FORM 10–Q

ANNALY MORTGAGE MANAGEMENT INC – NLY

Filed: May 10, 2004 (period: March 03, 2004)

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2004

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 incorporation or organization)	(IRS Employer Identification No.)

1211 AVENUE OF THE AMERAICAS SUITE 2902
NEW YORK, NEW YORK
(Address of principal executive offices)

10036
(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 X No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at May 7, 2004
Common Stock, $.01 par value	117,894,610

ANNALY MORTGAGE MANAGEMENT, INC.

FORM 10-Q

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PART I.

ITEM 1. FINANCIAL STATEMENTS

ANNALY MORTGAGE MANAGEMENT, INC.
STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS)

	MARCH 31, 2004 (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
Cash and cash equivalents	$ 738	$ 247
Mortgage-Backed Securities, at fair value	17,046,117	11,956,512
Agency debentures, at fair value	1,033,481	978,167
Receivable for preferred stock proceeds	102,903	-
Receivable for Mortgage-Backed Securities sold	81,200	-
Accrued interest receivable	71,446	53,743
Other assets	2,808	1,617
Total assets	$18,338,693	$12,990,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$14,689,300	$11,012,903
Payable for Mortgage-Backed Securities purchased	1,873,813	761,115
Accrued interest payable	21,299	14,989
Dividends payable	58,942	45,155
Other liabilities	4,664	4,017
Accounts payable	2,087	2,887
Total liabilities	16,650,105	11,841,066
Stockholders' Equity:		
7.875% Series A Cumulative Redeemable Preferred Stock: par value $.01 per share; 4,887,500 authorized, 4,250,000 and 0, shares issued and outstanding, respectively	102,870	-
Common stock: par value $.01 per share; 500,000,000 authorized, 117,866,932, and 96,074,096, shares issued and outstanding, respectively	1,179	961
Additional paid-in capital	1,578,778	1,194,159
Accumulated other comprehensive income (loss)	4,500	(47,261)
Retained earnings	1,261	1,361
Total stockholders' equity	1,688,588	1,149,220
Total liabilities and stockholders' equity	$18,338,693	$12,990,286

See notes to financial statements.

PART I.
ITEM 1. FINANCIAL STATEMENTS

ANNALY MORTGAGE MANAGEMENT, INC
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	FOR THE QUARTER ENDED MARCH 31, 2004	FOR THE QUARTER ENDED MARCH 31, 2003
INTEREST INCOME	$114,341	$87,500
INTEREST EXPENSE	50,303	44,048
NET INTEREST INCOME	64,038	43,452
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	595	11,020
GENERAL AND ADMINISTRATIVE EXPENSES	5,790	3,697
NET INCOME	58,843	50,775
COMPREHENSIVE INCOME (LOSS):		
Unrealized gain on available-for-sale securities	52,356	6,509
Less: reclassification adjustment for net gains included in net income	(595)	(11,020)
Other comprehensive income (loss)	51,761	(4,511)
COMPREHENSIVE INCOME	$110,604	$46,264
NET INCOME PER SHARE:		
Basic	$0.52	$0.60
Diluted	$0.52	$0.60
AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	112,506,206	84,606,786
Diluted	112,804,001	84,837,390

See notes to financial statements.

PART I.
ITEM 1. FINANCIAL STATEMENTS

ANNALY MORTGAGE MANAGEMENT, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE QUARTER ENDED MARCH 31, 2004
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	PREFERRED STOCK	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	COMPREHENSIVE INCOME	OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL
BALANCE, JANUARY 1, 2004		$961	$1,194,159		($47,261)	$ 1,361	$1,149,220
Net income				$58,843		58,843	
Other comprehensive income:							
Unrealized net gains on securities, net of reclassification adjustment				51,761	51,761		
Comprehensive income				$110,604			110,604
Proceeds from issuance of 7.875% Series A							
Cumulative redeemable preferred stock	$102,870						102,870
Exercise of stock options		-	459				459
Proceeds from direct purchase and dividend reinvestment		1	734				735
Net proceeds from equity shelf program		10	20,041				20,051
Net proceeds from follow-on offering		207	363,385				363,592
Dividend declared for the quarter ended March 31, 2004, $0.50 per share						(58,943)	(58,943)
BALANCE, MARCH 31, 2004	$102,870	$1,179	$1,578,778		$4,500	$1,261	$1,688,588

See notes to financial statements.

PART I.
ITEM 1. FINANCIAL STATEMENTS

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

	FOR THE QUARTER ENDED MARCH 31, 2004	FOR THE QUARTER ENDED MARCH 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$58,843	$50,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of Mortgage premiums and discounts, net	41,501	48,519
Gain on sale of Mortgage-Backed Securities	(595)	(11,020)
Stock option expense	217	2
Market value adjustment on long-term repurchase agreement	747	103
Increase in accrued interest receivable	(17,703)	(379)
Increase in other assets	(1,191)	(33)
Increase in accrued interest payable	6,310	980
Decrease in accounts payable	(833)	(875)
Net cash provided by operating activities	87,296	88,072
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Mortgage-Backed Securities	(5,280,945)	(2,297,069)
Purchase of agency debentures	(150,000)	(171,000)
Proceeds from sale of Mortgage-Backed Securities	24,159	536,246
Proceeds from sale of callable agency debentures	100,000	-
Principal payments of Mortgage-Backed Securities	1,204,219	1,871,524
Net cash used in investing activities	(4,102,567)	(60,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Proceeds from repurchase agreements	30,194,192	24,295,758
Principal payments on repurchase agreements	(26,517,895)	(24,266,982)
Proceeds from exercise of stock options	243	215
Proceeds from direct purchase and dividend reinvestment	734	953
Net proceeds from follow-on offerings	363,592	-
Net proceeds from equity shelf program	20,051	
Dividends paid	(45,155)	(57,499)
Net cash provided by (used in) financing activities	4,015,762	(27,555)
Net increase in cash and cash equivalents	491	219
Cash and cash equivalents, beginning of period	247	726
Cash and cash equivalents, end of period	$ 738	$ 945
Supplemental disclosure of cash flow information:		
Interest paid	$43,993	$43,068
Noncash financing activities:		
Net change in unrealized gain (loss) on available-for-sale securities net of reclassification adjustment	$51,761	($4,511)
Dividends declared, not yet paid	$58,942	$50,789

See notes to financial statements.

ANNALY MORTGAGE MANAGEMENT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

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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 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 financial 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, 2003. 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 approximate their value.

MORTGAGE-BACKED SECURITIES AND AGENCY DEBENTURES - The Company invests primarily in mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities representing interests in or obligations backed by pools of mortgage loans (collectively, "Mortgage-Backed Securities"). The Company also invests in Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Federal National Mortgage Association ("FNMA") debentures. The Mortgage-Backed Securities and agency debentures are collectively referred to herein as "Investment Securities."

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires the Company to classify its Investment Securities as either trading investments, available-for-sale investments or held-to-maturity investments. Although the Company generally intends to hold most of its Investment Securities until maturity, it may, from time to time, sell any of its Investment Securities as part of its overall management of its portfolio. Accordingly, this flexibility requires the Company to classify all of its Investment Securities as available-for-sale. All assets classified as available-for-sale are reported at estimated fair value, based on market prices 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 Investment 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, 2004 or 2003.

