



# **FORM 10-Q**

**ANNALY MORTGAGE MANAGEMENT INC – NLY**

**Filed: May 13, 2002 (period: March 31, 2002)**

Quarterly report which provides a continuing view of a company's financial position

# Table of Contents

## PART II.

---

### OTHER INFORMATION

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

#### Item 6. Exhibits and Reports on Form 8-K

### SIGNATURES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 1-13447

ANNALY MORTGAGE MANAGEMENT, INC.  
(Exact name of Registrant as specified in its Charter)

MARYLAND 22-3479661  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

12 EAST 41ST STREET, SUITE 700  
NEW YORK, NEW YORK  
(Address of principal executive offices)

10017  
(Zip Code)

(212) 696-0100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No  
--- ---

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the last practicable date:

Class	Outstanding at May 13, 2002
Common Stock, \$.01 par value	82,906,649

INDEX

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements:	
Statements of Financial Condition- March 31, 2002 (Unaudited) and December 31, 2001	1
Statements of Operations (Unaudited) for the quarters ended March 31, 2002 and 2001	2
Statements of Stockholders' Equity (Unaudited) for the quarter ended March 31, 2002	3
Statements of Cash Flows (Unaudited) for the quarters ended March 31, 2002 and 2001	4
Notes to Financial Statements (Unaudited)	5-10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11-20
Item 3. Quantitative and Qualitative Disclosure about Market Risk	21-22
PART II. OTHER INFORMATION	
Item 6. Exhibits and Reports on Form 8-K	23
SIGNATURES	24

ANNALY MORTGAGE MANAGEMENT, INC.  
STATEMENTS OF FINANCIAL CONDITION

	MARCH 31, 2002 (UNAUDITED)	DECEMBER 31, 2001
ASSETS		
Cash and cash equivalents	\$ 487,087	\$ 429,247
Mortgage-Backed Securities, at fair value	10,206,227,634	7,575,379,313
Receivable for Mortgage-Backed Securities sold	-	94,502,807
Accrued interest receivable	51,301,847	46,803,644
Other assets	394,316	198,888
<b>Total assets</b>	<b>\$10,258,410,884</b>	<b>\$7,717,313,899</b>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	\$ 8,339,380,265	\$6,367,710,186
Payable for Mortgage-Backed Securities purchased	833,394,872	627,063,523
Accrued interest payable	21,456,101	16,043,004
Dividends payable	52,222,875	35,896,185
Other liabilities	1,947,084	2,009,533
Accounts payable	1,322,008	1,234,463
<b>Total liabilities</b>	<b>9,249,723,205</b>	<b>7,049,956,894</b>
Stockholders' Equity:		
Common stock: par value \$.01 per share; 100,000,000 Authorized, 82,882,683 and 59,826,975 shares issued and outstanding, respectively	828,827	598,270
Additional paid-in capital	971,932,977	623,985,662
Accumulated other comprehensive gain	30,501,985	38,169,285
Retained earnings	5,423,890	4,603,788
<b>Total stockholders' equity</b>	<b>1,008,687,679</b>	<b>667,357,005</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$10,258,410,884</b>	<b>\$7,717,313,899</b>

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Quarter Ended March 31, 2002	For the Quarter Ended March 31, 2001
	-----	-----
INTEREST INCOME:		
Mortgage-Backed Securities	\$92,899,519	\$42,434,421
INTEREST EXPENSE:		
Repurchase agreements	40,011,880	33,453,077
	-----	-----
NET INTEREST INCOME	52,887,639	8,981,344
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	3,410,245	269,478
GENERAL AND ADMINISTRATIVE EXPENSES	3,254,907	920,549
	-----	-----
NET INCOME	53,042,977	8,330,273
	-----	-----
OTHER COMPREHENSIVE INCOME:		
Unrealized gain (loss) on available-for-sale securities	(4,257,055)	16,464,619
Less: reclassification adjustment for net gains included in net income	(3,410,245)	(269,478)
	-----	-----
Other comprehensive gain (loss)	(7,667,300)	16,195,141
	-----	-----
COMPREHENSIVE INCOME	\$45,375,677	\$24,525,414
	=====	=====
NET INCOME PER SHARE:		
Basic	\$0.69	\$0.38
	-----	-----
Diluted	\$0.69	\$0.37
	-----	-----
AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	76,709,836	21,851,481
	-----	-----
Diluted	77,017,431	22,535,210
	-----	-----

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE QUARTER ENDED MARCH 31, 2002  
(UNAUDITED)

	Common Stock Par Value	Additional Paid-In Capital	Comprehensive Income	Retained Earnings	Other Comprehensive Income	Total
BALANCE, DECEMBER 31, 2001	\$598,270	\$623,985,662		\$4,603,788	\$38,169,285	\$667,257,005
Net Income			\$53,042,977	53,042,977		
Other comprehensive income:						
Unrealized net loss on securities, net of reclassification adjustment			(7,667,300)		(7,667,300)	
Comprehensive income			\$45,375,677			45,375,677
Exercise of stock options	220	281,830				282,050
Proceeds from direct purchase	337	558,822				559,159
Proceeds from secondary offering	230,000	347,106,663				347,336,663
Dividends declared for the quarter ended March 31, 2002, \$0.63 per average share				(52,222,875)		(52,222,875)
BALANCE, MARCH 31, 2002	\$828,827	\$971,932,977		\$5,423,890	\$30,501,985	\$1,008,687,679

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the Quarter Ended March 31, 2002	For the Quarter Ended March 31, 2001
Cash flows from operating activities:		
Net income	\$53,042,977	\$8,330,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage premiums and discounts, net	17,891,420	2,213,482
Gain on sale of Mortgage-Backed Securities	(3,410,245)	(269,478)
Stock option expense	62,050	-
Market value adjustment on long-term repurchase agreement	36,630	-
Increase in accrued interest receivable	(4,498,203)	(10,602,509)
Increase in other assets	(195,428)	(62,941)
Increase in accrued interest payable	5,413,097	6,380,270
Increase in accounts payable	87,545	295,660
<b>Net cash provided by operating activities</b>	<b>68,429,843</b>	<b>6,284,757</b>
Cash flows from investing activities:		
Purchase of Mortgage-Backed Securities	(3,838,615,668)	(1,838,388,423)
Proceeds from sale of Mortgage-Backed Securities	393,462,275	151,888,090
Principal payments of Mortgage-Backed Securities	1,092,990,753	94,409,723
<b>Net cash used in investing activities</b>	<b>(2,352,162,640)</b>	<b>(1,592,090,610)</b>
Cash flows from financing activities:		
Proceeds from repurchase agreements	19,827,609,000	7,026,473,527
Principal payments on repurchase agreements	(17,856,038,000)	(5,536,532,527)
Proceeds from exercise of stock options	220,000	114,232
Proceeds from direct purchase	559,159	27,627
Net proceeds from offerings	347,336,663	99,283,861
Dividends paid	(35,896,185)	(3,630,745)
<b>Net cash provided by financing activities</b>	<b>2,283,790,637</b>	<b>1,585,735,975</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>57,840</b>	<b>(69,878)</b>
Cash and cash equivalents, beginning of period	429,247	113,061
<b>Cash and cash equivalents, end of period</b>	<b>\$487,087</b>	<b>\$43,183</b>
Supplemental disclosure of cash flow information:		
Interest paid	\$34,598,783	\$27,072,806
Noncash financing activities:		
Net change in unrealized gain (loss) on available-for-sale securities	(\$7,667,300)	\$16,195,141
Dividends declared, not yet paid	\$52,222,875	\$7,710,437

