ANNALY CAPITAL MANAGEMENT INC
Form 424B5
July 19, 2017
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Filed Pursuant to Rule 424(b)(5)
Registration Statement No. 333-209447

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Common Stock, $0.01 par value per share	$804,540,000	$93,247

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended. This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in the registrant s Registration Statement on Form S-3 (File No. 333-209447) in accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended.

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PROSPECTUS SUPPLEMENT

(To Prospectus Dated February 9, 2016)

60,000,000 Shares

Annaly Capital Management, Inc.

Common Stock

We are offering for sale 60,000,000 shares of our common stock, par value $0.01 per share, or our common stock. Our common stock is listed on the New York Stock Exchange, or the NYSE, under the symbol NLY. The last reported sale price of our common stock on the NYSE on July 17, 2017 was $12.26 per share.

There are restrictions on transfer and ownership of our common stock intended to, among other purposes, preserve our qualification as a REIT. Please see Restrictions on Ownership and Transfer in the accompanying prospectus.

Investing in our common stock involves risks that are described under the caption Risk Factors beginning on page S-7 of this prospectus supplement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is incorporated by reference into this prospectus supplement.

We are selling to the underwriters the shares of common stock at a price of $11.66 per share, resulting in aggregate net proceeds to us of approximately $699.6 million before expenses. The underwriters propose to offer the shares of common stock for sale from time to time in one or more transactions (which may include block transactions), in negotiated transactions or otherwise, or a combination of those methods of sale at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriters and subject to the underwriters right to reject any order in whole or in part. Delivery of the shares of common stock is expected to be made on or about July 21, 2017.

We have granted the underwriters the option to purchase a maximum of 9,000,000 additional shares of common stock on the same terms and conditions set forth above within 30 days of the date of this prospectus supplement.

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

Joint Book-Running Managers

Credit Suisse	**BofA Merrill Lynch**	**Goldman Sachs & Co. LLC**	**J.P. Morgan**	**Wells Fargo Securities**

Co-Managers

JMP Securities **Sandler O Neill + Partners, L.P.**

The date of this prospectus supplement is July 17, 2017

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference into this prospectus supplement, the accompanying prospectus or any applicable free writing prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information.

We are not, and the underwriters are not, making an offer of the shares of common stock covered by this prospectus supplement and the accompanying prospectus in any jurisdiction where the offer is not permitted.

You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any applicable free writing prospectus and the documents incorporated by reference herein or therein is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

ABOUT THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to, changes and updates information contained in the accompanying prospectus and the documents incorporated by reference herein or therein. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or the documents incorporated by reference herein or therein, the information in this prospectus supplement will supersede such information. In addition, any statement in a filing we make with the SEC that adds to, updates, or changes information contained in an earlier filing we made with the SEC shall be deemed to modify and supersede such information in the earlier filing.

This prospectus supplement does not contain all of the information that is important to you. You should read the accompanying prospectus as well as the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. See Where You Can Find More Information in this prospectus supplement and in the accompanying prospectus. Unless otherwise indicated or unless the context requires otherwise, references to Annaly, we, our and us in this prospectus supplement mean Annaly Capital Management, Inc., a Maryland corporation, and all entities owned by us except where it is made clear that the term means only the parent company. The term you refers to a prospective investor.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 with the SEC in connection with this offering. In addition, we file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any reports or other information that we file with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., Washington D.C. 20549. You may also receive copies of these documents upon payment of a duplicating fee, by writing to the SEC s Public Reference Room. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room in Washington D.C. and other locations. Our SEC filings are also available to you, free of charge, on the SEC s website at www.sec.gov. Finally, we also maintain an internet site where you can find additional information. The address of our internet site is http://www.annaly.com. All internet site addresses provided in this prospectus supplement and accompanying prospectus are for informational purposes only and are not intended to be hyperlinks. In addition, the information on our internet site is not a part of, and is not incorporated or deemed to be incorporated by reference into this prospectus supplement or accompanying prospectus. Accordingly, no information in our or any of these other internet site addresses is included herein or incorporated or deemed to be incorporated by reference herein.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement and the accompanying prospectus, and the information incorporated by reference into this prospectus supplement and the accompanying prospectus and certain statements contained in our future filings with the SEC, in our press releases or in our other public or stockholder communications contain or incorporate by reference certain forward-looking statements which are based on various assumptions (some of which are beyond our control) and 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 simi or variations on those terms or the negative of those terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to:

- changes in interest rates;
- changes in the yield curve;
- changes in prepayment rates;
- the availability of mortgage-backed securities and other securities for purchase;
- the availability of financing and, if available, the terms of any financings;
- changes in the market value of our assets;
- changes in business conditions and the general economy;
- our ability to grow our commercial business;
- our ability to grow our residential mortgage credit business;
- credit risks related to our investments in credit risk transfer securities, residential mortgage-backed securities and related residential mortgage credit assets, commercial real estate assets and corporate debt;
- risks related to our investments in mortgage servicing rights and ownership of a servicer;
- our ability to consummate any contemplated investment opportunities;

changes in government regulations and policy affecting our business;

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

our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended; and

our inability to accurately predict our net income per share and core earnings per share for the quarter ended June 30, 2017 and our book value per share and economic leverage at June 30, 2017, for which we have provided preliminary estimates, contained in this prospectus supplement.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Risk Factors in this prospectus supplement, the accompanying prospectus, our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. 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.

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SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference into this prospectus supplement and the accompanying prospectus. It may not contain all of the information that is important to you. Before making a decision to invest in our common stock, you should read carefully this entire prospectus supplement and the accompanying prospectus, including the risks set forth under the caption Risk Factors in this prospectus supplement, the accompanying prospectus and our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and our subsequent Quarterly Reports on Form 10-Q, which are incorporated by reference into this prospectus supplement and the accompanying prospectus. This summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere or incorporated by reference into this prospectus supplement and the accompanying prospectus. The following defines certain of the commonly used terms in this prospectus supplement: Agency refers to a federally chartered corporation, such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, or an agency of the U.S. Government, such as the Government National Mortgage Association, and Agency mortgage-backed securities refers to residential mortgage-backed securities that are issued or guaranteed by an Agency. Unless otherwise indicated, the information in this prospectus supplement assumes that the underwriters option to purchase additional shares is not exercised.

Overview

Our Company

We are a leading diversified capital manager that invests in and finances residential and commercial assets. Our principal objectives are to generate net income for distributions to our stockholders from our investments and capital preservation. We are a Maryland corporation that has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. Annaly is externally managed by Annaly Management Company LLC, or our Manager.

We use our capital coupled with borrowed funds to invest primarily in real estate related investments, earning the spread between the yield on our assets and the cost of our borrowing and hedging activities. Our activities focus on capital preservation and income generation through proactive portfolio management, supported by a conservative liquidity and leverage posture. We have made significant investments in our business as part of the diversification of our investment strategy. Our operating platform has expanded in support of our diversification strategy, and has included investments in systems, infrastructure and personnel. Our operating platform supports our investments in Agency and residential credit assets (including residential mortgage loans), to-be-announced forward contracts, commercial real estate, mortgage servicing rights, and corporate loans. We believe the diversity of our investment alternatives provides us the flexibility to adapt to changes in market conditions and to take advantage of potential resulting opportunities.

Corporate Information

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

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Recent Developments

Preliminary Estimates of Net Income Per Average Common Share, Core Earnings (excluding PAA) Per Average Common Share and Core Earnings Per Average Common Share for the quarter ended June 30, 2017 and Book Value Per Common Share and Economic Leverage at June 30, 2017

Although our financial results for the second quarter 2017 are not yet finalized, we estimate the following:

- *Net income (loss) per average common share*. Our net income (loss) per average common share for the quarter ended June 30, 2017 was $(0.01), compared to $0.41 and ($0.32) per average common share for the quarters ended March 31, 2017 and June 30, 2016, respectively.

