FORM 10–Q

ANNALY MORTGAGE MANAGEMENT INC – NLY

Filed: August 09, 2004 (period: June 30, 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: JUNE 30, 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 AMERICAS 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 August 6 , 2004
Common Stock, $.01 par value	120,377,727

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)

	JUNE 30, 2004 CONSOLIDATED (UNAUDITED)	DECEMBER 31, 2003
ASSETS		
Cash and cash equivalents	$ 4,499	$ 247
Mortgage-Backed Securities, at fair value	16,142,801	11,956,512
Agency debentures, at fair value	978,994	978,167
Accrued interest receivable	74,874	53,743
Receivable for advisory and service fees	1,644	--
Customer relationships	15,613	--
Goodwill	22,905	--
Other assets	1,427	1,617
Total assets	$ 17,242,757	$ 12,990,286
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 15,342,123	$ 11,012,903
Payable for Mortgage-Backed Securities purchased	263,207	761,115
Accrued interest payable	19,959	14,989
Dividends payable	57,674	45,155
Other liabilities	3,294	4,017
Accounts payable	3,989	2,887
Total liabilities	15,690,246	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	102,708	--
Common stock: par value $.01 per share; 500,000,000 authorized, 120,148,709 and 96,074,096 shares issued and outstanding, respectively	1,202	961
Additional paid-in capital	1,620,666	1,194,159
Accumulated other comprehensive loss	(177,489)	(47,261)
Retained earnings	5,424	1,361
Total stockholders' equity	1,552,511	1,149,220
Total liabilities and stockholders' equity	$ 17,242,757	$ 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 JUNE 30, 2004 (CONSOLIDATED)	FOR THE QUARTER ENDED JUNE 30, 2003	FOR THE SIX MONTHS ENDED JUNE 30, 2004 (CONSOLIDATED)	FOR THE SIX MONTHS ENDED JUNE 30, 2003
INTEREST INCOME	$ 122,234	$ 93,892	$ 236,575	$ 181,392
INTEREST EXPENSE	55,648	51,770	105,951	95,818
NET INTEREST INCOME	66,586	42,122	130,624	85,574
INVESTMENT ADVISORY AND SERVICE FEES, NET	1,260	--	1,260	--
GAIN ON SALE OF MORTGAGE-BACKED SECURITIES	2,126	20,231	2,721	31,252
GENERAL AND ADMINISTRATIVE EXPENSES	5,643	4,201	11,008	7,898
NET INCOME BEFORE TAXES	64,329	58,152	123,597	108,928
INCOME TAXES	494	--	919	--
NET INCOME	63,835	58,152	122,678	108,928
DIVIDEND ON PREFERRED STOCK	1,998	--	1,998	--
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 61,837	$ 58,152	$ 120,680	$ 108,928
NET INCOME PER SHARE AVAILABLE TO COMMON SHAREHOLDERS:				
Basic	$ 0.52	$ 0.62	$ 1.05	$ 1.22
Diluted	$ 0.52	$ 0.62	$ 1.04	$ 1.22
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: Basic	118,276,509	93,384,128	115,391,357	89,019,821
Diluted	118,469,756	93,588,024	115,659,173	89,231,272
NET INCOME	$ 63,835	$ 58,152	$ 122,678	$ 108,928
COMPREHENSIVE LOSS				
Unrealized loss on available-for sale securities	(179,863)	(49,579)	(127,507)	(43,069)
Less: reclassification adjustment for net gains included in net income	(2,126)	(20,231)	(2,721)	(31,252)
Other comprehensive loss	(181,989)	(69,810)	(130,228)	(74,321)
COMPREHENSIVE INCOME (LOSS)	($ 118,154)	($ 11,658)	($ 7,550)	$ 34,607

See notes to financial statements.

PART I.
ITEM 1. FINANCIAL STATEMENTS

ANNALY MORTGAGE MANAGEMENT, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	PREFERRED STOCK	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL	COMPREHENSIVE INCOME (LOSS)	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
Net income				$ 63,835		$63,835	
Other comprehensive loss: Unrealized net loss on securities, net of reclassification adjustment				(181,989)	(181,989)		
Comprehensive loss				($118,154)			(118,154)
Preferred stock offering	(162)						(162)
Exercise of stock options			202				202
Proceeds from direct purchase and dividend reinvestment		1	1,208				1,209
FIDAC acquisition		22	40,478				40,500
Preferred dividend declared for the quarter ended June 30, 2004, $0.47 per share						(1,998)	(1,998)
Common dividend declared for the quarter ended June 30, 2004, $0.48 per share						(57,674)	(57,674)
BALANCE, JUNE 30, 2004	$102,708	$1,202	$1,620,666		($177,489)	$ 5,424	$1,552,511