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

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

CREDIT RISK - At March 31, 2004 and December 31, 2003, the Company has limited its exposure to credit losses on its portfolio of Investment Securities by only purchasing securities issued by Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), or Federal Home Loan Bank ("FHLB"). 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, 2004 and December 31, 2003 all of the Company's Investment Securities have an actual or implied "AAA" rating.

REPURCHASE AGREEMENTS - The Company finances the acquisition of its Investment Securities through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements. Accrued interest is recorded as a separate line item on the statement of financial condition.

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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of March 31, 2004 and December 31, 2003, which are carried at their fair value:

MARCH 31, 2004	FEDERAL HOME LOAN MORTGAGE CORPORATION	FEDERAL NATIONAL MORTGAGE ASSOCIATION	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	TOTAL MORTGAGE-BACKED SECURITIES
		(dollars in thousands)		
Mortgage-Backed Securities, gross	$5,649,150	$10,580,232	$393,214	$16,622,596
Unamortized discount	(247)	(761)	(179)	(1,187)
Unamortized premium	130,039	277,155	6,556	413,750
Amortized cost	5,778,942	10,856,626	399,591	17,035,159
Gross unrealized gains	16,401	36,133	1,378	53,912
Gross unrealized losses	(13,538)	(27,928)	(1,488)	(42,954)
Estimated fair value	$5,781,805	$10,864,831	$399,481	$17,046,117

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	ESTIMATED FAIR VALUE
		(dollars in thousands)		
Adjustable rate	$12,365,716	$39,735	($23,592)	$12,378,859
Fixed rate	4,669,443	14,177	(19,362)	4,664,258
Total	$17,035,159	$53,912	($12,954)	$17,046,117

MARCH 31, 2004	FEDERAL HOME LOAN MORTGAGE CORPORATION	FEDERAL NATIONAL MORTGAGE ASSOCIATION	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	TOTAL MORTGAGE-BACKED SECURITIES
		(dollars in thousands)		
Mortgage-Backed Securities, gross	$3,763,364	$7,509,544	$419,223	$11,692,130
Unamortized discount	(198)	(209)	(1,441)	(1,034)
Unamortized premium	87,726	206,580	7,005	301,311
Amortized cost	3,850,892	7,715,090	426,019	11,992,000
Gross unrealized gains	8,301	16,133	452	24,886
Gross unrealized losses	(18,114)	(39,984)	(2,277)	(60,374)
Estimated fair value	$3,841,079	$7,691,239	$424,194	$11,956,512

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	ESTIMATED FAIR VALUE
		(dollars in thousands)		
Adjustable rate	$8,565,873	$13,118	($35,490)	$8,543,501
Fixed rate	3,426,127	11,768	(24,884)	3,413,011
Total	$11,992,000	$24,886	($60,374)	$11,956,512

The Mortgage-Backed Securities with a carrying value of $718.2 million have been in a continuous unrealized loss position over 12 months at March 31, 2004 in the amount of $8.4 million. The Mortgage-Backed Securities with a carrying value of $6.8 billion have been in an unrealized loss position for less than 12 months at March 31, 2004 in the amount of $34.6 million. The Mortgage-Backed Securities with a carrying value of $809.0 million have been in a continuous unrealized loss position over 12 months at December 31, 2003 in the amount of $8.2 million. The Mortgage-Backed Securities with a carrying value of $6.7 billion have been in an unrealized loss position for less than 12 months at December 31, 2003 in the amount of $52.2 million. The reason for the decline in value of these securities is due to changes in interest rates. All of the Mortgage-Backed Securities are "AAA" rated or carry an implied "AAA" rating. These investments are not considered other-than-temporarily impaired since the Company has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments. Also, the Company is guaranteed payment on the par value of the securities.

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 8.7% at March 31, 2004 and 9.9% at December 31, 2003.

During the quarter ended March 31, 2004, the Company realized $595,000 in net gains from sales of Mortgage-Backed Securities. During the quarter ended March 31, 2003, the Company realized $11.0 million in net gains from sales of Mortgage-Backed Securities.

3. AGENCY DEBENTURES

At March 31, 2004, the Company owned callable agency debentures totaling $1.0 billion par value and a total discount of $60,000. FHLMC, FNMA, and FHLB are the issuers of the debentures. All of the Company's agency debentures are classified as available-for-sale. The agency debentures with a carrying value of $1.0 billion and $978.2 million at March 31, 2004 and December 31, 2003, respectively. The debentures have been in an unrealized loss position for less than 12 months at March 31, 2004. The unrealized loss on the Company's agency debentures at March 31, 2004 and December 31, 2003 was $6.5 million and $11.8 million, respectively. The Company's agency debentures are adjustable rate and fixed rate with a weighted average lifetime cap of 5.95% at March 31, 2004 and 5.80% at December 31, 2003. All of the agency debentures carry an implied "AAA" rating. These investments are not considered other-than-temporarily impaired since the Company has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investments. Also, the Company is guaranteed payment on the par value of the securities.

4. REPURCHASE AGREEMENTS

The Company had outstanding $14.7 billion and $11.0 billion of repurchase agreements with a weighted average borrowing rate of 1.44% and 1.51%, and a weighted average remaining maturity of 103 days and 90 days as of March 31, 2004 and December 31, 2003, respectively. Investment Securities pledged had an estimated fair value of $15.8 billion at March 31, 2004.

At March 31, 2004 and December 31, 2003, the repurchase agreements had the following remaining maturities:

	MARCH 31, 2004	DECEMBER 31, 2003
	(dollars in thousands)	
Within 30 days	$10,646,474	$ 8,589,184
30 to 59 days	1,877,826	709,552
60 to 89 days	125,000	-
90 to 119 days	100,000	-
Over 120 days	1,940,000	1,714,167
Total	$14,689,300	$11,012,903

5. OTHER LIABILITIES

In 2001, the Company entered into a repurchase agreement maturing in July 2004, at which time, the repurchase agreement gives the buyer the right to extend, 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 $1.2 million allocated to the extension option 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, 2004 and December 31, 2003, the fair value of this interest rate floor was a $4.7 million and 4.0 million, respectively, and was classified as other liabilities.

6. PREFERRED STOCK AND COMMON STOCK

During the quarter ending March 31, 2004, the Company declared dividends to shareholders totaling $58.9 million or $0.50 per share, which was paid on April 28, 2004. On January 21, 2004, the Company entered into an underwriting agreement pursuant to which the Company raised net proceeds of approximately $363.6 million in equity in an offering of 20,700,000 shares of common stock. On March 31, 2004, the Company entered into an underwriting agreement pursuant to which the Company raised net proceeds of approximately $102.9 million in net proceeds through an offering of 4,250,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock, which settled on April 5, 2004. During the quarter ended March 31, 2004, 1,027,400 shares were issued through the Equity Shelf Program, totaling net proceeds of $20.1 million. During the quarter ended March 31, 2004, 28,500 options were exercised under the long-term compensation plan at $459,000. Also, 36,936 shares were sold through in the dividend reinvestment and direct purchase program for $734,000.

7. EARNINGS PER SHARE

For the quarter ended March 31, 2004, the reconciliation is as follows:

FOR THE QUARTER ENDED MARCH 31, 2004
(dollars in thousands, except per share amounts)

	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income	$58,843		
Basic earnings per share	$58,843	112,506,206	$0.52
Effect of dilutive securities:			
Dilutive stock options		297,795	
Diluted earnings per share	$58,843	112,804,001	$0.52

Options to purchase 12,500 shares of stock were outstanding and considered anti-dilutive as their exercise price exceeded the average stock price for the quarter.