See notes to financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Annaly Mortgage Management, Inc. (the "Company") was incorporated in Maryland on November 25, 1996. The Company commenced its operations of purchasing and managing an investment portfolio of Mortgage-Backed Securities on February 18, 1997, upon receipt of the net proceeds from the private placement of equity capital. An initial public offering was completed on October 14, 1997.

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

**Basis of Presentation** - The accompanying unaudited financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP"). The interim financial statements for the three month period are unaudited; however, in the opinion of the Company's management, all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations have been included. These unaudited financials statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on form 10-K for the year ended December 31, 2001. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full year.

**Cash and Cash Equivalents** - Cash and cash equivalents includes cash on hand and money market funds. The carrying amounts of cash equivalents approximates their value.

**Mortgage-Backed Securities** - The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other Mortgage-Backed Securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities").

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires the Company to classify its investments as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Mortgage-Backed Securities until maturity, it may, from time to time, sell any of its Mortgage-Backed Securities as part of its overall management of its statement of financial condition. Accordingly, this flexibility requires the Company to classify all of its Mortgage-Backed Securities as available-for-sale. All assets classified as available-for-sale are reported at fair value, based on market prices provided by certain dealers who make markets in these financial instruments, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity.

Unrealized losses on Mortgage-Backed Securities that are considered other than temporary, as measured by the amount of decline in fair value attributable to factors other than temporary, are recognized in income and the cost basis of the Mortgage-Backed Securities is adjusted. There were no such adjustments for the quarters ended March 31, 2002 and 2001.

Interest income is accrued based on the outstanding principal amount of the Mortgage-Backed Securities and their contractual terms. Premiums and discounts associated with the purchase of the Mortgage-Backed Securities are amortized into interest income over the lives of the securities using the interest method.

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

Credit Risk - At March 31, 2002 and December 31, 2001, the Company has limited its exposure to credit losses on its portfolio of Mortgage-Backed Securities by only purchasing securities issued by Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), or Government National Mortgage Association ("GNMA"). The payment of principal and interest on the FHLMC and FNMA Mortgage-Backed Securities are guaranteed by those respective agencies and the payment of principal and interest on the GNMA Mortgage-Backed Securities are backed by the full-faith-and-credit of the U.S. government. At March 31, 2002 and December 31, 2001 all of the Company's Mortgage-Backed Securities have an actual or implied "AAA" rating.

Income Taxes - The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") and intends to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") with respect thereto. Accordingly, the Company will not be subjected to Federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements - The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date for FASB Statement No. 133, and No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and as interpreted by the FASB and the Derivatives Implementation Group through Statement No. 133, Implementation Issues, as of January 1, 2000. As of January 1, 2001, the Company had not entered into any derivative agreements; therefore, there were no transition adjustments.

## 2. MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of March 31, 2002, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
Mortgage-Backed				
Securities, gross	\$5,026,674,061	\$4,807,001,559	\$149,002,034	\$9,982,677,654
Unamortized discount	(1,327,993)	(527,474)	(27,647)	(1,883,114)
Unamortized premium	93,723,762	98,965,350	2,241,997	194,931,109
Amortized cost	5,119,069,830	4,905,439,435	151,216,384	10,175,725,649
Gross unrealized gains	26,050,091	20,557,732	285,807	46,893,630
Gross unrealized losses	(8,019,761)	(8,131,713)	(240,171)	(16,391,645)
Estimated fair value	\$5,137,100,160	\$4,917,865,454	\$151,262,020	\$10,206,227,634
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Adjustable rate	\$7,380,125,948	\$32,199,398	(\$11,293,244)	\$7,401,032,102
Fixed rate	2,795,599,701	14,694,232	(5,098,401)	2,805,195,532
Total	\$10,175,725,649	\$46,893,630	\$16,391,645	\$10,206,227,634

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of December 31, 2001, which are carried at their fair value:

	Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Government National Mortgage Association	Total Mortgage-Backed Securities
Mortgage-Backed				
Securities, gross	\$ 4,426,194,568	\$ 2,894,026,227	\$ 79,719,749	\$7,399,940,544
Unamortized discount	(1,345,955)	(755,106)	-	(2,101,061)
Unamortized premium	83,775,464	54,118,304	1,476,777	139,370,545
Amortized cost	4,508,624,077	2,947,389,425	81,196,526	7,537,210,028
Gross unrealized gains	32,636,111	21,223,896	75,100	53,935,107
Gross unrealized losses	(7,985,994)	(7,313,534)	(466,294)	(15,765,822)
Estimated fair value	\$ 4,533,274,194	\$ 2,961,299,787	\$ 80,805,332	\$7,575,379,313
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Adjustable rate	\$ 5,908,236,449	\$ 44,469,272	\$ (10,049,070)	\$5,942,656,651
Fixed rate	1,628,973,579	9,465,834	(5,716,751)	1,632,722,662
Total	\$ 7,537,210,028	\$ 53,935,106	\$ (15,765,821)	\$7,575,379,313

The adjustable rate Mortgage-Backed Securities are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months) and lifetime caps. The weighted average lifetime cap was 10.7% at March 31, 2002 and 11.5% at December 31, 2001.

During the quarter ended March 31, 2002, the Company realized \$3,410,245 in gains from sales of Mortgage-Backed Securities. During the quarter ended March 31, 2001, the Company realized \$269,478 in gains from sales of Mortgage-Backed Securities.

### 3. REPURCHASE AGREEMENTS

The Company had outstanding \$8,339,380,265 and \$6,367,710,186 of repurchase agreements with a weighted average borrowing rate of 2.15% and 2.18% and a weighted average remaining maturity of 150 days and 85 days as of March 31, 2002 and December 31, 2001, respectively.