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 JUNE 30, 2004	FOR THE QUARTER ENDED JUNE 30, 2003	FOR THE SIX MONTHS ENDED JUNE 30, 2004	FOR THE SIX MONTHS ENDED JUNE 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 63,835	$ 58,152	$ 122,678	$ 108,928
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of Mortgage premiums and discounts, net	56,141	57,614	97,642	106,133
Amortization of intangibles	18	--	18	--
Gain on sale of Mortgage-Backed Securities	(2,126)	(20,231)	(2,721)	(31,252)
Stock option expense	90	58	307	60
Market value adjustment on long-term repurchase agreement	(1,270)	1,993	(523)	2,097
Increase in accrued interest receivable, net of interest purchased on securities	(5,124)	(7,939)	(21,046)	(8,319)
(Decrease) increase in other assets	3	(232)	(1,188)	(265)
Increase in advisory and service fees receivable	(81)	--	(81)	--
(Increase) decrease in accrued interest payable	(1,340)	873	4,970	1,853
Increase in accrued expenses and other liabilities	1,186	1,169	353	295
Net cash provided by operating activities	111,332	91,457	200,409	179,530
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Mortgage-Backed Securities	(3,249,700)	(4,920,184)	(8,532,426)	(7,217,253)
Purchase of Agency debentures	(100,000)	(1,170,000)	(250,000)	(1,341,000)
Proceeds from sale of Mortgage-Backed Securities	259,938	1,576,147	284,097	2,112,393
Proceeds from called agency debentures	150,000	171,000	250,000	171,000
Principal payments of Mortgage-Backed Securities	2,133,853	2,178,798	3,338,072	4,050,322
Cash from FIDAC acquisition	2,526	--	2,526	--
Net cash used in investing activities	(803,383)	(2,164,239)	(4,907,731)	(2,224,538)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from repurchase agreements	36,583,949	31,387,072	66,778,141	55,682,830
Principal payments on repurchase agreements	(35,931,226)	(29,416,888)	(62,449,121)	(53,683,870)
Proceeds from exercise of stock options	112	94	355	309
Proceeds from direct purchase and dividend reinvestment	1,209	1,349	1,943	2,302
Net proceeds from follow-on offerings	--	151,315	363,592	151,315
Proceeds from preferred offering	102,708	--	102,708	--
Net proceeds from equity shelf program	--	--	20,051	--
Dividends paid	(60,940)	(50,801)	(106,095)	(108,300)
Net cash provided by financing activities	695,812	2,072,141	4,711,574	2,044,586
Net increase (decrease) in cash and cash equivalents	3,761	(641)	4,252	(422)
Cash and cash equivalents, beginning of period	738	945	247	726
Cash and cash equivalents, end of period	$ 4,499	$ 304	$ 4,499	$ 304
Supplemental disclosure of cash flow information:				
Interest paid	$ 56,989	$ 50,897	$ 100,982	$ 93,965
Noncash financing activities:				
Net change in unrealized loss on available-for-sale securities net of reclassification adjustment	($ 181,989)	($ 69,810)	($ 130,228)	($ 74,321)
Dividends declared, not yet paid	$ 57,674	$ 56,420	$ 57,674	$ 56,420
Noncash investing and financing activities:				
Noncash acquisition of FIDAC	$ 40,500	--	$ 40,500	--

See notes to financial statements

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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. The Company acquired Fixed Income Discount Advisory Company ("FIDAC") on June 4, 2004 (See Note 2). FIDAC is a registered investment advisor and is a taxable REIT subsidiary of the Company.

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. Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation. The consolidated unaudited financial statements as of and for the quarter ended June 30, 2004 include the accounts of the Company and FIDAC. All material intercompany balances have been eliminated.

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 ("SFAS") 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 June 30, 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 June 30 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 FHLMC, FNMA, Government National Mortgage Association ("GNMA"), or 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 June 30 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. The Company and FIDAC have made a joint election to treat FIDAC as a taxable REIT subsidiary. As such, FIDAC will be taxable as a domestic C corporation and subject to federal and state and local income taxes based upon it taxable income.

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.

RECENT ACCOUNTING PRONOUNCEMENTS - In March 2004, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 03-1, THE MEANING OF OTHER-THAN-TEMPORARY IMPAIRMENT AND ITS APPLICATION TO CERTAIN INVESTMENTS. This Issue provides clarification with respect to the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS, No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, (including individual securities and investments in mutual funds), and investments accounted for under the cost method or the equity method. The guidance for evaluating whether an investment is other-than-temporarily impaired must be applied in other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. This Issue did not have a material impact on the Company's financial statements.

2. FIXED INCOME DISCOUNT ADVISORY COMPANY

MERGER WITH FIXED INCOME DISCOUNT ADVISORY COMPANY

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which provides that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Under the purchase method, net assets and results of operations of acquired companies are included in the consolidated financial statements from the date of acquisition. In addition, SFAS 141 provides that the cost of an acquired entity must be allocated to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their estimated fair

values at the date of acquisition. The excess of cost over the fair value of the net assets acquired must be recognized as goodwill.

On December 31, 2003, the Company entered into a merger agreement with FIDAC. At the annual meeting of the Company's shareholders held on May 27, 2004, shareholders voted to approve the merger. The merger closed before the opening of business on June 4, 2004. The merger was accounted for using the purchase method of accounting in accordance with SFAS No. 141. Accordingly, the consolidated balance sheet as of June 30, 2004 includes the effects of the merger and the Company's application of the purchase method of accounting. Additionally, the consolidated statements of operations and cash flows for the respective periods ended June 30, 2004 include the combined results of the Company and FIDAC for the period from June 4, 2004 to June 30, 2004. Before June 4, 2004 the Company did not have an ownership interest in FIDAC and therefore financial results are not included in prior periods.

Upon completion of the merger and pursuant to the merger agreement, FDC Merger Sub, ("Merger Sub"), the Company's wholly owned subsidiary created solely for the purpose of effectuating the merger, merged with and into FIDAC. As a result of the merger, Merger Sub ceased to exist, and FIDAC is the surviving corporation and operates as the Company's wholly owned taxable REIT subsidiary. At the time of the merger, each FIDAC shareholder received approximately 2,935 shares of the Company's common stock for each share of FIDAC stock the shareholder owned and has the right to receive additional shares of the Company's common stock in the future, based on FIDAC achieving specific performance goals.

The Company maintains its Real Estate Investment Trust ("REIT") status for U.S. federal income tax purposes and the Company and FIDAC made a taxable REIT subsidiary election. The taxable REIT subsidiary is fully subject to corporate income tax. Income from the taxable REIT subsidiaries may be retained by the subsidiary or distributed to the parent REIT company.