- *Core earnings (excluding PAA) per average common share*. Our core earnings (excluding the premium amortization adjustment, or PAA) were $0.30 per average common share for the quarter ended June 30, 2017, compared to $0.31 and $0.29 per average common share for the quarters ended March 31, 2017 and June 30, 2016, respectively.

- *Core earnings per average common share*. Our core earnings were $0.23 per average common share for the quarter ended June 30, 2017, compared to $0.29 and $0.19 per average common share for the quarters ended March 31, 2017 and June 30, 2016, respectively.

- *Book value per common share*. Our book value per common share at June 30, 2017 was $11.19, compared to $11.23 per common share at March 31, 2017.

- *Economic leverage*. Our economic leverage ratio, which is computed as the sum of recourse debt, to-be-announced (or TBA) derivative notional outstanding and net forward purchases of investments divided by total equity, at June 30, 2017 was 6.4:1, compared to 6.1:1 at March 31, 2017. Recourse debt consists of repurchase agreements and other secured financing.

Per share amounts at June 30, 2017 are based on 1,019,027,880 common shares issued and outstanding as of such date.

We define core earnings, a non-GAAP measure, as net income (loss) excluding gains or losses on disposals of investments and termination of interest rate swaps, unrealized gains or losses on interest rate swaps and investments measured at fair value through earnings, net gains and losses on trading assets, impairment losses, net income (loss) attributable to noncontrolling interest, corporate acquisition related expenses and certain other non-recurring gains or losses, and inclusive of dollar roll income and realized amortization of mortgage servicing rights, or MSRs. We also present core earnings as defined in the sentence above, but excluding the PAA, which is the component of premium amortization representing the cumulative impact on prior periods, but not on the current period, of the quarter-over-quarter change in estimated long-term constant prepayment rates.

To supplement our preliminary estimate of net income per average common share, which is prepared and presented in accordance with U.S. generally accepted accounting principles (GAAP), we provide core earnings (excluding PAA) per average common share and core earnings per average common share (each of which are non-GAAP financial measures). The Company believes these non-GAAP measures provide management and investors with additional details regarding the Company s underlying operating results and investment portfolio trends by (i) making adjustments to account for the disparate reporting of changes in fair value where certain instruments are reflected in GAAP net income (loss) while others are reflected in other comprehensive income (loss), and (ii) by excluding certain unrealized, non-cash or episodic components of GAAP net income (loss) in order to provide additional transparency into the operating performance of the Company s portfolio. Additionally, these non-GAAP measures may be useful in assessing our performance versus that of industry peers.

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While intended to offer a fuller understanding of our results and operations, non-GAAP financial measures also have limitations. For example, we may define our non-GAAP measures differently than those of industry peers. Additionally, in the case of core earnings (excluding PAA), the amount of premium amortization expense excluding the PAA is not necessarily representative of the amount of future periodic amortization nor is it indicative of the term over which we will amortize the remaining unamortized premium. Changes to actual and estimated prepayments will impact the timing and amount of premium amortization and, as such, both our GAAP and non-GAAP financial results. Our non-GAAP measures should not be considered a substitute for, or superior to, financial measures computed in accordance with GAAP. For additional information pertaining to our use of non-GAAP measures, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, both of which have been incorporated herein by reference.

The following table presents a summary reconciliation of our preliminary estimates of our GAAP financial results to our preliminary estimates of non-GAAP core earnings and core earnings (excluding PAA) for the quarter ended June 30, 2016. Amounts for the quarters ended March 31, 2017 and June 30, 2016 are based on actual results, as previously reported:

	For the Quarters Ended		
	June 30, 2017	March 31, 2017	June 30, 2016
	(dollars in thousands, except per share data)		
GAAP net income (loss)	$ 14,522	$ 440,408	$ (278,497)
Less:			
Unrealized (gains) losses on interest rate swaps	177,567	(149,184)	373,220
Other adjustments: (gains) and losses (1)	3,859	(29,134)	22,351
Plus:			
TBA dollar roll income and MSR amortization	63,953	55,938	79,519
Core earnings	259,901	318,028	196,593
PAA cost (benefit)	72,700	17,870	85,583
Core earnings (excluding PAA)	$ 332,601	$ 335,898	$ 282,176
GAAP net income (loss) per average common share (2)	$ (0.01)	$ 0.41	$ (0.32)
Core earnings per average common share (2)	$ 0.23	$ 0.29	$ 0.19
Core earnings (excluding PAA) per average common share (2)	$ 0.30	$ 0.31	$ 0.29

(1) Comprised of realized gains (losses) on termination of interest rate swaps, net gains (losses) on disposal of investments, net gains (losses) on trading assets, net unrealized gains (losses) on investments measured at fair value through earnings, corporate acquisition related expenses and net income (loss) attributable to noncontrolling interest.

(2) Net of dividends on preferred stock.

Our closing procedures for the three months ended June 30, 2017 are not yet complete and, as a result, our preliminary estimates of the financial information above reflect our preliminary estimate with respect to such results based on information currently available to management, and may vary from our actual financial results as of and for the quarter ended June 30, 2017. Further, these estimates are not a comprehensive statement of our financial results as of and for the quarter ended June 30, 2017. Accordingly, you should not place undue reliance on this preliminary information. These estimates, which are the responsibility of our management, were prepared by our management in connection with the preparation of our financial statements and are based upon a number of assumptions. Additional items that may require adjustments to the preliminary operating results may be identified and could result in material changes to our estimated preliminary operating results. Estimates of operating results are inherently uncertain and we undertake no obligation to update this information. See Special

Note Regarding Forward-Looking Statements, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations included or incorporated by reference herein for factors that could impact our actual results of operations. Ernst & Young LLP has not audited, reviewed, compiled or performed any procedures with respect to this preliminary financial information. Accordingly, Ernst & Young LLP does not express an opinion or provide any form of assurance with respect thereto.

Sale by Annaly of Pingora loan servicing platform to Bayview Asset Management, LLC

We have entered into an interest purchase agreement with Bayview Asset Management, LLC, or Bayview, pursuant to which we will sell Pingora Holdings, L.P., or Pingora, a Delaware limited partnership and wholly-owned indirect subsidiary of our Company, to Bayview. Through its wholly-owned subsidiaries, Pingora operates as a specialized asset manager focused on investing in new production performing MSRs and servicing residential mortgage loans. The disposition is subject to customary closing conditions, including requisite regulatory approvals, and is expected to close in the third quarter of 2017.

Increased Stock Ownership Commitment by CEO and Senior Management

Kevin Keyes, our Chief Executive Officer and President, has volunteered an increased commitment to own an aggregate $15 million of shares of common stock of the Company within the next three years. Mr. Keyes current stock ownership position has been acquired entirely through purchases on the open market and he has pledged to meet his enhanced $15 million commitment solely through additional open market purchases. This $15 million commitment exceeds Mr. Keyes $10 million stock ownership requirement, which was implemented pursuant to the expanded stock ownership guidelines previously announced by us in 2016.

In addition to Mr. Keyes, other members of senior management, including Chief Investment Officer David Finkelstein, Chief Credit Officer Timothy Coffey, Chief Financial Officer Glenn Votek and Chief Legal Officer Anthony Green, have committed to voluntarily increase their stock ownership positions beyond the amounts required under the 2016 stock ownership guidelines. Like Mr. Keyes, these officers have agreed to achieve their increased stock ownership commitments through open market purchases of the Company s common stock within the next three years. As of June 30, 2017, all individuals subject to the Company s stock ownership guidelines either met or, within the applicable period, are expected to meet such guidelines.