At March 31, 2002 and December 31, 2001, the repurchase agreements had the following remaining maturities:

	March 31, 2002	December 31, 2001
Within 30 days	\$6,276,286,000	\$5,380,006,000
30 to 59 days	899,024,000	206,947,000
60 to 89 days	-	66,202,000
90 to 119 days	-	65,037,000
Over 120 days	1,164,070,265	649,518,186
Total	\$8,339,380,265	\$6,367,710,186

4. OTHER LIABILITIES

In July 2001, the Company entered into a repurchase agreement maturing in July 2004 which grants the buyer the right to extend the agreement, in whole or in part, in three-month increments up to July 2006. The repurchase agreement has a principal value of \$100,000,000. The Company accounts for the extension option as a separate interest rate floor liability carried at fair value. The initial fair value of \$1,205,458 allocated to the interest rate floor resulted in a similar discount on the repurchase agreement borrowings that is being amortized over the initial term of 3 years using the effective yield method. At March 31, 2002, the fair value of this interest rate floor was a \$1,947,084 and was classified as other liabilities. The aggregate charge of \$741,626 is included in interest expense as of March 31, 2002.

5. COMMON STOCK

During the quarter ended March 31, 2002, 22,000 options were exercised under the long-term compensation plan at \$282,050. Also, 33,708 shares were purchased in the dividend reinvestment and direct purchase program at \$559,159. An offering for 23,000,000 shares was completed during the quarter for approximate net proceeds of \$347.3 million. During the quarter ending March 31, 2002, the Company declared dividends to shareholders totaling \$52,222,875 or \$0.63 per share, which was paid on April 29, 2002.

During the year ended December 31, 2001, 274,231 options were exercised at \$2,974,666. Total shares exchanged upon exercise of the stock options were 41,620 at a value of \$588,068. Also, 10,856 shares were purchased in the dividend reinvestment and share purchase plan, totaling \$142,456. The Company completed an offering of common stock in the third quarter issuing 14,991,600 shares, with aggregate net proceeds of \$179.6 million. An offering of common stock during the second quarter of 2001 was completed issuing 18,918,500 shares, with aggregate net proceeds of \$195.3 million. Additional offerings for 11,150,000 shares were completed during the first quarter of 2001 for aggregate net proceeds of \$99.3 million. During the year ended December 31, 2001, the Company declared dividends to shareholders totaling \$88,370,451, or \$1.75 per share, of which \$52,474,266 was paid during the year and \$35,896,185 was paid on January 30, 2002.

6. EARNINGS PER SHARE (EPS)

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting No. 128, Earnings Per Share (SFAS No. 128), which requires dual presentation of basic EPS and diluted EPS on the face of the income statement for all entities with complex capital structures. SFAS No. 128 also requires a reconciliation of the numerator and denominator of basic EPS and diluted EPS computation.

For the quarter ended March 31, 2002, the reconciliation is as follows:

For the Quarter Ended March 31, 2002			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$53,042,977		
Basic earnings per share	\$53,042,977	76,709,836	\$0.69
Effect of dilutive securities:			
Dilutive stock options		307,595	
Diluted earnings per share	\$53,042,977	77,017,431	\$0.69

Options to purchase 600,352 shares were outstanding during the quarter and were dilutive as the exercise price of between \$7.94 and \$13.69 was less than the average stock price for the quarter of \$16.58.

For the quarter ended March 31, 2001, the reconciliation is as follows:

For the Quarter Ended March 31, 2001			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	\$8,330,273		
Basic earnings per share	8,330,273	21,851,481	\$0.38
Effect of dilutive securities: Dilutive stock options		683,729	
Diluted earnings per share	\$8,330,273	22,513,210	\$0.37

Options to purchase 868,296 shares were outstanding during the quarter and were dilutive as the exercise price of between \$4.00 and \$10.00 was less than the average stock price for the quarter of \$10.64. Options to purchase 10,084 shares of stock were outstanding and not considered dilutive. The exercise price of between \$10.75 and \$11.25 was greater than the average stock price for the quarter of \$10.64.

#### 7. COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income. Statement No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. The Company at March 31, 2002 and December 31, 2001 held securities classified as available-for-sale. At March 31, 2002, the net unrealized gain totaled \$30,501,985 and at December 31, 2001, the net unrealized gains totaled \$38,169,285.

#### 8. LEASE COMMITMENTS

The Corporation has a noncancelable lease for office space, which commenced in April 1998 and expires in December 2007.

The Corporation's aggregate future minimum lease payments are as follows:

2002	\$100,515
2003	110,261
2004	113,279
2005	116,388
2006	119,590
2007	122,888
Total remaining lease payments	\$682,921

#### 9. RELATED PARTY TRANSACTION

Included in "Other Assets" on the Balance sheet is an investment in Annaly International Money Management, Inc. On June 24, 1998, the Company acquired 99,960 nonvoting shares, at a cost of \$49,980. The Company continues to report the investment at cost. The officers and directors of Annaly International Money Management Inc. are also officers and directors of the Company. Officers and employees of the Company are actively involved in managing Mortgage-Backed Securities and other fixed income assets for institutional clients through Fixed Income Discount Advisory Company ("FIDAC"). FIDAC is a registered investment adviser, which

is owned 100% by the Chief Executive Officer of Annaly Mortgage Management, Inc. Our management currently allocates rent and other general and administrative expenses 90% to Annaly and 10% to FIDAC.

10. INTEREST RATE RISK

The primary market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Mortgage-Backed Securities and the Company's ability to realize gains from the sale of these assets.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although the Company has not done so to date, the Company may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in the portfolio of Mortgage-Backed Securities by entering into interest rate agreements such as interest rate caps and interest rate swaps.

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

11. SUBSEQUENT EVENT

The Company entered into a lease agreement in April 2002. The Company expects that the existing lease will be terminated without penalty. The new lease payments are \$41,652.83 per month from June 2002 through January 2006 and \$44,384.17 per month from February 2006 through December 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Annaly Mortgage Management, Inc. ("we" or "us") are a real estate investment trust that owns and manages a portfolio of Mortgage-Backed Securities. Our principal business objective is to generate net income for distribution to our stockholders from the spread between the interest income on our Mortgage-Backed Securities and the costs of borrowing to finance our acquisition of Mortgage-Backed Securities.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this quarterly report, and certain statements contained in our future filings with the Securities and Exchange Commission (the "SEC" or the "Commission"), in our press releases or in our other public or shareholder communications may not be, based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements which are based on various assumptions, (some of which are beyond our control) may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "anticipate," "continue," or similar terms or variations on those terms, or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, changes in interest rates, changes in 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. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see our 2001 Form 10-K. 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.