The value of the shares of the Company's common stock issued to the FIDAC shareholders immediately upon the consummation of the acquisition was fixed at $40,500,000 based upon the closing price of the Company's common stock on December 31, 2003, and was paid on June 4, 2004 by delivering 2,201,080 shares of the Company's common stock.

A summary of the fair values of the net assets acquired is as follows:

	(dollars in thousands)
Cash and cash equivalents	$ 2,526
Receivable for advisory fees and services	1,564
Other assets	591
Customer relationships	15,613
FIDAC trademark	250
Non-compete agreements	140
Goodwill	22,905
Accounts payable	(748)
Total fair value of net assets, including acquisition cost	$ 42,841

The total amount of goodwill represents the purchase price in excess of the fair value of the net assets acquired. Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized. Customer relationships are deemed by the Company to have an indefinite life based on a lack of attrition history and management's expectation of continued service to FIDAC clients and, accordingly, are not amortized. Instead, they are required to be tested at least annually for impairment. FIDAC trademark and non-compete agreements are considered intangible assets subject to amortization over their estimated life of 3 years and 1 year, respectively. For the quarter ended June 30, 2004, amortization expense related to these intangibles was $18,000.

3. MORTGAGE-BACKED SECURITIES

The following table pertains to the Company's Mortgage-Backed Securities classified as available-for-sale as of June 30, 2004 and December 31, 2003, which are carried at their fair value:

JUNE 30, 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	$ 5,384,705	$ 10,185,570	$ 354,360	$ 15,924,635
Unamortized discount	(317)	(527)	(143)	(987)
Unamortized premium	119,856	259,704	6,116	385,676
Amortized cost	5,504,244	10,444,747	360,333	16,309,324
Gross unrealized gains	13,886	12,477	1,240	27,603
Gross unrealized losses	(56,207)	(132,220)	(5,699)	(194,126)
Estimated fair value	$ 5,461,923	$ 10,325,004	$ 355,874	$ 16,142,801

	AMORTIZED COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED LOSS	ESTIMATED FAIR VALUE
	(dollars in thousands)			
Adjustable rate	$ 11,870,951	$ 22,269	($ 123,980)	$ 11,769,240
Fixed rate	4,438,373	5,334	(70,146)	4,373,561
Total	$ 16,309,324	$ 27,603	($ 194,126)	$ 16,142,801

DECEMBER 31, 2003	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)	(1,034)	(209)	(1,441)
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

Mortgage-Backed Securities with a carrying value of $1.2 billion have been in a continuous unrealized loss position over 12 months at June 30, 2004 in the amount of $28.5 million. The Mortgage-Backed Securities with a carrying value of $14.9 billion have been in a continuous unrealized loss position for less than 12 months at June 30, 2004 in the amount of $165.6 million. 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. Mortgage-Backed Securities with a carrying value of $6.7 billion have been in a continuous 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, to maturity, if necessary, 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 10.1% at June 30, 2004 and 9.9% at December 31, 2003.

During the six months ended June 30, 2004, the Company realized $2.7 million in net gains from sales of Mortgage-Backed Securities. During the six months ended June 30, 2003, the Company realized $31.3 million in net gains from sales of Mortgage-Backed Securities.

4. AGENCY DEBENTURES

At June 30, 2004, the Company owned callable agency debentures totaling $ 990.0 million par value and a total discount of $41,000. 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 had a carrying value of $979.0 million and $978.2 million at June 30, 2004 and December 31, 2003, respectively. The agency debentures with a carrying value of $194.4 million have been in a continuous unrealized loss position over 12 months at June 30, 2004 of $644,000. The agency debentures with a carrying value of $784.6 million have been in a continuous unrealized loss position for less than 12 months at June 30, 2004 in the amount of $10.3 million. The debentures with a carrying value of $978.2 million have been in a continuous unrealized loss position for less than 12 months at December 31, 2003 of $11.8 million. The Company's agency debentures are adjustable rate and fixed rate with a weighted average lifetime cap of 4.36% at June 30, 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, to maturity, if necessary, 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.

5. REPURCHASE AGREEMENTS

The Company had outstanding $15.3 billion and $11.0 billion of repurchase agreements with a weighted average borrowing rate of 1.51% and 1.51%, and a weighted average remaining maturity of 101 days and 90 days as of June 30, 2004 and December 31, 2003, respectively. Investment Securities pledged had an estimated fair value of $15.4 billion at June 30, 2004.

At June 30, 2004 and December 31, 2003, the repurchase agreements had the following remaining maturities:

	JUNE 30, 2004	DECEMBER 31, 2003
	(dollars in thousands)	
Within 30 days	$12,145,353	$ 8,589,184
30 to 59 days	950,492	709,552
60 to 89 days	6,278	--
90 to 119 days	--	--
Over 120 days	2,240,000	1,714,167
Total	$15,342,123	$11,012,903

6. 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. In July 2004, the buyer extended the repurchase agreement, in whole, for the next three months, with the right to further extend in October 2004. 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 June 30, 2004 and December 31, 2003, the fair value of this interest rate floor was $3.3 million and $4.0 million, respectively, and was classified as other liabilities.