For the quarter ended March 31, 2003, the reconciliation is as follows:

FOR THE QUARTER ENDED MARCH 31, 2003
(dollars in thousands, except per share amounts)

	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income	$50,775		
Basic earnings per share	$50,775	84,606,786	$0.60
Effect of dilutive securities:			
Dilutive stock options		230,604	
Diluted earnings per share	$50,775	84,837,390	$0.60

Options to purchase 6,250 shares of stock were outstanding and considered anti-dilutive as their exercise price exceeds the average stock price for the quarter.

8. LONG-TERM STOCK INCENTIVE PLAN

The Company has adopted a long term stock incentive plan for executive officers, key employees and nonemployee directors (the "Incentive Plan"). The Incentive Plan authorizes the Compensation Committee of the board of directors to grant awards, including incentive stock options as defined under Section 422 of the Code ("ISOs") and options not so qualified ("NQSOs"). The Incentive Plan authorizes the granting of options or other awards for an aggregate of the greater of 500,000 shares or 9.5% of the fully diluted outstanding shares of the Company's common stock.

The following table sets forth activity relating to the Company's stock options awards.

	For the Quarter Ended March 31,			
	2004		2003	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at the beginning of period	1,063,259	$14.28	512,706	$8.59
Granted	-	-	-	-
Exercised	(28,500)	$8.52	(25,373)	8.39
Expired	-	-	-	-
Options outstanding at the end of period	1,034,759	$14.44	487,333	$8.71

The following table summarizes information about stock options outstanding at March 31, 2004:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$7.94-$19.99	1,022,259	$14.37	7.9
$20.00-$29.99	12,500	20.53	3.7
	1,034,759	$14.44	7.8

The Company accounts for the incentive plan under the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	For the Quarter Ended March 31, (dollars in thousands, except per share data) 2004	2003
Net income, as reported	$58,843	$50,775
Deduct: Total stock-based employee compensation expense determined under fair value based method	(28)	(7)
Pro-forma net income	$58,815	$50,768
Net income per share, as reported		
Basic	$0.52	$0.60
Diluted	$0.52	$0.60
Pro-forma net income per share		
Basic	$0.52	$0.60
Diluted	$0.52	$0.60

9. LEASE COMMITMENTS

The Company has a noncancelable lease for office space, which commenced in May 2002 and expires in December 2009.

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

	Total per Year (dollars in thousands)
2004	375
2005	500
2006	530
2007	532
2008	532
2009	532
Total remaining lease payments	$3,001

10. RELATED PARTY TRANSACTION

Michael A.J. Farrell, the Company's Chairman of the Board, Chief Executive Officer and President, on behalf of Fixed Income Discount Advisory Company, ("FIDAC"), approached the Company about the possibility of the Company acquiring FIDAC. The Company's board of directors formed a special committee of independent directors to consider this matter and the special committee retained independent counsel and Lehman Brothers Inc. to act as its financial advisor in connection with the proposed acquisition. Following negotiations between FIDAC and the special committee, the special committee determined that the Company should acquire FIDAC and the Company entered into a Merger Agreement, dated December 31, 2003, by and among, the Company, FIDAC, FDC Merger Sub, Inc., and the FIDAC stockholders (the "Merger Agreement").

Pursuant to the Merger Agreement, FIDAC will be merged into a newly formed wholly-owned subsidiary of the Company. The closing of the merger is subject to a number of conditions, including the approval of the Company's stockholders as described below.

Mr. Farrell, Wellington J. Denahan, the Company's Vice Chairman and Chief Investment Officer, Kathryn F. Fagan, the Company's Chief Financial Officer and Treasurer, Jennifer S. Karve, the Company's Executive Vice President and Secretary, and other of the Company's officers and employees are shareholders of FIDAC. Mr. Farrell, Ms. Denahan and other officers and employees are actively involved in managing mortgage-backed securities and other fixed income assets on behalf of FIDAC.

FIDAC is a registered investment advisor which, at December 31, 2003, managed, assisted in managing or supervised approximately $13.6 billion in gross assets for a wide array of clients on a discretionary basis. FIDAC is

a fee-based asset management business with a global distribution reach. FIDAC generally receives annual net investment advisory fees of approximately 10 to 15 basis points of the gross assets it manages, assists in managing or supervises.

Under the Merger Agreement with FIDAC, the purchase price will be payable in shares of the Company's common stock. Upon the consummation of the merger, the Company will issue shares of its common stock worth $40.5 million, based upon a valuation of shares of the Company's common stock as of December 31, 2003, to the stockholders of FIDAC. The Merger Agreement includes an earn-out feature, under which the Company will pay up to an additional $49.5 million, which will be payable in shares of the Company's common stock, to the stockholders of FIDAC if FIDAC meets certain revenue and pre-tax profit margin targets over the next three years as described in the Merger Agreement.

The shares issued to the stockholders of FIDAC upon consummation of the merger will be subject to restrictions on resale for three years after completion of the merger, subject to certain exceptions. The shares issued to the stockholders of FIDAC under the earn-out feature will be subject to restrictions on resale for either two years or one year after the applicable earn-out period, subject to certain exceptions.

The Merger Agreement is subject to the approval of the Company's stockholders and several other conditions. A vote on the Merger Agreement will be held at the next meeting of the Company's stockholders. Approval of the Merger Agreement will require the affirmative vote of the holders of a majority of the Company's shares of common stock voting at the stockholder meeting as long as the total vote cast at the stockholder meeting represents a majority of the shares entitled to vote at the stockholder meeting. Pursuant to the Merger Agreement, the FIDAC stockholders have agreed to vote any shares of the Company's common stock owned of record by them in accordance with, and in the same proportion as, the votes cast by the Company's stockholders who are not FIDAC stockholders in connection with the merger. The Company is not certain that its stockholders will approve the Merger Agreement or that the other conditions to the merger will be satisfied. If the merger is not completed, the Company expects to continue to operate under the facilities-sharing arrangement that it currently has with FIDAC.

11. 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. A decline in the value of the Mortgage-Backed Securities pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

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.

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

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 2003 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.

OVERVIEW

We are a real estate investment trust that owns and manages a portfolio of mortgage-backed securities and agency debentures. 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 costs of borrowing to finance our acquisition of investment securities.

We are primarily engaged in the business of investing, on a leveraged basis, 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"). We also invest in Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC"), and Federal National Mortgage Association ("FNMA") debentures. The Mortgage-Backed Securities and agency debentures are collectively referred to herein as "Investment Securities."

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 are determined by us 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 which are unrated or rated less than high quality, but which are at least "investment grade" (rated "BBB" or better by Standard & Poor's Corporation ("S&P") or the equivalent by another nationally recognized rating agency) or, if not rated, determined by us to be of comparable credit quality to an investment which is rated "BBB" or better.

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.

We have elected to be taxed as a REIT for federal income tax purposes. Pursuant to the current federal tax regulations, one of the requirements of maintaining its status as a REIT is that we must distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) to our stockholders, subject to certain adjustments.