Results of Operations: For the Quarters Ended March 31, 2002 and 2001

Net Income Summary

For the quarter ended March 31, 2002, our GAAP net income was \$53.0 million, or \$0.69 basic earnings per average share, as compared to \$8.3 million, or \$0.38 basic earnings per average share, for the quarter ended March 31, 2001. We compute our GAAP net income per share by dividing net income by the weighted average number of shares of outstanding common stock during the period, which was 76,709,836 for the quarter ended March 31, 2002 and 21,851,481 for the quarter ended March 31, 2001. Dividends per shares outstanding for the quarter ended March 31, 2002 was \$0.63 per share, or \$52.2 million in total. Dividends per weighted average number of shares outstanding for the quarter ended March 31, 2001 was \$0.30 per share, or \$7.7 million in total. Our return on average equity was 25.32% for the quarter ended March 31, 2002 and 17.20% for the quarter ended March 31, 2001.

Net Income Summary		
-----		
(dollars in the thousands, except for per share data)		
-----		
	Quarter ended March 31, 2002	Quarter ended March 31, 2001
	-----	-----
Interest Income	\$92,990	\$42,434
Interest Expense	40,012	33,453
	-----	-----
Net Interest Income	52,888	8,981
Gain on Sale of Mortgage-Backed Securities	3,410	269
General and Administrative Expenses	3,255	920
	-----	-----
Net Income	\$53,043	\$8,330
	=====	=====

Average Number of Basic Shares Outstanding	76,709,836	21,851,481
Average Number of Diluted Shares Outstanding	77,017,431	22,513,210
Basic Net Income Per Share	\$0.69	\$0.38
Diluted Net Income Per Share	\$0.69	\$0.37
Average Total Assets	\$8,987,862	\$2,779,055
Average Equity	\$838,022	\$193,763
Annualized Return on Average Assets	2.36%	1.20%
Annualized Return on Average Equity	25.32%	17.20%

#### Interest Income and Average Earning Asset Yield

We had average earning assets of \$7.6 billion and \$2.5 billion for the quarters ended March 31, 2002 and 2001, respectively. Our primary source of income for the quarters ended March 31, 2002 and 2001 was interest income. A portion of our income was generated by gains on the sales of our Mortgage-Backed Securities. Our interest income was \$92.9 million for the quarter ended March 31, 2002 and \$42.4 million for the quarter ended March 31, 2001. Our yield on average earning assets was 4.88% and 6.78% for the same respective periods. Our average earning asset balance increased by \$5.1 billion and interest income increased by \$50.5 million for the quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001, due to the substantial increase in the asset base resulting from the inflow of capital in the first quarter offerings. The table below shows our average balance of cash equivalents and Mortgage-Backed Securities, the yields we earned on each type of earning asset, our yield on average earning assets and our interest income for the quarter ended March 31, 2002, the year ended December 31, 2001 and the four quarters in 2001.

#### Average Earning Asset Yield

	Average Cash Equivalents	Average Mortgage- Backed Securities	Average Earning Assets	Yield on Average Cash Equivalents	Yield on Average Mortgage- Backed Securities	Yield on Average Earning Assets	Interest Income
	(dollars in thousands)						
For the Quarter Ended March 31, 2002	\$2	\$7,610,006	\$7,610,008	1.29%	4.88%	4.88%	\$92,900
For the Year Ended December 31, 2001	\$2	\$4,682,778	\$4,682,780	3.25%	5.62%	5.62%	\$263,058
For the Quarter Ended December 31, 2001	\$2	\$6,708,928	\$6,708,930	1.56%	4.77%	4.77%	\$80,060
For the Quarter Ended September 30, 2001	\$2	\$5,263,231	\$5,263,233	2.77%	5.76%	5.76%	\$75,774
For the Quarter Ended June 30, 2001	\$2	\$4,256,864	\$4,256,866	3.72%	6.09%	6.09%	\$64,790
For the Quarter Ended March 31, 2001	\$2	\$2,502,088	\$2,502,090	4.93%	6.78%	6.78%	\$42,434

The constant prepayment rate ("CPR") on our Mortgage-Backed Securities for the quarter ended March 31, 2002 was 29% and for the quarter ended March 31, 2001 was 20%. CPR is an assumed rate of prepayment for our Mortgage-Backed Securities, expressed as an annual rate of prepayment relative to the outstanding principal balance of our Mortgage-Backed Securities. CPR does not purport to be either a historical description of the prepayment experience of our Mortgage-Backed Securities or a prediction of the anticipated rate of prepayment of our Mortgage-Backed Securities.

Principal prepayments had a negative effect on our earning asset yield for the quarters ended March 31, 2002 and 2001 because we adjust our rates of premium amortization and discount accretion monthly based upon the effective yield method, which takes into consideration changes in prepayment speeds.

#### Interest Expense and the Cost of Funds

We anticipate that our largest expense will be the cost of borrowed funds. We had average borrowed funds

of \$7.2 billion and total interest expense of \$40.0 million for the quarter ended March 31, 2002. We had average borrowed funds of \$2.4 billion and total interest expense of \$33.5 million for the quarter ended March 31, 2001. Our average cost of funds was 2.23% for the quarter ended March 31, 2002 and 5.68% for the quarter ended March 31, 2001. The cost of funds rate decreased 3.45% and the average borrowed funds increased by \$4.8 billion for the quarter ended March 31, 2002 when compared to the quarter ended March 31, 2001. Interest expense for the quarter increased 20% due to the large increase in the average repurchase balance, resulting from deployment of the Company's strategy after the capital raise in January of 2002.

With our current asset/liability management strategy, changes in our cost of funds are expected to be closely correlated with changes in short-term LIBOR, although we have chosen to extend the maturity of our liabilities. Our average cost of funds was 0.38% above average one-month LIBOR and 0.17% above average six-month LIBOR for the quarter ended March 31, 2002. Our average cost of funds was 0.17% above average one-month LIBOR and 0.50% above average six-month LIBOR for the quarter ended March 31, 2001.

The table below shows our average borrowed funds and average cost of funds as compared to average one-month and average six-month LIBOR for the quarter ended March 31, 2002, the year ended December 31, 2001 and the four quarters in 2001.