7. PREFERRED STOCK AND COMMON STOCK

During the quarter ended June 30, 2004, the Company declared dividends to common shareholders totaling $57.7 million or $0.48 per share, which were paid on July 28, 2004. During the quarter ended June 30, 2004, the Company declared dividends to the preferred shareholders totaling $2.0 million or $0.47 per share, which were paid on June 30, 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 six months ended June 30, 2004, 1,027,400 shares of the Company's common stock were issued through the Equity Shelf Program, totaling net proceeds of $20.1 million. During the quarter ended June 30, 2004 no shares were issued through the Equity Shelf Program. During the six months ended June 30, 2004, 40,200 options were exercised under the long-term compensation plan at $662,000. Also, 105,942 shares were sold through the dividend reinvestment and direct purchase program for $1.9 million for the six months ended June 30, 2004.

8. EARNINGS PER SHARE AVAILABLE TO COMMON SHAREHOLDERS

For the quarter ended June 30, 2004, the reconciliation is as follows:

	FOR THE QUARTER ENDED JUNE 30, 2004 (dollars in thousands, except per share amounts)		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income available to common shareholders	$61,837		
Basic earnings per share	$61,837	118,277	$0.52
Effect of dilutive securities:			
Dilutive stock options		193	
Diluted earnings per share	$61,837	118,470	$0.52

Options to purchase 1,281,750 shares of stock were outstanding and considered anti-dilutive as their exercise price exceeded the average stock price for the quarter ended June 30, 2004.

For the quarter ended June 30, 2003, the reconciliation is as follows:

	FOR THE QUARTER ENDED JUNE 30, 2003 (dollars in thousands, except per share amounts)		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income	$58,152		
Basic earnings per share	$58,152	93,384	$0.62
Effect of dilutive securities:			
Dilutive stock options		204	
Diluted earnings per share	$58,152	93,588	$0.62

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 ended June 30, 2003.

For the six months ended June 30, 2004, the reconciliation is as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2004		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income available to common shareholders	$120,680		
Basic earnings per share	120,680	115,391	$1.05
Effect of dilutive securities:			
Dilutive stock options		268	
Diluted earnings per share	$120,680	115,659	$1.04

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 six months ended June 30, 2004.

For the six months ended June 30, 2003, the reconciliation is as follows:

	FOR THE SIX MONTHS ENDED JUNE 30, 2003		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Net income	$108,928		
Basic earnings per share	108,928	89,020	$1.22
Effect of dilutive securities:			
Dilutive stock options		211	
Diluted earnings per share	$108,928	89,231	$1.22

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 six months ended June 30, 2003.

9. LONG-TERM STOCK INCENTIVE PLAN

The Company has adopted a long term stock incentive plan for executive officers, key employees and no employee 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 six months ended June 30,			
	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	639,750	17.39	6,250	20.70
Exercised	(40,200)	8.82	(35,622)	8.69
Expired	--	--	--	--
Options outstanding at the end of period	1,662,809	$15.61	483,333	$ 8.74

The following table summarizes information about stock options outstanding at June 30, 2004:

Range of Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$7.94-$19.99	1,650,309	$15.57	8.5
$20.00-$29.99	12,500	20.53	3.0
	1,662,809	$15.61	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		For the six months ended	
	(dollars in thousands, except per share data)			
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net income available to common shareholders, as reported	$ 61,837	$ 58,152	$ 120,680	$ 108,928
Deduct: Total stock-based employee compensation expense determined under fair value based method	(37)	(4)	(75)	(9)
Pro-forma net income available to common shareholers	$ 61,800	$ 58,148	$ 120,605	$ 108,919
Net income per share available to common shareholders, as reported				
Basic	$ 0.52	$ 0.62	$ 1.05	$ 1.22
Diluted	$ 0.52	$ 0.62	$ 1.04	$ 1.22
Pro-forma net income per share available to common shareholders				
Basic	$ 0.52	$ 0.62	$ 1.05	$ 1.22
Diluted	$ 0.52	$ 0.62	$ 1.04	$ 1.22

10. LEASE COMMITMENTS

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

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

	Total per Year (dollars in thousands)
2004 (remainder of year)	$ 250
2005	500
2006	530
2007	532
2008	532
2009	532
Total remaining lease payments	$2,876

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, FIDAC's client's removal of assets FIDAC manages, FIDAC's regulatory requirements, and competition in the investment management business. 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. Our wholly owed subsidiary is a registered investment advisor that generates advisory and service fee income.

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 33% and 44% for the quarters ended June 30, 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
June 30, 2004	33%
March 31, 2004	31%
December 31, 2003	37%
September 30, 2003	48%
June 30, 2003	44%

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 101 days at June 30, 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	Total Interest Expense	Average Cost of Funds	Net Interest Income	Net Interest Rate Spread
For the Quarter Ended June 30, 2004	$16,649,072	$ 122,234	2.94%	$15,880,353	$ 55,648	1.40%	$ 66,586	1.54%
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%

(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. The investments with unrealized loss 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 on a forecasted market price up to or beyond the cost of the investment. 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 June 30, 2004 and 2003. The investments with unrealized losses are not considered other than temporarily impaired since the Company has the ability and intent to hold the investments for a period of time, to maturity, if necessary, sufficient on a forecasted market price up to or beyond the cost of the investments

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 elected to be taxed as a Real Estate Investment Trust ("REIT") and intend to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), with respect thereto. Accordingly, the Company will not be subjected to federal income tax to the extent of its distributions to shareholders and as long as certain asset, income and stock ownership tests are met. The Company and FIDAC have made a joint election to treat FIDAC as a taxable REIT subsidiary. As such, FIDAC will be taxable as a domestic C corporation and subject to federal and state and local income taxes based upon it taxable income.