The results of our operations are affected by various factors, many of which are beyond our control. The results of our operations primarily depend on, among other things, the amount of our net interest income, the market value of our assets and the supply of and demand for such assets. Our net interest income, which reflects the amortization of purchase premiums, varies primarily as a result of changes in interest rates, borrowing costs and prepayment speeds, the behavior of which involves various risks and uncertainties. Prepayment speeds, as reflected by the Constant Prepayment Rate, or CPR, and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Mortgage-Backed Securities portfolio increase, related purchase premium amortization increases, thereby reducing the net yield on such assets. The CPR on our Investment Securities portfolio averaged 31% and 41% for the quarters ended March 31, 2004 and 2003, respectively. Since changes in interest rates may significantly affect our activities, our operating results depend, in large part, upon our ability to effectively manage interest rate risks and prepayment risks while maintaining our status as a REIT.

The following table presents the CPR experienced on our Mortgage-Backed Securities portfolio, on an annualized basis, for the following quarterly periods presented.

QUARTER ENDED	CPR
March 31, 2004	31%
December 31, 2003	37%
September 30, 2003	48%
June 30, 2003	44%
March 31, 2003	41%

We believe that the CPR in future periods will depend, in part, on changes in and the level of market interest rates across the yield curve, with higher CPRs expected during periods of declining interest rates and lower CPRs expected during periods of rising interest rates.

We have extended contractual maturities on borrowings, such that, our weighted average term to next rate adjustment on our repurchase agreements was 103 days at March 31, 2004, as compared to 90 days at December 31, 2003.

The table below provides quarterly information regarding our average balances, interest income, interest expense, yield on assets, cost of funds and net interest income for the following quarterly periods presented.

	Average Investment Securities Held (1)	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income
	(rations for the quarters have been annualized, dollars in thousands)						
For the Quarter Ended March 31, 2004	$14,452,245	$114,341	3.16%	$13,587,211	$50,303	1.48%	$64,038
For the Quarter Ended December 31, 2003	$11,799,730	$89,186	3.02%	$11,235,908	$42,264	1.50%	$46,922
For the Quarter Ended September 30, 2003	$12,577,165	$66,855	2.13%	$12,186,985	$43,922	1.44%	$22,933
For the Quarter Ended June 30, 2003	$12,815,290	$93,892	2.93%	$12,311,329	$51,770	1.68%	$42,122
For the Quarter Ended March 31, 2003	$10,837,147	$87,500	3.23%	$10,463,251	$44,048	1.68%	$43,452

(1) Does not reflect unrealized gains/(losses).

We continue to explore alternative business strategies, alternative investments and other strategic initiatives to complement our core business strategy of investing, on a leveraged basis, in high quality Investment Securities. No assurance, however, can be provided that any such strategic initiative will or will not be implemented in the future.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based on the amounts reported our financial statements. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make various judgments, estimates and assumptions that affect the reported amounts. Changes in these estimates and assumptions could have a material effect on our financial statements. The following is a summary of our policies most affected by management's judgments, estimates and assumptions.

Market valuation of Investment Securities: All assets classified as available-for-sale are reported at fair value, based on market prices. Although we generally intend to hold most of our Investment Securities until maturity, we may, from time to time, sell any of our Investment Securities as part our overall management of our portfolio. Accordingly, this flexibility requires us to classify all of our Investment Securities as available-for-sale. Our policy is to obtain market values from three independent sources and record the market value of the securities based on the average of the three. Unrealized losses on Investment 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 Investment Securities is adjusted. There were no such adjustments for the quarters ended March 31, 2004 and 2003.

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

Interest income: Interest income is accrued based on the outstanding principal amount of the outstanding principal amount of the Investment Securities and their contractual terms. Premiums and discounts associated with the purchase of the Investment Securities are amortized into interest income over the projected lives of the securities using the interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, street consensus prepayment speeds, and current market conditions.

Repurchase Agreements: We finance the acquisition of our Investment Securities through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements. Accrued interest is recorded as a separate line item.

Income Taxes: We have elected to be taxed as a REIT and intend to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code") with respect thereto. Accordingly, we will not be subjected to federal income tax to the extent of our distributions to shareholders and as long as certain asset, income and stock ownership tests are met.

RESULTS OF OPERATIONS: FOR THE QUARTERS ENDED MARCH 31, 2004 AND 2003

NET INCOME SUMMARY

For the quarter ended March 31, 2004, our net income was $58.8 million, or $0.52 basic earnings per share, as compared to $50.8 million, or $0.60 basic earnings per average share, for the quarter ended March 31, 2003. We attribute the increase in total net income for the quarter ended March 31, 2004, over the quarter ended March 31, 2003 to the increased asset base. The increased asset base was the result of deploying additional common capital, of approximately, $574.7 million from March 31, 2003 to March 31, 2004, into our strategy. Even though total net income increased, net income per share decreased. The decrease in net income per share was primarily due to the

reduction of gains on Mortgage Backed Securities sold. For the quarter ended March 31, 2004, gain on sale of Mortgage-Backed Securities was $595,000, as compared to $11.0 million, or $0.13 per share for the quarter ended March 31, 2003. The decline in gain was only partially offset by the increase in the interest rate spread. The interest rate spread for the quarter ended March 31, 2004 was 1.68%, as compared to 1.55% for the quarter ended March 31, 2003. We compute our net income per share by dividing net income by the weighted average number of shares of outstanding common stock during the period, which was 112,506,206 for the quarter ended March 31, 2004 and 84,606,786 for the quarter ended March 31, 2003. Dividend per share for the quarter ended March 31, 2004, was $0.50 per share, or $58.9 million in total. Dividend per share for the quarter ended March 31, 2003 was $0.60 per share, or $50.8 million in total. Our return on average equity was 16.59% for the quarter ended March 31, 2004 and 18.83% for the quarter ended March 31, 2003. The decline in the return on average equity resulted from the decline in gains on sale of Mortgage-Backed Securities.

NET INCOME SUMMARY
(RATIOS FOR THE QUARTER HAVE BEEN ANNUALIZED, DOLLARS IN THE THOUSANDS, EXCEPT FOR PER SHARE DATA)

	QUARTER ENDED MARCH 31, 2004	QUARTER ENDED MARCH 31, 2003
Interest income	$114,341	$87,500
Interest expense	50,303	44,048
Net interest income	64,038	43,452
Gain on sale of Mortgage Backed Securities	595	11,020
General and administrative expenses	5,790	3,697
Net income	$58,843	$50,775
Average number of basic shares outstanding	112,506,206	84,606,786
Average number of diluted shares outstanding	113,259,307	84,837,390
Basic net income per share	$0.52	$0.60
Diluted net income per share	$0.52	$0.60
Average total assets	$15,644,490	$12,169,401
Average total equity	$1,418,904	$1,079,113
Annualized return on average assets	1.5%	1.67%
Annualized return on average equity	16.59%	18.83%

INTEREST INCOME AND AVERAGE EARNING ASSET YIELD

We had average earning assets of $14.5 billion and $10.8 billion for the quarters ended March 31, 2004 and 2003, respectively. Our primary source of income for the quarters ended March 31, 2004 and 2003 was interest income. A portion of our income was generated by gains on the sales of our Mortgage-Backed Securities. The declining yield was the direct result of lower weighted average coupons on our interest earning assets to 4.33% at March 31, 2004, from 4.85% at March 31, 2003. Our interest income was $114.3 million for the quarter ended March 31, 2004 and $87.5 million for the quarter ended March 31, 2003. Our yield on average earning assets was 3.16% and 3.23% for the same respective periods. Our average earning asset balance increased by $3.7 billion and interest income increased by $26.8 million for the quarter ended March 31, 2004 as compared to the quarter ended March 31, 2003, with the substantial increase in the average asset base. The increase was the direct result of the increased asset base, despite the reduction in yield from 3.23% for the quarter ended March 31, 2003 to 3.16% for the quarter ended March 31, 2004. The yield was reduced because the coupon rate at March 31, 2004 was 4.33%, as compared to 4.85% at March 31, 2003. So, even though the prepayment speeds decreased to 31% for the quarter ended March 31, 2004, from 41% for the quarter ended March 31, 2003, the overall yield declined by 7 basis points. The table below shows our average balance of interest earning assets, our yield on average earning assets and our interest income for the quarter ended March 31, 2004, the year ended December 31, 2003 and the four quarters in 2003.