Average Cost of Funds								
	Average Borrowed Funds	Interest Expense	Average Cost of Funds (dollars in thousands)	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average Cost of Funds Relative to Average One-Month LIBOR	Average Cost of Funds Relative to Average Six-Month LIBOR
For the Quarter Ended								
March 31, 2002	\$7,192,222	\$40,012	2.23%	1.85%	2.06%	(0.21%)	0.38%	0.17%
For the Year Ended								
December 31, 2001	\$4,388,900	\$168,055	3.83%	3.88%	3.73%	0.15%	(0.05%)	0.10%
For the Quarter Ended								
December 31, 2001	\$6,166,998	\$40,698	2.64%	2.20%	2.16%	0.04%	0.44%	0.48%
For the Quarter Ended								
September 30, 2001	\$4,997,922	\$48,620	3.89%	3.55%	3.47%	0.08%	0.34%	0.42%
For the Quarter Ended								
June 30, 2001	\$4,035,022	\$45,254	4.49%	4.27%	4.12%	0.15%	0.22%	0.37%
For the Quarter Ended								
March 31, 2001	\$2,355,658	\$33,453	5.68%	5.51%	5.18%	0.33%	0.17%	0.50%

#### Net Interest Rate Agreement Expense

We have not entered into any interest rate agreements to date. As part of our asset/liability management process, we may enter into interest rate agreements such as interest rate caps, floors or swaps. These agreements would be entered into with the intent to reduce interest rate or prepayment risk and would be designed to provide us income and capital appreciation in the event of certain changes in interest rates. However, even after entering into these agreements, we would still be exposed to interest rate and prepayment risks. We review the need for interest rate agreements on a regular basis consistent with our capital investment policy.

## Net Interest Income

Our net interest income, which equals interest income less interest expense, totaled \$52.9 million for the quarter ended March 31, 2002 and \$9.0 million for the quarter ended March 31, 2001. Our net interest income increased because of the increased asset size of the company and the increase in the interest rate spread. Our net interest spread, which equals the yield on our average assets for the period less the average cost of funds for the period, was 2.65% for the quarter ended March 31, 2002 as compared to 1.10% for the quarter ended March 31, 2001. This 155 basis point increase in spread income is reflected in the increase in net interest income.

The table below shows our interest income by earning asset type, average earning assets by type, total interest income, interest expense, average repurchase agreements, average cost of funds, and net interest income for the quarter ended March 31, 2002, the year ended December 31, 2001, and the four quarters in 2001.

GAAP Net Interest Income									
	Average Mortgage- Backed Securities Held	Interest Income on Mortgage- Backed Securities	Average Cash Equivalents	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income
	(dollars in thousands)								
For the Quarter Ended									
March 31, 2002	\$7,610,006	\$92,900	\$2	\$92,900	4.88%	\$7,192,222	\$40,012	2.23%	\$52,888
For the Year Ended December 31, 2001									
	\$4,682,778	\$263,058	\$2	\$263,058	5.62%	\$4,388,900	\$168,055	3.83%	\$95,003
For the Quarter Ended December 31, 2001									
	\$6,708,928	\$80,060	\$2	\$80,060	4.77%	\$6,166,998	\$40,698	2.64%	\$39,361
For the Quarter Ended September 30, 2001									
	\$5,263,231	\$75,774	\$2	\$75,774	5.76%	\$4,997,922	\$48,620	3.89%	\$27,154
For the Quarter Ended June 30, 2001									
	\$4,256,864	\$64,790	\$2	\$64,790	6.09%	\$4,035,022	\$45,284	4.49%	\$19,506
For the Quarter Ended March 31, 2001									
	\$2,502,088	\$42,434	\$2	\$42,434	6.78%	\$2,355,658	\$33,453	5.68%	\$8,981

## Gains and Losses on Sales of Mortgage-Backed Securities

For the quarter ended March 31, 2002, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$390.1 million for an aggregate gain of \$3,410,245. For the quarter ended March 31, 2001, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of \$151.6 million for an aggregate gain of \$269,478. The difference between the sale price and the historical amortized cost of our Mortgage-Backed Securities is a realized gain and increases income accordingly. We do not expect to sell assets on a frequent basis, but may from time to time sell existing assets to move into new assets, which our management believes might have higher risk-adjusted returns, or to manage our balance sheet as part of our asset/liability management strategy.

## Credit Losses

We have not experienced credit losses on our Mortgage-Backed Securities to date. We have limited our exposure to credit losses on our Mortgage-Backed Securities by purchasing only securities issued or guaranteed by FNMA, FHLMC or GNMA which, although not rated, carry an implied "AAA" rating.

## General and Administrative Expense

General and administrative ("G&A") expenses were \$3,254,907 for the quarter ended March 31, 2002 and \$920,549 for the quarter ended March 31, 2001. G&A expenses as a percentage of average assets was 0.14% and 0.13% on an annualized basis for the quarters ended March 31, 2002 and 2001, respectively. G&A expenses as a percentage of average equity was 1.55% and 1.90% on an annualized basis for the quarters ended March 31, 2002 and 2001, respectively. The Company is internally managed and continues to be a low cost provider. Even though G&A expenses increased by \$2,334,358 for the quarter ended March 31, 2002, when compared to the quarter ended

March 31, 2001, G&A as a percentage of average equity was 0.35% less than the first quarter of 2001.

GAAP GAExpenses and Operating Expense Ratios

	Total GA Expenses	Total GA Expenses/Average Assets (annualized)	Total GA Expenses/Average Equity (annualized)
(dollars in thousands)			
For the Quarter Ended March 31, 2002	\$3,255	0.14%	1.55%
For the Year Ended December 31, 2001	\$7,311	0.14%	1.67%
For the Quarter Ended December 31, 2001	\$3,004	0.17%	1.78%
For the Quarter Ended September 30, 2001	\$1,993	0.13%	1.76%
For the Quarter Ended June 30, 2001	\$1,393	0.12%	1.45%
For the Quarter Ended March 31, 2001	\$921	0.13%	1.90%

Net Income and Return on Average Equity

Our net income was \$53.0 million for the quarter ended March 31, 2002 and \$8.3 million for the quarter ended March 31, 2001. Our return on average equity was 25.3% for the quarter ended March 31, 2002 and 17.2% for the quarter ended March 31, 2001. The increase in net income is a direct result of the increase in capital from the three offerings completed in the time period of April 2001 to January 2002. As previously mentioned, the new capital allowed us to grow the balance sheet and ultimately grow earnings. The table below shows our net interest income, gain on sale of Mortgage-Backed Securities and G&A expenses each as a percentage of average equity, and the return on average equity for the quarters ended March 31, 2002, the year ended December 31, 2001, and for the four quarters in 2001.