RESULTS OF OPERATIONS: FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

NET INCOME SUMMARY

For the quarter ended June 30, 2004, our net income was $63.8 million, or $0.52 basic earnings per share available for common shareholders, as compared to $58.2 million, or $0.62 basic earnings per average share, for the quarter ended June 30, 2003. We attribute the increase in total net income for the quarter ended June 30, 2004, over the quarter ended June 30, 2003 to the increased asset base. The increased asset base was the result of deploying additional capital of approximately $529.4 million from June 30, 2003 to June 30, 2004, into our strategy. Even though net income increased, net income per share available to common shareholders decreased. The decrease in net income per share available to common shareholders was primarily due to the reduction of gains on Mortgage Backed Securities sold. For the quarter ended June 30, 2004, gain on sale of Mortgage-Backed Securities was $2.1 million, as compared to $20.2 million, or $0.22 per share for the quarter ended June 30, 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 June 30, 2004 was 1.54%, as compared to 1.25% for the quarter ended June 30, 2003. We compute our net income per share by dividing net income available to common shareholders by the weighted average number of shares of outstanding common stock during the period, which was 118,276,509 for the quarter ended June 30, 2004 and 93,384,128 for the quarter ended June 30, 2003. Dividends for the quarter ended June 30, 2004, was $0.48 per share of common stock, or $57.7 million in total, and $0.47 per share of preferred stock, or $2.0 million in total. Dividends per share for the quarter ended June 30, 2003 was $0.60 per share, or $56.4 million in total. Our return on average equity was 15.76% for the quarter ended June 30, 2004 and 20.79% for the quarter ended June 30, 2003. The decline in the return on average equity resulted from the decline in gains on sale of Mortgage-Backed Securities.

For the six months ended June 30, 2004, our net income was $122.7 million, or $1.05 basic earnings per share, as compared to $108.9 million, or $1.22 basic earnings per average share available to common shareholders, for the six months ended June 30, 2003. We attribute the increase in net income for the six months ended June 30, 2004, over the six months ended June 30, 2003 to the increased asset base. The increased asset base was the result of deploying additional common and preferred capital, of approximately, $529.4 million from June 30, 2003 to June 30, 2004, into our strategy. Even though total net income increased, net income per share decreased. The decrease in net income per share available to common shareholders was primarily due to the reduction of gains on Mortgage Backed Securities sold. For the six months ended June 30, 2004, gain on sale of Mortgage-Backed Securities was $2.7 million, as compared to $31.3 million, or $0.35 per share for the six months ended June 30, 2003. We compute our net income per share by dividing net income available to common shareholders by the weighted average number of shares of outstanding common stock during the period, which was 115,391,357 for the six months ended June 30, 2004 and 89,019,821 for the six months ended June 30, 2003. Dividend for the six months ended June 30, 2004, was $0.98 per share of common stock, or $116.6 million in total and $0.47 per share of preferred stock or $2.0 million in total. Dividend for the six months ended June 30, 2003 was $1.20 per share, or $107.2 million in total. Our return on average equity was 16.77% for the six months ended June 30, 2004 and 19.70% for the six months ended June 30, 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 June 30, 2004 (Consolidated)	Quarter ended June 30, 2003	Six Months Ended June 30, 2004 (Consolidated)	Six Months Ended June 30, 2003
Interest income	$ 122,234	$ 93,892	$ 236,575	$ 181,392
Interest expense	55,648	51,770	105,951	95,818
Net interest income	66,586	42,122	130,624	85,574
Gain on sale of Mortgage Backed Securities	2,126	20,231	2,721	31,252
Investment advisory and service fees	1,260	--	1,260	--
General and administrative expenses	5,643	4,201	11,008	7,898
Net income before taxes	$ 64,329	$ 58,152	$ 123,597	$ 108,928
Income taxes	494	--	919	--
Net Income	$ 63,835	$ 58,152	$ 122,678	$ 108,928
Weighted average number of basic shares outstanding	118,276,509	93,384,128	115,391,357	89,019,821
Weighted average number of diluted shares outstanding	118,469,756	93,588,024	115,659,172	89,231,272
Basic net income per share available to common shareholders	$ 0.52	$ 0.62	$ 1.05	$ 1.22
Diluted net income per share available to common shareholders	$ 0.52	$ 0.62	$ 1.04	$ 1.22
Average total assets	$ 17,790,725	$ 13,692,434	$ 16,190,579	$ 13,014,651
Average total equity	$ 1,620,550	$ 1,119,075	$ 1,463,440	$ 1,106,072
Annualized return on average assets	1.44%	1.70%	1.52%	1.67%
Annualized return on average equity	15.76%	20.79%	16.77%	19.70%

INTEREST INCOME AND AVERAGE EARNING ASSET YIELD

We had average earning assets of $16.6 billion and $12.8 billion for the quarters ended June 30, 2004 and 2003, respectively. Our primary source of income for the quarters ended June 30, 2004 and 2003 was interest income. A portion of our income was generated by gains on the sales of our Mortgage-Backed Securities. Our interest income was $122.2 million for the quarter ended June 30, 2004 and $93.9 million for the quarter ended June 30, 2003. The yield on average investment securities remained materially unchanged, from 2.93% for the quarter ended June 30, 2003 to 2.94% for the quarter ended June 30, 2004. Our average earning asset balance increased by $3.8 billion and interest income increased by $28.3 million for the quarter ended June 30, 2004 as compared to the quarter ended June 30, 2003. The increase was the direct result of the increased asset base. The yield remained materially unchanged for the comparable periods because the decline in the weighted average coupon rate at June 30, 2004 of 4.31%, as compared to 4.52% at June 30, 2003 was offset by the improvement in prepayment speeds. So, even though the prepayment speeds decreased to 33% CPR for the quarter ended June 30, 2004, from 44% CPR for the quarter ended June 30, 2003, the overall yield increased by one basis points.