AVERAGE EARNING ASSET YIELD
(RATIOS FOR THE QUARTERS HAVE BEEN ANNUALIZED, DOLLARS IN THOUSANDS)

	Average Investment Securities	Yield on Investment Securities	Average Constant Prepayment Rate	Interest Income
For the Quarter Ended March 31, 2004	$14,452,245	3.16%	31%	$114,341
For the Year Ended December 31, 2003	$12,007,333	2.81%	37%	$337,433
For the Quarter Ended December 31, 2003	$11,799,730	3.02%	37%	$89,186
For the Quarter Ended September 30, 2003	$12,577,165	2.13%	48%	$66,855
For the Quarter Ended June 30, 2003	$12,815,290	2.93%	44%	$93,892
For the Quarter Ended March 31, 2003	$10,837,147	3.23%	41%	$87,500

The constant prepayment rate ("CPR") on our Mortgage-Backed Securities for the quarters ended March 31, 2004 and 2003 was 31% and 41%, respectively. 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. The homeowners' prepayment option makes the average term yield and performance of a mortgage-backed security uncertain because of the uncertainty in timing of the return of principal. In general, prepayments decrease the total yield on a bond purchased at a premium, because over life of the bond that premium has to be amortized. The faster prepayments, the shorter the life of the security, which results in the increased amortization. The total amortization for the quarter ended March 31, 2004 and 2003 was $41.5 million, $48.5, respectively. The prepayment speeds for March of 2004 were trending higher than the speeds for January and February 2004. The Company expects this trend to continue for the second quarter of 2004.

Principal prepayments had a negative effect on our earning asset yield for the quarters ended March 31, 2004 and 2003 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 $13.6 billion and total interest expense of $50.3 million for the quarter ended March 31, 2004. We had average borrowed funds of $10.5 billion and total interest expense of $44.0 million for the quarter ended March 31, 2003. Our average cost of funds was 1.48% for the quarter ended March 31, 2004 and 1.68% for the quarter ended March 31, 2003. The cost of funds rate decreased 0.20% and the average borrowed funds increased by $3.1 billion for the quarter ended March 31, 2004 when compared to the quarter ended March 31, 2003. Interest expense for the quarter increased by $ 6.3 million due to the substantial increase in the average repurchase balance even though the cost of funds rate decreased. The increase in the average repurchase balance was the result of the company implementing its leveraged strategy after the completion of the equity offerings in the second quarter 2003 and the first quarter 2004, in addition to equity acquired in through the equity shelf program, the direct purchase and dividend reinvestment plan, and options exercised.. Since a substantial portion of our repurchase agreements are short term, market rates are directly reflected in our interest expense. Our average cost of funds was 0.38% above average one-month LIBOR and 0.30% above average six-month LIBOR for the quarter ended March 31, 2004. Our average cost of funds was 0.34% above average one-month LIBOR and 0.35% above average six-month LIBOR for the quarter ended March 31, 2003.

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, 2004, the year ended December 31, 2003 and the four quarters in 2003.

AVERAGE COST OF FUNDS
(RATIOS FOR THE QUARTERS HAVE BEEN ANNUALIZED, DOLLARS IN THOUSANDS)

	Average Borrowed Funds	Interest Expense	Average Cost of Funds	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, 2004	$13,587,211	$50,303	1.48%	1.10%	1.18%	(.08%)	0.38%	0.30%
For the Year Ended December 31, 2003	$11,549,368	$182,004	1.58%	1.21%	1.23%	(0.02%)	0.37%	0.35%
For the Quarter Ended December 31, 2003	$11,235,908	$42,264	1.50%	1.13%	1.23%	(0.10%)	0.37%	0.27%
For the Quarter Ended September 30, 2003	$12,186,985	$43,922	1.44%	1.11%	1.17%	(0.06%)	0.33%	0.27%
For the Quarter Ended June 30, 2003	$12,311,329	$51,770	1.68%	1.26%	1.20%	0.06%	0.42%	0.48%
For the Quarter Ended March 31, 2003	$10,463,252	$44,048	1.68%	1.34%	1.33%	0.01%	0.34%	0.35%

NET INTEREST INCOME

Our net interest income, which equals interest income less interest expense, totaled $64.0 million for the quarter ended March 31, 2004 and $43.5 million for the quarter ended March 31, 2003. Our net interest income increased because of increase in assets that resulted from the common stock equity offering in 2003 and during the quarter ended March 31, 2004. 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 1.68% for the quarter ended March 31, 2004 as compared to 1.55% for the quarter ended March 31, 2003. Even though the weighted average coupon at March 31, 2004 of 4.33% declined from 4.85% at March 31, 2003, the improvement in CPR in combination with the reduction in the funding cost resulted in a 13 basis point increase in the interest rate.

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, 2004, the year ended December 31, 2003, and the four quarters in 2003.

NET INTEREST INCOME
(RATIOS FOR THE QUARTERS HAVE BEEN ANNUALIZED, DOLLARS IN THOUSANDS)

	Average Investment Securities Held	Total Interest Income	Yield on Average Interest Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income	Net Interest Rate Spread
For the Quarter Ended March 31, 2004	$14,452,245	$114,341	3.16%	$13,587,211	$50,303	1.48%	$64,038	1.68%
For the Year Ended December 31, 2003	$12,007,333	$337,433	2.81%	$11,549,368	$182,004	1.58%	$155,429	1.23%
For the Quarter Ended December 31, 2003	$11,799,730	$89,186	3.02%	$11,235,908	$42,264	1.50%	$46,922	1.52%
For the Quarter Ended September 30, 2003	$12,577,165	$66,855	2.13%	$12,186,985	$43,922	1.44%	$22,933	0.69%
For the Quarter Ended June 30, 2003	$12,815,290	$93,892	2.93%	$12,311,329	$51,770	1.68%	$42,122	1.25%
For the Quarter Ended March 31, 2003	$10,837,147	$87,500	3.23%	$10,463,252	$44,048	1.68%	$43,452	1.55%

GAINS AND LOSSES ON SALES OF MORTGAGE-BACKED SECURITIES

For the quarter ended March 31, 2004, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $73.6 million for an aggregate gain of $595,000. For the quarter ended March 31, 2003, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $744.4 million for an aggregate gain of $11.0 million. The gain on sale of Mortgage-Backed Securities declined by $10.4 million. 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 as part of our asset/liability management strategy.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative ("G&A") expenses were $5.8 million for the quarter ended March 31, 2004 and $3.7 for the quarter ended March 31, 2003. G&A expenses as a percentage of average assets was 0.15% and 0.12% on an annualized basis for the quarters ended March 31, 2004 and 2003, respectively. G&A expenses as a percentage of average equity was 1.63% and 1.37% on an annualized basis for the quarters ended March 31, 2004 and 2003, respectively. The increase of $2.1 million for the quarter ended March 31, 2004,is the result of increased salaries, D&O insurance, and excise tax estimate.