Components of Return on Average Equity

(Ratios for all Quarters are annualized)

	Net Interest Income/Average Equity	Gain on Sale of Mortgage-Backed Securities/Average Equity	GA Expenses/Average Equity	Return on Average Equity
For the Quarter Ended March 31, 2002	25.24%	1.63%	1.55%	25.32%
For the Year Ended December 31, 2001	21.72%	1.05%	1.67%	21.10%
For the Quarter Ended December 31, 2001	23.34%	1.57%	1.78%	23.13%
For the Quarter Ended September 30, 2001	23.97%	1.05%	1.76%	23.26%
For the Quarter Ended June 30, 2001	20.37%	0.50%	1.45%	19.42%
For the Quarter Ended March 31, 2001	18.54%	0.56%	1.90%	17.20%

Financial Condition

Mortgage-Backed Securities

All of our Mortgage-Backed Securities at March 31, 2002 were adjustable-rate or fixed-rate Mortgage-Backed Securities backed by single-family mortgage loans. All of the mortgage assets underlying these Mortgage-Backed Securities were secured with a first lien position on the underlying single-family properties. All our Mortgage-Backed Securities were FHLMC, FNMA or GNMA mortgage pass-through certificates or collateralized mortgage obligations ("CMOs"), which carry an actual or implied "AAA" rating. We mark-to-market all of our earning assets at liquidation value.

We accrete discount balances as an increase in interest income over the life of discount Mortgage-Backed Securities and we amortize premium balances as a decrease in interest income over the life of premium Mortgage-Backed Securities. At March 31, 2002 and 2001, we had on our balance sheet a total of \$1.9 million and \$1.6 million respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our Mortgage-Backed Securities acquired at a price below principal value) and a

total of \$194.9 million and \$43.6 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our Mortgage-Backed Securities acquired at a price above principal value).

We received mortgage principal repayments of \$1.1 billion for the quarter ended March 31, 2002 and \$94.4 million for the quarter ended March 31, 2001. Given our current portfolio composition, if mortgage principal prepayment rates were to increase over the life of our Mortgage-Backed Securities, all other factors being equal, our net interest income would decrease during the life of these Mortgage-Backed Securities as we would be required to amortize our net premium balance into income over a shorter time period. Similarly, if mortgage principal prepayment rates were to decrease over the life of our Mortgage-Backed Securities, all other factors being equal, our net interest income would increase during the life of these Mortgage-Backed Securities, as we would amortize our net premium balance over a longer time period.

The table below summarizes our Mortgage-Backed Securities at March 31, 2002, December 31, 2001, September 30, 2001, June 30, 2001, and March 31, 2001.

Mortgage-Backed Securities							
	Principal Value	Net Premium	Amortized Cost	Amortized Cost/Principal Value	Estimated Fair Value	Estimated Fair Value/Principal Value	Weighted Average Yield
(dollars in thousands)							
At March 31, 2002	\$9,982,678	\$193,048	\$10,175,726	101.93%	\$10,206,228	102.24%	4.31%
At December 31, 2001	\$7,399,941	\$137,269	\$7,537,210	101.86%	\$7,575,379	102.37%	4.41%
At September 30, 2001	\$6,275,501	\$96,674	\$6,372,175	101.54%	\$6,428,853	102.44%	5.17%
At June 30, 2001	\$5,498,235	\$69,193	\$5,567,428	101.26%	\$5,572,288	101.34%	5.75%
At March 31, 2001	\$3,455,436	\$42,023	\$3,497,459	101.22%	\$3,500,610	101.31%	6.43%

The tables below set forth certain characteristics of our Mortgage-Backed Securities. The index level for adjustable-rate Mortgage-Backed Securities is the weighted average rate of the various short-term interest rate indices, which determine the coupon rate.

Adjustable-Rate Mortgage-Backed Security Characteristics								
	Principal Value	Weighted Average Coupon Rate	Weighted Average Index Level	Weighted Average Net Margin	Weighted Average Term to Next Adjustment	Weighted Average Lifetime Cap	Weighted Average Asset Yield	Principal Value at Period End as % of Total Mortgage-Backed Securities
(dollars in thousands)								
At March 31, 2002	\$7,248,832	4.94%	3.25%	1.69%	16 months	10.73%	3.52%	72.61%
At December 31, 2001	\$5,793,250	5.90%	3.95%	1.95%	24 months	11.49%	3.87%	78.29%
At September 30, 2001	\$4,789,570	6.24%	4.31%	1.93%	27 months	11.46%	4.76%	76.32%
At June 30, 2001	\$3,997,580	6.47%	4.60%	1.87%	26 months	11.37%	5.38%	72.71%
At March 31, 2001	\$2,495,296	7.01%	5.14%	1.87%	26 months	11.57%	6.35%	72.21%

Fixed-Rate Mortgage-Backed Security Characteristics				
	Principal Value	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Value at Period End as % of Total Mortgage-Backed Securities
(dollars in thousands)				
At March 31, 2002	\$2,733,846	7.01%	6.40%	27.39%
At December 31, 2001	\$1,606,691	6.92%	6.33%	21.71%
At September 30, 2001	\$1,485,931	6.88%	6.48%	23.68%
At June 30, 2001	\$1,500,655	6.83%	6.71%	27.29%
At March 31, 2001	\$960,140	6.79%	6.69%	27.79%

At March 31, 2002 and December 31, 2001 we held Mortgage-Backed Securities with coupons linked to the one-month and six month LIBOR, six month average auction, 12-month cumulative average, six-month CD rate, one-year, two-year, three-year, and five-year Treasury indices.

Adjustable-Rate Mortgage-Backed Securities by Index  
March 31, 2002

	One-Month LIBOR	Six-Month LIBOR	Six-Month Auction Average	12-Month Moving Average	Six-Month CD Rate	1-Year Treasury Index	2-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index
Weighted Average									
Adjustment Frequency	1mo.	6 mo.	6 mo.	12 mo.	6 mo.	12 mo.	24 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1mo.	52 mo.	2 mo.	1 mo.	3 mo.	29 mo.	15 mo.	17 mo.	31 mo.
Weighted Average Annual Period Cap	None	2.00%	0.50%	None	1.00%	1.92%	2.00%	2.00%	1.95%
Weighted Average Lifetime Cap at March 31, 2002	9.03%	11.50%	12.54%	10.62%	11.40%	12.13%	11.78%	13.12%	12.89%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at March 31, 2002	32.81%	0.09%	0.08%	0.69%	0.15%	37.32%	0.05%	0.89%	0.54%

Adjustable-Rate Mortgage-Backed Securities by Index  
December 31, 2001

	One-Month LIBOR	Six-Month LIBOR	Six-Month Auction Average	12-Month Moving Average	Six-Month CD Rate	1-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index
Weighted Average Adjustment								
Frequency	1mo.	6 mo.	6 mo.	12 mo.	6 mo.	12 mo.	36 mo.	60 mo.
Weighted Average Term to Next Adjustment	1mo.	55 mo.	2 mo.	11 mo.	2 mo.	33 mo.	16 mo.	33 mo.
Weighted Average Annual Period Cap	None	2.00%	0.50%	None	1.00%	1.98%	2.00%	1.96%
Weighted Average Lifetime Cap at December 31, 2001	9.09%	11.50%	12.53%	10.63%	11.40%	12.22%	13.08%	12.92%
Mortgage Principal Value as Percentage of Mortgage-Backed Securities at December 31, 2001	18.32%	0.13%	0.12%	1.06%	0.22%	56.20%	1.35%	0.89%

### Interest Rate Agreements

Interest rate agreements are assets that are carried on a balance sheet at estimated liquidation value. We have not entered into any interest rate agreements since our inception.