We had average earning assets of $15.6 billion and $11.8 billion for the six months ended June 30, 2004 and 2003, respectively. Our primary source of income for the quarters ended June 30, 2004 and 2003 was interest income. A portion of our income was generated by gains on the sales of our Mortgage-Backed Securities. Our interest income was $236.6 million for the six months ended June 30, 2004 and $181.4 million for the six months ended June 30, 2003. The yield on average investment securities remained materially unchanged from 3.07% for

the six months ended June 30, 2003, to 3.04% for the six months ended June 30, 2004. Our average earning asset balance increased by $3.8 billion and interest income increased by $55.2 million for the six months ended June 30, 2004 as compared to the six months ended June 30, 2003, with the substantial increase in the average asset base.

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 June 30, 2004, 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 June 30, 2004	$16,649,072	2.94%	33%	$122,234
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 June 30, 2004 and 2003 was 33% and 44%, 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 quarters ended June 30, 2004 and 2003 was $56.1 million, $57.6, respectively. The prepayment speeds for June of 2004 were trending lower than the speeds for April and May 2004. We expect this trend to continue for the third quarter of 2004.

Principal prepayments had a negative effect on our earning asset yield for the quarters ended June 30, 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 $15.9 billion and total interest expense of $55.6 million for the quarter ended June 30, 2004. We had average borrowed funds of $12.3 billion and total interest expense of $51.8 million for the quarter ended June 30, 2003. Our average cost of funds was 1.40% for the quarter ended June 30, 2004 and 1.68% for the quarter ended June 30, 2003. The cost of funds rate decreased 0.28% and the average borrowed funds increased by $3.6 billion for the quarter ended June 30, 2004 when compared to the quarter ended June 30, 2003. Interest expense for the quarter increased by $3.8 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 us implementing our leveraged strategy after the completion of the equity offerings in 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 0.25% above average one-month LIBOR and 0.14% below average six-month LIBOR for the quarter ended June 30, 2004. Our average cost of funds was 0.42% above average one-month LIBOR and 0.48% above average six-month LIBOR for the quarter ended June 30, 2003.

We had average borrowed funds of $14.7 billion and total interest expense of $106.0 million for the six months ended June 30, 2004. We had average borrowed funds of $11.4 billion and total interest expense of $95.8 million for the six months ended June 30, 2003. Our average cost of funds was 1.44% for the six months ended June 30, 2004 and 1.68% for the six months ended June 30, 2003. The cost of funds rate decreased 0.24% and the average borrowed funds increased by $3.3 billion for the six months ended June 30, 2004 when compared to the six months ended June 30, 2003. Interest expense for the six months increased by $ 10.2 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 one implementing one leveraged strategy after the completion of the equity offerings in the second quarter 2003 and the first quarter 2004, in addition to equity acquired through the equity shelf program, the direct purchase and dividend reinvestment plan, and options exercised.

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 June 30, 2004, 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 June 30, 2004	$15,880,353	$ 55,648	1.40%	1.15%	1.54%	(0.39%)	0.25%	(0.14%)
For the Quarter Ended March 31, 2004	$13,587,211	$ 50,303	1.48%	1.10%	1.18%	(0.08%)	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 $66.6 million for the quarter ended June 30, 2004 and $42.1 million for the quarter ended June 30, 2003. Our net interest income increased because of increase in assets that resulted from the common stock and preferred stock equity offerings in the first quarter of 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 1.54% for the quarter ended June 30, 2004 as compared to 1.25% for the quarter ended June 30, 2003. Even though the weighted average coupon at June 30, 2004 of 4.31% declined from 4.52% at June 30, 2003, the improvement in CPR in combination with the reduction in the funding cost resulted in a 29 basis point increase in the net interest rate spread.

Our net interest income, totaled $130.6 million for the six months ended June 30, 2004 and $85.6 million for the six months ended June 30, 2003. Our net interest income increased because of increase in assets that resulted from the offerings in 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 1.60% for the six months ended June 30, 2004 as compared to 1.38% for the quarter ended June 30, 2003.

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 June 30, 2004, 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 June 30, 2004	$16,649,072	$ 122,234	2.94%	$15,880,353	$ 55,648	1.40%	$ 66,586	1.54%
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%

INVESTMENT ADVISORY AND SERVICE FEES

FIDAC is a registered investment advisor which 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. At June 30, 2004, FIDAC had under management approximately $1.7 billion in net assets and $12.8 billion in gross assets, compared to $1.5 billion in net assets and $13.6 billion in gross assets at December 31, 2003. Investment advisory and services fees for the month of June 2004 totaled $1.3 million, net of fees paid to third parties, pursuant to distribution service agreements for facilitating and promoting distribution of shares of FIDAC's clients and are included in the consolidated statement of operations and comprehensive income. For the month of June 2004, such fees were $298,000, which were paid out of FIDAC investment advisory fees.

GAINS AND LOSSES ON SALES OF MORTGAGE-BACKED SECURITIES

For the quarter ended June 30, 2004, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $182.8 million for an aggregate gain of $2.1 million. For the quarter ended June 30, 2003, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $1.6 billion for an aggregate gain of $20.2 million. The gain on sale of Mortgage-Backed Securities declined by $18.1 million. For the six months ended June 30, 2004, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $256.4 million for an aggregate gain of $2.7 million. For the six months ended June 30, 2003, we sold Mortgage-Backed Securities with an aggregate historical amortized cost of $2.4 billion for an aggregate gain of $31.3 million. The gain on sale of Mortgage-Backed Securities declined by $28.6 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 acquire 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 $5.6 million for the quarter ended June 30, 2004 and $4.2 million for the quarter ended June 30, 2003. G&A expenses as a percentage of average assets was 0.13% for the quarters ended June 30, 2004 and 2003. G&A expenses as a percentage of average equity was 1.39% and 1.50% on an annualized basis for the quarters ended June 30, 2004 and 2003, respectively. The increase of $1.4 million for the quarter ended June 30, 2004, is primarily the result of increased salaries and D&O insurance.

