If such rights or warrants are not so issued, the conversion rate will again be adjusted to be the conversion rate that would then be in effect if such date fixed for the determination of stockholders entitled to receive such rights or warrants had not been fixed.

(3) If we distribute shares of our capital stock, evidences of our indebtedness or other assets or property of ours to holders of all or substantially all of our common stock, excluding

dividends or distributions and rights or warrants referred to in clause (1) or (2) above;

dividends or distributions paid exclusively in cash; and

as described below in this paragraph (3) with respect to spin-offs;

then the conversion rate will be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

CR_0 =	the conversion rate in effect immediately prior to the ex-dividend date for such distribution
CR_1 =	the conversion rate in effect immediately after such ex-dividend date
SP_0 =	the average of the Daily VWAP of our common stock over the 10 consecutive trading-day period ending on the trading day immediately preceding the ex-dividend date for such distribution (excluding such ex-dividend date)
FMV =	the fair market value (as determined by our board of directors) of the shares of capital stock, evidences of indebtedness, assets or property distributed with respect to each outstanding share of our common stock on the record date for such distribution

Such adjustment will become effective immediately after 9:00 a.m., New York City time, on the business day following the date fixed for determination of stockholders entitled to receive such distribution. With respect to an adjustment pursuant to this clause (3) where there has been a payment of a dividend or other distribution on our common stock in shares of capital stock of any class or series, or similar equity interest, of or relating to a subsidiary or other business unit, which we refer to as a spin-off, the conversion rate in effect immediately prior to 5:00 p.m., New York City time, on the effective date of the spin-off will be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

CR_0 =	the conversion rate in effect immediately prior to 5:00 p.m., New York City time, on the effective date of the spin-off
CR_1 =	the conversion rate in effect immediately after the effective date of the spin-off
FMV_0 =	the average of the Daily VWAP of the capital stock or similar equity interest distributed to holders of our common stock applicable to one share of our common stock over the first 10 consecutive trading-day period from, and including, the effective date of the spin-off

MP_0 = the average of the Daily VWAP of our common stock over the first 10 consecutive trading-day period from, and including, the effective date of the spin-off

The adjustment to the conversion rate under the preceding paragraph will occur on the tenth trading day from, and including, the effective date of the spin-off and shall be applied on a retroactive basis from, and including, the effective date of the spin-off; provided that in respect of any conversion occurring prior to the effective date of the spin-off with respect to which the settlement date would occur during the 10 trading days from, and including, the effective date of any spin-off, references with respect to the spin-off to the 10 consecutive trading-day period shall be deemed replaced with such lesser number of trading days as have elapsed between the effective date of such spin-off and the settlement date in determining the applicable conversion rate; provided, further, that in respect of any conversion occurring prior the effective date of the spin-off with respect to which the settlement date would occur during the three trading days from, and including, the effective date of such spin-off, references to the 10 consecutive trading-day period shall be deemed replaced with a three consecutive trading-day period with such adjustment to the conversion rate being applied on a retroactive basis from, and including, the effective date of the spin-off.

(4) If we make any dividend or any other distribution of cash to holders of all or substantially all of our common stock, in which case, immediately prior to the opening of business on the ex-dividend date (as defined below) for the dividend or distribution, the applicable conversion rate will be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - C}$$

where,

CR_0 = the conversion rate in effect immediately prior to the ex-dividend date for such dividend or distribution

CR_1 = the conversion rate in effect immediately after the ex-dividend date for such dividend or distribution

SP_0 = the average of the Daily VWAP of our common stock for each trading day in the five consecutive trading day period ending on the trading day immediately preceding the ex-dividend date for such dividend or distribution (excluding such ex-dividend date)

C = the amount in cash per share we distribute to holders of our common stock

In connection with any adjustment to the conversion rate based on clause (4), we mu