G&A EXPENSES AND OPERATING EXPENSE RATIOS
(RATIOS FOR THE QUARTERS HAVE BEEN ANNUALIZED, DOLLARS IN THOUSANDS)

	Total GA Expenses	Total GA Expenses/Average Assets (annualized)	Total GA Expenses/Average Equity (annualized)
For the Quarter Ended March 31, 2004	$5,790	0.15%	1.63%
For the Year Ended December 31, 2003	$16,233	0.13%	1.45%
For the Quarter Ended December 31, 2003	$4,225	0.13%	1.47%
For the Quarter Ended September 30, 2003	$4,110	0.12%	1.42%
For the Quarter Ended June 30, 2003	$4,201	0.12%	1.50%
For the Quarter Ended March 31, 2003	$3,697	0.12%	1.37%

NET INCOME AND RETURN ON AVERAGE EQUITY

Our net income was $58.8 million for the quarter ended March 31, 2004 and $50.8 million for the quarter ended March 31, 2003. Our return on average equity was 16.59% for the quarter ended March 31, 2004 and 18.83% for the quarter ended March 31, 2003. 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 quarter ended March 31, 2004, the year ended December 31, 2003, and for the four quarters in 2003.

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, 2004	18.05%	0.17%	1.63%	16.59%
For the Year Ended December 31, 2003	13.85%	3.64%	1.45%	16.04%
For the Quarter Ended December 31, 2003	16.36%	-	1.47%	14.89%
For the Quarter Ended September 30, 2003	7.95%	3.35%	1.42%	9.88%
For the Quarter Ended June 30, 2003	15.06%	7.23%	1.50%	20.79%
For the Quarter Ended March 31, 2003	16.11%	4.09%	1.37%	18.83%

FINANCIAL CONDITION

INVESTMENT SECURITIES

All of our Mortgage-Backed Securities at March 31, 2004 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 Mortgage Backed Securities at fair value.

All of our agency debentures are callable and carry an implied "AAA" rating. We mark-to-market all of our agency debentures at fair value.

We accrete discount balances as an increase in interest income over the life of discount Investment Securities and we amortize premium balances as a decrease in interest income over the life of premium Investment Securities. At March 31, 2004 and December 31, 2003, we had on our statement of financial condition a total of $1.2 million and $1.5 million respectively, of unamortized discount (which is the difference between the remaining principal value and current historical amortized cost of our Investment Securities acquired at a price below principal value) and a total of $413.8 million and $301.3 million, respectively, of unamortized premium (which is the difference between the remaining principal value and the current historical amortized cost of our Investment Securities acquired at a price above principal value).

We received mortgage principal repayments of $1.2 billion for the quarter ended March 31, 2004 and $1.9 billion for the quarter ended March 31, 2003. 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 Investment Securities at March 31, 2004, December 31, 2003, September 30, 2003, June 30, 2003, and March 31, 2003.

INVESTMENT SECURITIES
(DOLLARS IN THOUSANDS)

	Principal Value	Net Premium	Amortized Cost	Amortized Cost/Principal Value	Estimated Fair Value	Estimated Fair Value/Principal Value	Weighted Average Yield
At March 31, 2004	$17,662,596	$412,563	$18,075,159	102.34%	$18,079,598	102.36%	2.72%
At December 31, 2003	$12,682,130	$299,810	$12,981,940	102.36%	$12,934,679	101.99%	2.96%
At September 30, 2003	$12,363,260	$293,694	$12,656,954	102.38%	$12,605,085	101.96%	2.35%
At June 30, 2003	$13,939,447	$322,838	$14,262,285	102.32%	$14,263,475	102.32%	2.87%
At March 31, 2003	$11,957,710	$289,360	$12,247,070	102.42%	$12,318,070	103.01%	2.83%

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

ADJUSTABLE-RATE INVESTMENT SECURITY CHARACTERISTIC
(DOLLARS IN THOUSANDS)

	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 Investment Securities
At March 31, 2004	$13,059,967	3.90%	2.20%	1.70%	30 months	9.77%	2.91%	73.94%
At December 31, 2003	$9,294,934	3.85%	2.25%	1.60%	23 months	9.86%	2.47%	73.29%
At September 30, 2003	$8,498,116	3.76%	2.17%	1.59%	22 months	9.75%	1.77%	68.74%
At June 30, 2003	$8,889,012	3.69%	2.18%	1.51%	18 months	9.70%	2.47%	63.77%
At March 31, 2003	$7,716,248	3.93%	2.31%	1.62%	13 months	10.04%	2.20%	64.53%

FIXED-RATE INVESTMENT SECURITY CHARACTERISTICS
(DOLLARS IN THOUSANDS)

	Principal Value	Weighted Average Coupon Rate	Weighted Average Asset Yield	Principal Value at Period End as % of Total Investment Securities
At March 31, 2004	$4,602,629	5.53%	3.41%	26.06%
At December 31, 2003	$3,387,197	5.77%	4.29%	26.71%
At September 30, 2003	$3,865,171	5.86%	3.63%	31.26%
At June 30, 2003	$5,050,434	5.97%	3.58%	36.23%
At March 31, 2003	$4,241,462	6.53%	3.98%	35.47%

The following tables provide information on adjustable-rate investment securities by index at March 31, 2004 and December 31, 2003.

ADJUSTABLE-RATE INVESTMENT SECURITIES BY INDEX
MARCH 31, 2004

	One-Month Libor	Six-Month Libor	Twelve Month Libor	Six-Month Auction Average	12-Month Moving Average	11th District Cost of Funds	Interest Rate Step Up	Six-Month CD Rate	1-Year Treasury Index	2-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index	Monthly Federal Cost of Funds
Weighted Average Term to Next Adjustment	1mo.	34 mo.	37 mo.	5 mo.	1 mo.	1 mo.	172 mo.	3 mo.	32 mo.	16 mo.	15 mo.	24 mo.	1 mo.
Weighted Average Annual Period Cap	7.99%	2.58%	2.05%	1.00%	0.15%	None	2.00%	1.00%	1.90%	2.00%	2.00%	2.00%	None
Weighted Average Lifetime Cap at March 31, 2004	8.87%	9.87%	9.97%	13.02%	10.67%	12.41%	6.76%	11.62%	9.83%	11.92%	12.92%	12.61%	13.40%
Investment Principal Value as Percentage of Investment Securities at March 31, 2004	12.39%	2.79%	16.90%	0.01%	0.33%	1.45%	1.59%	0.06%	36.90%	0.01%	0.29%	0.11%	1.12%