G&A expenses were $11.0 million for the six months ended June 30, 2004 and $7.9 million for the six months ended June 30, 2003. G&A expenses as a percentage of average assets was 0.14% and 0.12% on an annualized basis for the six months ended June 30, 2004 and 2003, respectively. G&A expenses as a percentage of average equity was 1.50% and 1.43% on an annualized basis for the six months ended June 30, 2004 and 2003, respectively.

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 June 30, 2004	$5,643	0.13%	1.39%
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 $63.8 million for the quarter ended June 30, 2004 and $58.2 million for the quarter ended June 30, 2003. Our return on average equity was 15.76 % for the quarter ended June 30, 2004 and 20.79% for the quarter ended June 30, 2003. Our net income was $122.7 million for the six months ended June 30, 2004 and $108.9 million for the six months ended June 30, 2003. Our return on average equity was 16.77% for the six months ended June 30, 2004 and 19.70% for the six months ended June 30, 2003. The table below shows our net interest income, investment advisory and service fees, gain on sale of Mortgage-Backed Securities, G&A expenses, and income taxes each as a percentage of average equity, and the return on average equity for the quarter ended June 30, 2004, 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	Investment Advisory Fees and Services/ Average Equity	Gain on Sale of Mortgage-Backed Securities/Average Equity	GAExpenses/ Average Equity	Income Taxes/ Average Equity	Return on Average Equity
For the Quarter Ended June 30, 2004	16.44%	0.31%	0.52%	1.29%	1.39%	15.76%
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 June 30, 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 to fair value.

All of our agency debentures are callable and carry an implied "AAA" rating. We mark-to-market all of our agency debentures to 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 June 30, 2004 and December 31, 2003, we had on our statement of financial condition a total of $1.0 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 $385.7 million and $323.9 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 $2.1 billion for the quarter ended June 30, 2004 and $2.2 billion for the quarter ended June 30, 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 June 30, 2004, 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 June 30, 2004	$16,914,635	$ 384,648	$17,299,283	102.27%	$17,121,795	101.22%	3.04%
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 June 30, 2004	$11,806,171	3.95%	2.19%	1.76%	29 months	10.07%	2.73%	69.80%
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 June 30, 2004	$5,108,464	5.15%	3.77%	30.20%
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 June 30, 2004 and December 31, 2003.

ADJUSTABLE-RATE INVESTMENT SECURITIES BY INDEX
JUNE 30, 2004

	One-Month Libor	Six-Month Libor	Twelve Month Libor	Six-Month Auction Average	12-Month Moving Average	11th District Cost of Funds	National Financial Average Mortgage Rate	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	1 mo.	32 mo.	35 mo.	2 mo.	1 mo.	1 mo.	12 mo.	2 mo.	39 mo.	14 mo.	14 mo.	25 mo.	1 mo.
Weighted Average Annual Period Cap	7.45%	2.00%	2.00%	1.00%	0.17%	None	2.00%	1.00%	1.89%	2.00%	2.00%	2.00%	None
Weighted Average Lifetime Cap at June 30, 2004	8.85%	9.78%	9.94%	13.03%	10.68%	12.34%	10.58%	11.61%	10.36%	11.92%	12.94%	12.61%	13.39%
Investment Principal Value as Percentage of Investment Securities at June 30, 2004	11.93%	3.15%	18.57%	0.01%	0.30%	1.32%	0.01%	0.06%	32.92%	0.01%	0.35%	0.10%	1.07%

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	1 mo.	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 June 30, 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 June 30, 2004, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 198 days. For the quarter ended June 30, 2003, the term to maturity of our borrowings ranged from one day to three years, with a weighted average original term to maturity of 128 days. At June 30, 2004, the weighted average cost of funds for all of our borrowings was 1.51% and the weighted average term to next rate adjustment was 101 days. At June 30, 2003, the weighted average cost of funds for all of our borrowings was 1.50% and the weighted average term to next rate adjustment was 93 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 $4.3 billion to $15.3 billion at June 30, 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 and preferred stock primarily through public offerings in 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 June 30, 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 June 30, 2004.

	2004	2005	2006	2007	2008	THEREAFTER
			(dollars in thousands)			
Repurchase Agreements	$13,292,123	$ 950,000	$ 250,000	$ 850,000	--	--
Long-term lease obligations	250	500	530	532	532	532
Total	$13,292,373	$ 950,500	$ 250,530	$ 850,532	$ 532	$ 532

STOCKHOLDERS' EQUITY

During the quarter ending June 30, 2004, we declared dividends to common shareholders totaling $57.7 million or $0.48 per share, which were paid on July 28, 2004. During the quarter ended June 30, 2004, the Company declared dividends to the preferred shareholders totaling $2.0 million or $0.47 per share, which were paid on June 30, 2004. On January 21, 2004, we 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 we 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 June 30, 2004, there were no shares issued through the Equity Shelf Program. During the quarter ended June 30, 2004, 11,700 options were exercised under the long-term compensation plan at $202,500. Also, 69,006 shares were purchased in the dividend reinvestment and direct purchase program at $1.2 million. During the six months ended June 30, 2004, 1,027,400 shares of the Company's common stock were issued through the Equity Shelf Program, totaling net proceeds of $20.1 million. During the six months ended June 30, 2004, 40,200 options were exercised under the long-term compensation plan at $662,000. Also, 105,942 shares were sold through the dividend reinvestment and direct purchase program for $1.9 million for the six months ended June 30, 2004.