Second Quarter 2017 Common Stock Cash Dividend

We have announced our second quarter 2017 common stock cash dividend of $0.30 per common share. This dividend is payable July 31, 2017, to common shareholders of record on June 30, 2017. Investors purchasing shares of our common stock pursuant to this offering will not be entitled to the dividends payable on July 31, 2017, as such investors were not shareholders of record as of June 30, 2017.

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THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of our common stock, see Description of Equity Securities in the accompanying prospectus.

Issuer	Annaly Capital Management, Inc., a Maryland corporation
Securities Offered	60,000,000 shares of common stock, par value $0.01 per share (plus up to an additional 9,000,000 shares of common stock that we will issue and sell in the event the underwriters exercise their option to purchase additional shares)
Shares of common stock outstanding immediately prior to this offering[1]	1,019,027,880 shares
Shares of common stock outstanding upon completion of this offering[1]	1,079,027,880 shares (1,088,027,880 shares if the underwriters exercise their option to purchase additional shares)
Restrictions on Transfer and Ownership	Our charter contains restrictions on the number of shares of our capital stock that a person may own that are intended to assist us in maintaining the qualification as a REIT. Among other things, our charter provides that, subject to exceptions, no person may beneficially or constructively own shares of any class of our capital stock in excess of 9.8% in value or number of our outstanding shares of such class of capital stock. In addition, our charter, subject to exceptions, prohibits, among other things, any person from beneficially owning our shares of capital stock to the extent that such ownership of shares would result in us failing to qualify as a REIT. For more information about these restrictions, see Restrictions on Ownership and Transfer in the accompanying prospectus.
Use of Proceeds	We intend to use the net proceeds of this offering to acquire targeted assets under our capital allocation policy, which may include further diversification of our investments in Agency assets as well as residential, commercial and corporate credit assets. These investments include, without limitation, residential credit assets (including residential mortgage loans), middle market corporate loans, Agency MBS pools, to-be-announced forward contracts, adjustable rate mortgages, commercial real estate loans and securities and mortgage servicing rights. We also intend to use the net proceeds of this offering for general corporate purposes, including, without limitation, to pay down liabilities and other working capital items. See Use of Proceeds in this prospectus

supplement.

[1] Excludes shares of common stock issuable upon vesting of deferred stock units awards under our equity incentive plan.

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Distribution Policy	We intend to continue to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year (subject to certain adjustments) is distributed. We have announced our second quarter 2017 common stock cash dividend of $0.30 per common share. This dividend is payable July 31, 2017, to common shareholders of record on June 30, 2017. Investors purchasing shares of our common stock pursuant to this offering will not be entitled to the dividends payable on July 31, 2017, as such investors were not shareholders of record as of June 30, 2017.
U.S. Federal Income Tax Considerations	For a discussion of the material U.S. federal income tax considerations relating to purchasing, owning and disposing of our common stock, please see the sections entitled Additional Material U.S. Federal Income Tax Considerations in this prospectus supplement and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.
Risk Factors	Investing in our common stock involves risks that are described under the caption Risk Factors in this prospectus supplement and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which is incorporated by reference herein.

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RISK FACTORS

Investing in our common stock involves risk. Please see the risks described below in addition to the risk factors included in our most recent Annual Report on Form 10-K, any subsequent Quarterly Reports on Form 10-Q and other information that we file from time to time with the SEC. Such risks are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect us and the market value of our common stock. The risks described could affect our business, financial condition, liquidity, results of operations, prospects, and the market value of our common stock. In such a case, you may lose all or part of your original investment. You should consider carefully the risks described below and in these reports, as well as other information and data set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein before making an investment decision with respect to our common stock.

The market price of our common stock could be substantially affected by various factors.

Stock markets have experienced significant price and volume fluctuations. As a result, the market price of our securities could be similarly volatile. The market price of our common stock will depend on many factors, which may change from time to time, including:

- prevailing interest rates, increases in which may have an adverse effect on the market price of our common stock;
- trading prices of securities issued by REITs and other similar companies;
- general economic and financial market conditions;
- government action or regulation;
- our financial condition, performance and prospects and those of our competitors;
- changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- our issuance of additional shares of our common stock or securities convertible into, or exchangeable or exercisable for, shares of our common stock; and
- actual or anticipated variations in our quarterly operating results and those of our competitors.