ADJUSTABLE-RATE INVESTMENT SECURITIES BY INDEX
DECEMBER 31, 2003

	One-Month Libor	Six-Month Libor	Twelve Month Libor	Six-Month Auction Average	12-Month Moving Average	11th District Cost of Funds	Interest Rate Step Up	Six-Month CD Rate	1-Year Treasury Index	2-Year Treasury Index	3-Year Treasury Index	5-Year Treasury Index	Monthly Federal Cost of Funds
Weighted Average Term to Next Adjustment	1mo.	25 mo.	34 mo.	2 mo.	1 mo.	1 mo.	175 mo.	2 mo.	23 mo.	15 mo.	16 mo.	26 mo.	1 mo.
Weighted Average Annual Period Cap	None	2.14%	2.09%	1.00%	0.14%	None	2.00%	1.00%	1.88%	2.00%	2.00%	2.00%	None
Weighted Average Lifetime Cap at December 31, 2003	8.88%	9.88%	10.12%	13.04%	10.70%	12.42%	6.76%	11.62%	10.05%	11.92%	12.89%	12.63%	13.40%
Investment Principal Value as Percentage of Investment Securities at December 31, 2003	17.26%	1.73%	12.00%	0.01%	0.53%	2.13%	2.21%	0.09%	35.10%	0.01%	0.44%	0.17%	1.61%

BORROWINGS

To date, our debt has consisted entirely of borrowings collateralized by a pledge of our Investment Securities. These borrowings appear on our balance sheet as repurchase agreements. At March 31, 2004, we had established uncommitted borrowing facilities in this market with twenty-nine lenders in amounts, which we believe, are in excess of our needs. All of our Investment 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, 2004, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 211 days. For the quarter ended March 31, 2003, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 197 days. At March 31, 2004, the weighted average cost of funds for all of our borrowings was 1.44% and the weighted average term to next rate adjustment was 103 days. At March 31, 2003, the weighted average cost of funds for all of our borrowings was 1.67% and the weighted average term to next rate adjustment was 111 days.

LIQUIDITY

Liquidity, which is our ability to turn non-cash assets into cash, allows us to purchase additional investment 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 investment securities varies. Our balance sheet also generates liquidity on an on-going basis through mortgage principal repayments and net earnings retained 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 in most circumstances our investment securities could 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.

At present, we have entered into uncommitted facilities with 29 lenders for borrowings in the form of repurchase agreements. Borrowings under our repurchase agreements increased by $3.7 billion to $14.7 billion at March 31, 2004, from $11.0 billion at December 31, 2003. This increase in leverage was facilitated by the increase in our equity capital as a result of the issuance of common stock primarily through public offerings during the second quarter of 2003 and the first quarter of 2004.

We anticipate that, upon repayment of each borrowing under a repurchase agreement, we will use the collateral immediately for borrowing under a new repurchase agreement. We have not at the present time entered into any commitment agreements under which the lender would be required to enter into new repurchase agreements during a specified period of time, nor do we presently plan to have liquidity facilities with commercial banks.

Under our repurchase agreements, we may be required to pledge additional assets to our repurchase agreement counterparties (i.e., lenders) in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral (a "margin call"), which may take the form of additional securities or cash. Specifically, margin calls result from a decline in the value of the our Mortgage-Backed Securities securing our repurchase agreements, prepayments on the mortgages securing such Mortgage-Backed Securities and to changes in the estimated fair value of such Mortgage-Backed Securities generally due to principal reduction of such Mortgage-Backed Securities from scheduled amortization and resulting from changes in market interest rates and other market factors. Through March 31, 2004, we did not have any margin calls on our repurchase agreements that we were not able to satisfy with either cash or additional pledged collateral. However, should prepayment speeds on the mortgages underlying our Mortgage-Backed Securities and/or market interest rates suddenly increase, margin calls on our repurchase agreements could result, causing an adverse change in our liquidity position.

The following table summarizes the effect on our liquidity and cash flows from contractual obligations for repurchase agreements and the non-cancelable office lease at March 31, 2004.

	2004	2005	2006	2007	2008	THEREAFTER
	(dollars in thousands)					
Repurchase Agreements	$12,939,300	$950,000	$250,000	550,000	-	-
Long-term lease obligations	375	500	530	532	532	532
Total	$12,939,675	$950,500	$250,530	$550,532	$532	$532

STOCKHOLDERS' EQUITY

During the quarter ending March 31, 2004, the Company declared dividends to shareholders totaling $58.9 million or $0.50 per share, which was paid on April 28, 2004. On January 21, 2004, the Company entered into an underwriting agreement pursuant to which the Company raised net proceeds of approximately $363.6 million in equity in an offering of 20,700,000 shares of common stock. On March 31, 2004, entered into an underwriting agreement pursuant to which the Company raised net proceeds of approximately $102.9 million in net proceeds through an offering of 4,250,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock, which settled on April 5, 2004. During the quarter ended March 31, 2004, 1,027,400 shares were issued through the Equity Shelf Program, totaling net proceeds of $21.1 million. During the quarter ended March 31, 2004, 28,500 options were exercised under the long-term compensation plan at $459,000. Also, 36,936 shares were purchased in the dividend reinvestment and direct purchase program at $734,000.

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 Investment Securities in our portfolio.

UNREALIZED GAINS AND LOSSES

(dollars in thousands)

	AT MARCH 31, 2004	AT DECEMBER 31, 2003	AT SEPTEMBER 30, 2003	AT JUNE 30, 2003	AT MARCH 31, 2003
Unrealized Gain	$53,912	$24,886	$27,439	$51,208	$98,768
Unrealized Loss	(49,412)	(72,147)	(79,309)	(50,018)	(27,768)
Net Unrealized Gain (Loss)	$4,500	$(47,261)	$(51,870)	$1,190	$71,000
Net Unrealized Gain (Loss) as % of Investment Securities' Principal Value	0.03%	(0.37%)	(0.41%)	0.01%	0.59%
Net Unrealized Gain (Loss) as % of Investment Securities' Amortized Cost	0.03%	(0.37%)	(0.41%)	0.01%	0.59%

Unrealized changes in the estimated net market value of Investment 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 Investment Securities might impair our liquidity position, requiring us to sell assets with the likely result of realized losses upon sale.

We use "available-for-sale" treatment for our Investment 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 common equity base at March 31, 2004 was $1.6 billion, or a book value of $13.45 per share. If we had used historical amortized cost accounting, our equity base at March 31, 2004 would have been $1.6 billion, or $13.42 per share. Our equity base at December 31, 2003 was $1.1 billion, or $11.96 per share. If we had used historical amortized cost accounting, our equity base at December 31, 2003 would have been $1.2 billion, or $12.45 per share.

The table below shows our equity capital base as reported and on a historical amortized cost basis at March 31, 2004, December 31, 2003, September 30, 2003, June 30, 2003 and March 31, 2003. Issuances of common stock, the level of earnings as compared to dividends declared, and other factors influence our historical cost equity capital base. The reported equity capital base is influenced by these factors plus changes in the "Unrealized Net Gains (Losses) on Assets Available for Sale" account.

STOCKHOLDERS' EQUITY

	7.875% Series A Cumulative Redeemable Preferred Stock: 4,250,000 shares	Historical Common Stock Equity Base	Net Unrealized Gains (Losses) on Assets Available for Sale	Reported Common Stock Equity Base (Book Value)	Historical Common Stock Equity Per Share	Reported Common Stock Equity (Book Value) Per Share
			(dollars in thousands, except per share data)			
At March 31, 2004	$102,870	$1,581,218	$4,500	$1,585,718	$13.42	$13.45
At December 31, 2003	-	$1,196,481	$(47,261)	$1,149,220	$12.45	$11.96
At September 30, 2003	-	$1,197,598	$(51,870)	$1,145,728	$12.48	$11.94
At June 30, 2003	-	$1,160,248	$1,190	$1,161,438	$12.34	$12.35
At March 31, 2003	-	$1,005,712	$ 71,000	$1,076,712	$11.88	$12.72

LEVERAGE

Our debt-to-reported equity ratio at March 31, 2004 and March 31, 2003 was 8.7:1 and 9.5:1, 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- 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 investment 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.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide additional funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

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 100% of our total assets at March 31, 2004 and 2003, 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, 2004 and 2003. 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, 2004 and December 31, 2003, 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 securitites 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, 2004 and December 31, 2003 we were in compliance with this requirement.