The FIDAC acquisition was completed on June 4, 2004. We issued 2,201,080 shares to the shareholders of FIDAC, based on the December 31, 2003 closing price of $18.40. As previously disclosed, following completion of the acquisition we will continue to operate as a self-managed and self-advised real estate investment trust, and FIDAC will operate as our wholly-owned taxable REIT subsidiary.

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 JUNE 30, 2004	AT MARCH 31, 2004	AT DECEMBER 31, 2003	AT SEPTEMBER 30, 2003	AT JUNE 30, 2003	AT MARCH 31, 2003
Unrealized Gain	$ 27,603	$ 53,912	$ 24,886	$ 27,439	$ 51,208	$ 98,768
Unrealized Loss	(205,092)	(49,412)	(72,147)	(79,309)	(50,018)	(27,768)
Net Unrealized Gain (Loss)	($177,489)	$ 4,500	($ 47,261)	$ (51,870)	$ 1,190	$ 71,000
Net Unrealized Gain (Loss) as % of Investment Securities' Principal Value	(1.05%)	0.03%	(0.37%)	(0.41%)	0.01%	0.59%
Net Unrealized Gain (Loss) as % of Investment Securities' Amortized Cost	(1.03%)	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 June 30, 2004 was $1.4 billion, or a book value of $12.07 per common share. If we had used historical amortized cost accounting, our common equity base at June 30, 2004 would have been $1.6 billion, or $13.54 per common 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, June 30, 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 June 30, 2004	$102,708	$1,627,292	($177,489)	$1,449,803	$13.54	$12.07
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 June 30, 2004 and June 30, 2003 was 9.9:1 and 10.5:1, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2004 and December 31, 2003 we were in compliance with this requirement.

RECENT DEVELOPMENTS

On December 31, 2003, we entered into a merger agreement with FIDAC. At the annual meeting of our shareholders held on May 27, 2004, shareholders voted to approve the merger. The merger closed before the

opening of business on June 4, 2004. The merger was accounted for using the purchase method of accounting. Accordingly, the consolidated statement of financial condition as of June 30, 2004 includes the effects of the merger and our application of the purchase method of accounting. Additionally, the consolidated statements of operations and comprehensive income and cash flows for the respective periods ended June 30, 2004 include the combined results of us and FIDAC for the period from June 4, 2004 to June 30, 2004. Before June 4, 2004 we did not have an ownership interest in FIDAC and therefore financial results are not included in prior periods.

Under the merger agreement, our wholly owned Delaware subsidiary, FDC Merger Sub, Inc., merged with and into FIDAC, and FIDAC is the surviving corporation. The merger agreement provides that FIDAC shareholders received 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 June 30, 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 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 was paid by delivering 2,201,080 shares of our common stock on June 4, 2004. 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 June 30, 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	(39.14%)	0.51%
-75 Basis Points	(31.11%)	0.40%
-50 Basis Points	(19.51%)	0.28%
-25 Basis Points	(9.74%)	0.15%
Base Interest Rate	-	-
+25 Basis Points	6.14%	(0.16%)
+50 Basis Points	9.58%	(0.33%)
+75 Basis Points	10.32%	(0.51%)
+100 Basis Points	11.06%	(0.70%)

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 June 30, 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 3 Years	3 Years and Over	Total
			(dollars in thousands)		
Rate Sensitive Assets:					
Investment Securities	$2,771,570	$922,221	$5,389,305	$7,831,539	$16,914,635
Rate Sensitive Liabilities:					
Repurchase Agreements	13,102,123	840,000	1,400,000	-	15,342,123
Interest rate sensitivity gap	($10,330,553)	$82,221	$3,989,305	$7,831,539	$1,572,512
Cumulative rate sensitivity gap	($10,330,553)	($10,248,332)	($6,259,027)	$1,572,512	
Cumulative interest rate sensitivity gap as a percentage of total rate-sensitive assets	(61%)	(61%)	(37%)	9%	

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 June 30, 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 June 30, 2004. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The annual meeting of stockholders of Annaly Mortgage Management, Inc. was held on May 27, 2004.

(b) All Class II director nominees were elected.

Proposals and Vote Tabulations

Director	Votes Received	Votes Withheld
Kevin P. Brady	111,419,251	1,239,384
Donnell A. Segalas	111,529,684	1,128,951
E. Wayne Nordberg	111,436,138	1,222,497

Our continuing directors are Spencer Browne, Wellington Denahan-Norris, Michael A.J. Farrell, Jonathan Green, and John Lambiase.

(c) In addition to the election of the Class II directors, the appointment of Deloitte & Touche LLP as our independent auditors for 2004 was approved and the merger agreement, as amended, pursuant to which we acquired FIDAC, was approved by our stockholders.

	Votes Cast		
	For	Against	Abstain
Approval of appointment of independent auditors for 2004	111,497,288	818,475	342,812
Approval of merger agreement to acquire FIDAC	57,695,866	2,284,475	940,449

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index

Exhibit Number	Exhibit Description
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 April 1, 2004 reporting under item 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;

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; and

Our Current Report on Form 8-K was filed on June 4, 2004 reporting under item 5 announcing the acquisition of FIDAC was completed on June 4, 2004.

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

Our Current Report on Form 8-K was filed on July 23, 2004 reporting under item 12 announcing our financial results for the fiscal quarter and six months ended June 30, 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: August 6, 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: August 6, 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: August 6, 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: August 6, 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 June 30, 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

August 6, 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 June 30, 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

August 6, 2004

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