### Borrowings

To date, our debt has consisted entirely of borrowings collateralized by a pledge of our Mortgage-Backed Securities. These borrowings appear on our balance sheet as repurchase agreements. At March 31, 2002, we had established uncommitted borrowing facilities in this market with twenty-three lenders in amounts, which we believe, are in excess of our needs. All of our Mortgage-Backed Securities are currently accepted as collateral for these borrowings. However, we limit our borrowings, and thus our potential asset growth, in order to maintain unused borrowing capacity and thus increase the liquidity and strength of our balance sheet.

For the quarter ended March 31, 2002 the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 187 days. For the quarter ended March 31, 2001, the term to maturity of our borrowings ranged from one day to 6 months, with a weighted average original term to maturity of 57 days. At March 31, 2001, the weighted average cost of funds for all of our borrowings was 2.15% and the weighted average term to next rate adjustment was 150 days. At March 31, 2002, the weighted average cost of funds for all of our borrowings was 5.22% and the weighted average term to next rate adjustment was 26 days.

#### Liquidity

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional Mortgage-Backed Securities and to pledge additional assets to secure existing borrowings should the value of our pledged assets decline. Potential immediate sources of liquidity for us include cash balances and unused borrowing capacity. Unused borrowing capacity will vary over time as the market value of our Mortgage-Backed Securities varies. Our balance sheet also generates liquidity on an on-going basis through mortgage principal repayments and net earnings held prior to payment as dividends. Should our needs ever exceed these on-going sources of liquidity plus the immediate sources of liquidity discussed above, we believe that our Mortgage-Backed Securities could in most circumstances be sold to raise cash. The maintenance of liquidity is one of the goals of our capital investment policy. Under this policy, we limit asset growth in order to preserve unused borrowing capacity for liquidity management purposes.

#### Stockholders' Equity

We use "available-for-sale" treatment for our Mortgage-Backed Securities; we carry these assets on our balance sheet at estimated market value rather than historical amortized cost. Based upon this "available-for-sale" treatment, our equity base at March 31, 2002 was \$1.0 billion, or \$12.17 per share. If we had used historical amortized cost accounting, our equity base at March 31, 2002 would have been \$978.2 million, or \$11.80 per share. Our equity base at March 31, 2001 was \$251.9 million, or \$9.80 per share. If we had used historical amortized cost accounting, our equity base at March 31, 2001 would have been \$248.7 million, or \$9.67 per share. During the quarter ended March 31, 2002, the Company raised \$347.3 million in a secondary offering. During the quarter ended March 31, 2001, the Company raised additional capital in the amount of \$99.3 million in offerings.

With our "available-for-sale" accounting treatment, unrealized fluctuations in market values of assets do not impact our GAAP or taxable income but rather are reflected on our balance sheet by changing the carrying value of the asset and stockholders' equity under "Accumulated Other Comprehensive Income (Loss)." By accounting for our assets in this manner, we hope to provide useful information to stockholders and creditors and to preserve flexibility to sell assets in the future without having to change accounting methods.

As a result of this mark-to-market accounting treatment, our book value and book value per share are likely to fluctuate far more than if we used historical amortized cost accounting. As a result, comparisons with companies that use historical cost accounting for some or all of their balance sheet may not be meaningful.

The table below shows unrealized gains and losses on the Mortgage-Backed Securities in our portfolio.

#### Unrealized Gains and Losses

(dollars in thousands)

	At March 31, 2002	At December 31, 2001	At September 30, 2001	At June 30, 2001	At March 31, 2001
Unrealized Gain	\$46,894	\$53,935	\$67,459	\$19,322	\$12,606
Unrealized Loss	(16,392)	(15,766)	(10,782)	(14,462)	(9,455)
Net Unrealized Gain	\$30,502	\$38,169	\$56,677	\$4,860	\$3,151
Net Unrealized Gain as % of Mortgage-Backed Securities Principal Value	0.31%	0.52%	0.90%	0.08%	0.09%
Net Unrealized Gain as % of Mortgage-Backed Securities Amortized Cost	0.30%	0.51%	0.90%	0.08%	0.09%

Unrealized changes in the estimated net market value of Mortgage-Backed Securities have one direct effect on our potential earnings and dividends: positive mark-to-market changes increase our equity base and allow us to increase our borrowing capacity while negative changes decrease our equity base and tend to limit borrowing capacity under our capital investment policy. A very large negative change in the net market value of our Mortgage-Backed Securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale. "Unrealized Net Gains on Available for Sale Securities" was \$30.5 million, or 0.31% of the amortized cost of our Mortgage-Backed Securities at March 31, 2002. "Unrealized Net Gains on Available for Sale Securities" was \$38.2 million or 0.51% of the amortized cost of our Mortgage-Backed Securities at December 31, 2001.

The table below shows our equity capital base as reported and on a historical amortized cost basis at March 31, 2002, December 31, 2001, September 30, 2001, June 30, 2001 and March 31, 2001. Issuances of common stock, the level of GAAP earnings as compared to dividends declared, and other factors influence our historical cost equity capital base. The GAAP reported equity capital base is influenced by these factors plus changes in the "Unrealized Net Losses on Assets Available for Sale" account.