RECENT DEVELOPMENTS

On January 2, 2004, we announced that we had entered into an agreement to acquire FIDAC. At our annual meeting of stockholders, our stockholders will vote on whether or not to approve the merger agreement we have entered into in connection with the acquisition. The acquisition also remains subject to final confirmation by our Board of Directors that no events have occurred and no circumstances have arisen that would alter our Board's earlier determination that such acquisition is in the best interests of us and our stockholders.

Under the merger agreement, our wholly owned Delaware subsidiary, FDC Merger Sub, Inc., will merge with and into FIDAC, and FIDAC will be the surviving corporation. The merger agreement provides that FIDAC shareholders will receive approximately 2,935 shares of our common stock for each share of FIDAC common stock

they own. In addition, FIDAC shareholders have the right to receive additional shares of our common stock, upon the achievement by FIDAC of specific performance goals, on or about March 31, 2005, 2006 and 2007, calculated based on the price of our common stock and the number of FIDAC shares they owned. The value of the shares of our common stock to be issued to the FIDAC shareholders immediately upon the consummation of the acquisition was fixed at $40,500,000 based upon the closing price of our shares on December 31, 2003, which is to be paid by delivering 2,201,080 shares of our common stock. The value of the additional shares to be paid to FIDAC shareholders has been fixed as up to a maximum dollar amount of $49,500,000; however, we cannot calculate how many shares we will issue in the future since that will vary depending on our share price at the time of each issuance.

ITEM. 3 QUANTITATIVE AND QUALITIATIVE DISCLOSURES ABOUT MARKET RISK

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 25, 50, and 100 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, 2004 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
-100 Basis Points	(7.55%)	0.56%
-50 Basis Points	(5.87%)	0.36%
-25 Basis Points	(2.29%)	0.18%
Base Interest Rate		
+25 Basis Points	1.64%	(0.17%)
+50 Basis Points	3.90%	(0.32%)
+100 Basis Points	4.25%	(0.47%)

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, 2004. 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. The interest rate sensitivity of our assets and liabilities in the table could vary substantially if based on actual prepayment experience.

	Within 3 Months	4-12 Months	More than 1 Year to Years	3 Years and Over	Total
			(dollars in thousands)		
Rate Sensitive Assets:					
Investment Securities	$3,153,196	$1,073,705	$5,181,823	$8,253,873	$17,662,597
Rate Sensitive Liabilities:					
Repurchase Agreements	12,649,300	940,000	1,100,000	-	14,689,300
Interest rate sensitivity gap	($9,496,104)	$113,705	$4,081,823	$8,253,873	$2,973,297
Cumulative rate sensitivity gap	($9,496,104)	($9,382,399)	($5,300,576)	2,953,297	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(54%)	(53%)	(30%)	17%	

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 form 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."

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2004, a review and evaluation was performed under the supervision and with the participation of our management, including our Chairman of the board of directors, Chief Executive Officer and President and our Chief Financial Officer and Treasurer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that review and evaluation, our management, including our Chairman of the board of directors, Chief Executive Officer and President and our Chief Financial Officer and Treasurer, concluded that our disclosure controls and procedures were effective as of March 31, 2004. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to March 31, 2004. There were no significant material weaknesses identified in the course of such review and, therefore, no corrective measures were taken by us.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index

Exhibit Number	Exhibit Description
3.1	Form of Articles Supplementary designating the Company's 7.875% Series A Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share (incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 1, 2004).
4.1	Specimen certificate representing the 7.875% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 1, 2004).
31.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as adopted pursuant to 18 U.S.C. Section 1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports of Form 8-K

Our Current Report on Form 8-K was filed on January 2, 2004 reporting under item 5 announcing our agreement to acquire Fixed Income Discount Advisory Company;

Our Current Report on Form 8-K was filed on January 16, 2004 reporting under items 5 and 7 announcing our entering into an underwriting agreement with UBS Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as representatives of the several underwriters, relating to the sale of 18,000,000 shares of common stock, par value $0.01 per share (the "Common Stock"), and the granting of an over-allotment option for an additional 2,700,000 shares of Common Stock to the Underwriters to fulfill over-allotments; and

Our Current Report on Form 8-K was filed on February 6, 2004 reporting under item 12 announcing our financial results for the fiscal quarter and year ended December 31, 2003.

We filed the following current reports on Form 8-K subsequent to the first quarter 2004:

Our Current Report on Form 8-K was filed on April 1, 2004 reporting under items 5 announcing our entering into an underwriting agreement dated March 31, 2004. We entered into an underwriting agreement with Bear, Stearns & Co. Inc. as representative of the several underwriters (collectively, the "Underwriters"), relating to the sale of 4,250,000 shares of 7.875% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), and the granting of an over-allotment option for an additional 637,500 shares of Series A Preferred Stock to the Underwriters solely to fulfill over-allotments. The offering closed on April 5, 2004; and

Our Current Report on Form 8-K was filed on April 26, 2004 reporting under item 12 announcing our financial results for the fiscal quarter ended March 31, 2004.

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 7, 2004 By: /s/ MICHAEL A.J. FARRELL

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

Dated: May 7, 2004 By: /s/ KATHRYN F. FAGAN

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

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EXHIBIT 31.1

I, Michael A.J. Farrell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Annaly Mortgage Management, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ MICHAEL A.J. FARRELL

Michael A.J. Farrell
Chairman of the Board of Directors, Chief Executive Officer, President and principal executive officer

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EXHIBIT 31.2

I, Kathryn F. Fagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Annaly Mortgage Management, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ KATHRYN F. FAGAN

Kathryn F. Fagan
Chief Financial Officer, Treasurer and
principal financial officer

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EXHIBIT 32.1

ANNALY MORTGAGE MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
SUITE 2902
NEW YORK, NEW YORK 10036

CERTIFICATION OF CHIEF EXECUTIVE
OFFICER REGARDING PERIODIC REPORT CONTAINING
FINANCIAL STATEMENTS

I, Michael A.J. Farrell, the Chairman of the Board of Directors, Chief Executive Officer, and President of Annaly Mortgage Management, Inc. (the "Company") in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004 (the "Report") filed with the Securities and Exchange Commission:

- fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL A.J. FARRELL

Michael A.J. Farrell
Chairman of the Board of Directors, Chief Executive Officer, and President

May 7, 2004

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EXHIBIT 32.2

ANNALY MORTGAGE MANAGEMENT, INC.
1211 AVENUE OF THE AMERICAS
SUITE 2902
NEW YORK, NEW YORK 10036

CERTIFICATION OF CHIEF FINANCIAL
OFFICER REGARDING PERIODIC REPORT CONTAINING
FINANCIAL STATEMENTS

I, Kathryn F. Fagan, the Chief Financial Officer and Treasurer of Annaly Mortgage Management, Inc. (the "Company") in compliance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004 (the "Report") filed with the Securities and Exchange Commission:

- fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KATHRYN F. FAGAN

Kathryn F. Fagan
Chief Financial Officer and Treasurer

May 7, 2004

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