Stockholders' Equity					
	Historical Amortized Cost Equity Base	Net Unrealized Gains (Losses) on Assets Available for Sale	GAAP Reported Equity Base (Book Value)	Historical Amortized Cost Equity Per Share	GAAP Reported Equity (Book Value) Per Share
(dollars in thousands, except per share data)					
At March 31, 2002	\$978,186	\$30,502	\$1,008,688	\$11.80	\$12.17
At December 31, 2001	\$629,188	\$38,169	\$667,357	\$10.52	\$11.15
At September 30, 2001	\$625,368	\$56,677	\$682,045	\$10.47	\$11.41
At June 30, 2001	\$445,091	\$4,860	\$449,951	\$9.96	\$10.07
At March 31, 2001	\$248,732	\$3,151	\$251,883	\$9.67	\$9.80

#### Leverage

Our debt-to-GAAP reported equity ratio at March 31, 2002 and March 31, 2001 was 8.3:1 and 12.4:1, respectively. We generally expect to maintain a ratio of debt-to-equity of between 8:1 and 12:1, although the ratio may vary from this range from time to time based upon various factors, including our management's opinion of the level of risk of our assets and liabilities, our liquidity position, our level of unused borrowing capacity and over-collateralization levels required by lenders when we pledge assets to secure borrowings.

Our target debt-to-GAAP reported equity ratio is determined under our capital investment policy. Should our actual debt-to-equity ratio increase above the target level due to asset acquisition or market value fluctuations in assets, we will cease to acquire new assets. Our management will, at that time, present a plan to our Board of Directors to bring us back to our target debt-to-equity ratio; in many circumstances, this would be accomplished in time by the monthly reduction of the balance of our Mortgage-Backed Securities through principal repayments.

#### Asset/Liability Management and Effect of Changes in Interest Rates

We continually review our asset/liability management strategy with respect to interest rate risk, mortgage prepayment risk, credit risk and the related issues of capital adequacy and liquidity. We seek attractive risk-adjusted stockholder returns while maintaining a strong balance sheet.

We seek to manage the extent to which our net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. In addition, although we have not done so to date, we may seek to mitigate the potential impact on net income of periodic and lifetime coupon adjustment restrictions in our portfolio of Mortgage-Backed Securities by entering into interest rate agreements such as interest rate caps and interest rate swaps.

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

#### Inflation

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates and other factors drive our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our dividends based upon our net income as calculated for tax purposes; in each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

#### Other Matters

We calculate that our qualified REIT assets, as defined in the Internal Revenue Code, are 99.5% and 99.4% of our total assets at March 31, 2002 and 2001, as compared to the Internal Revenue Code requirement that at least 75% of our total assets be qualified REIT assets. We also calculate that 100% of our revenue qualifies for the 75% source of income test, and 100% of our revenue qualifies for the 95% source of income test, under the REIT rules for the quarters ended March 31, 2002 and 2001. We also met all REIT requirements regarding the ownership of our common stock and the distribution of our net income. Therefore, as of March 31, 2002 and 2001, we believe that we qualified as a REIT under the Internal Revenue Code.

We at all times intend to conduct our business so as not to become regulated as an investment company under the Investment Company Act. If we were to become regulated as an investment company, then our use of leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (qualifying interests). Under current interpretation of the staff of the SEC, in order to qualify for this exemption, we must maintain at least 55% of our assets directly in qualifying interests. In addition, unless certain mortgage securities represent all the certificates issued with respect to an underlying pool of mortgages, the Mortgage-Backed Securities may be treated as securities separate from the underlying mortgage loans and, thus, may not be considered qualifying interests for purposes of the 55% requirement. We calculate that as of March 31, 2002 and 2001 we were in compliance with this requirement.

## MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we are exposed is interest rate risk, which is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities, by affecting the spread between our interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of our Mortgage-Backed Securities and our ability to realize gains from the sale of these assets. We may utilize a variety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts, in order to limit the effects of interest rates on our operations. If we use these types of derivatives to hedge the risk of interest-earning assets or interest-bearing liabilities, we may be subject to certain risks, including the risk that losses on a hedge position will reduce the funds available for payments to holders of securities and that the losses may exceed the amount we invested in the instruments. To date, we have not purchased any hedging instruments.

Our profitability and the value of our portfolio may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income and portfolio value should interest rates go up or down 50, 100, and 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other and the current yield curve. All changes in income and value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2002 and various estimates regarding prepayment and all activities are made at each level of rate shock. Actual results could differ significantly from these estimates.

Change in Interest Rate	Projected Percentage Change in Net Interest Income	Projected Percentage Change in Portfolio Value
-200 Basis Points	7%	2%
-100 Basis Points	4%	1%
-50 Basis Points	2%	1%
Base Interest Rate		
+50 Basis Points	(3%)	(1%)
+100 Basis Points	(8%)	(2%)
+200 Basis Points	(18%)	(6%)

## ASSET AND LIABILITY MANAGEMENT

Asset and liability management is concerned with the timing and magnitude of the repricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity "gap", which is the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or repricing of our interest-earning assets and interest-bearing liabilities at March 31, 2002. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except adjustable-rate loans, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature. Mortgage-Backed Securities reflect estimated prepayments that were estimated based on analyses of broker estimates, the results of a prepayment model that we utilized and empirical data. Our management believes that these assumptions approximate actual experience and considers them reasonable; however, the interest rate sensitivity of our assets and liabilities in the table could vary substantially if different assumptions were used or actual experience differs from the historical experience on which the assumptions are based.

	Within 3 Months	4-12 Months	More than 1 Year to 3 Years	3 Years and Over	Total
(dollars in thousands)					
Rate Sensitive Assets:					
Mortgage-Backed Securities	\$3,357,626	\$688,601	\$2,030,488	\$3,905,963	\$9,982,678
Rate Sensitive Liabilities:					
Repurchase Agreements	7,175,310		1,164,070		8,339,380
Interest rate sensitivity gap	(\$3,817,684)	\$688,601	\$866,418	\$3,905,963	\$1,643,298
Cumulative rate sensitivity gap	(\$3,817,684)	(\$3,129,083)	(\$2,262,665)	\$1,643,298	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(38%)	(31%)	(23%)	16%	

Our analysis of risks is based on management's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables and in this report. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports

The Company filed a Form 8-K on January 25, 2002 with respect to the Company's entering into an underwriting agreement with UBS Warburg LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Rothschild LLC, Friedman, Billings, Ramsey & Co., Inc., RBC Dain Rauscher Inc., and U.S. Bancorp Piper Jaffray Inc., as representatives of the several underwriters.

SIGNATURES

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

ANNALY MORTGAGE MANAGEMENT, INC.

Dated: May 13, 2002

By: /s/ Michael A.J. Farrell  
-----

Michael A.J. Farrell  
Chairman of the Board and Chief Executive Officer  
(authorized officer of registrant)

Dated: May 13, 2002

By: /s/ Kathryn F. Fagan  
-----

Kathryn F. Fagan  
Chief Financial Officer and Treasurer  
(principal financial and accounting officer)