As a result of these and other factors, investors who purchase our common stock in this offering may experience a decrease, which could be substantial and rapid, in the market price of our common stock, including decreases unrelated to our operating performance or prospects.

Our preliminary estimates of Net Income Per Average Common Share, Core Earnings (excluding PAA) Per Average Common Share and Core Earnings Per Average Common Share for the quarter ended June 30, 2017 and Book Value Per Common Share and Economic Leverage at June 30, 2017 could vary materially from our final results.

We have provided our estimated (i) net income per average common share, core earnings (excluding PAA) per average common share and core earnings per average common share for the quarter ended June 30, 2017, and (ii) our book value per common share and economic leverage at June 30, 2017. See Summary Overview Our Company Recent Developments. These estimates, which are the responsibility of our management, were prepared by our management in connection with the preparation of our financial statements and are based upon a number of assumptions. Our closing procedures for the quarter ended June 30, 2017 are not yet complete. As such, additional items that may require adjustments to the preliminary operating results may be identified and could result in material changes to our estimated preliminary operating results. Estimates of operating results are inherently uncertain. A variance between our estimated and final results may materially reduce the market price of our common stock.

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USE OF PROCEEDS

The net proceeds of this offering to us will be approximately $699.6 million (or approximately $804.5 million if the underwriters exercise their option to purchase additional shares in full) before estimated offering expenses payable by us.

We intend to use the net proceeds of this offering to acquire targeted assets under our capital allocation policy, which may include further diversification of our investments in Agency assets as well as residential, commercial and corporate credit assets. These investments include, without limitation, residential credit assets (including residential mortgage loans), middle market corporate loans, Agency MBS pools, to-be-announced forward contracts, adjustable rate mortgages, commercial real estate loans and securities and mortgage servicing rights. We also intend to use the net proceeds of this offering for general corporate purposes, including, without limitation, to pay down liabilities and other working capital items.

Pending these uses, we intend to maintain the net proceeds of this in interest-bearing, short-term, marketable investment grade securities or (interest or non-interest bearing) checking (or escrow) accounts or money market accounts that are consistent with our intention to maintain our qualification as a REIT. These investments may include, for example, government securities other than Agency securities, certificates of deposit and interest-bearing bank deposits. These investments are expected to provide a lower net return than we will seek to achieve from our targeted assets.

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ADDITIONAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion supplements and, where applicable, supplants the discussion under the heading Material U.S. Federal Income Tax Considerations in the accompanying prospectus. Terms used in this section but not defined in this section have the meanings ascribed to them elsewhere in this prospectus supplement or in Material U.S. Federal Income Tax Considerations in the accompanying prospectus. You should refer to the discussion in the accompanying prospectus under Material U.S. Federal Income Tax Considerations for a discussion of the tax consequences of our election to be taxed as a REIT and the tax consequences to Owners of shares of our common stock. The following is a summary of certain material U.S. federal income tax considerations relating to the acquisition, ownership and disposition of the common stock.

This discussion does not purport to be a complete analysis of all the potential tax considerations relating to the acquisition, ownership and disposition of our common stock. The discussion is based on the Code, current, temporary and proposed Treasury Regulations, the legislative history of the Code, current administrative interpretations and practices of the IRS, including its practices and policies as endorsed in private letter rulings, which are not binding on the IRS (except with respect to the taxpayer that received the ruling), and existing court decisions. Future legislation, regulations, administrative interpretations, and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. The IRS could challenge the statements in this discussion, which do not bind the IRS or the courts.

This summary applies to you only if you are a beneficial owner of the common stock and you acquire the common stock in this offering. This summary deals only with common stock held as capital assets (within the meaning of Section 1221 of the Code) and does not address tax considerations applicable to an investor s particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- dealers in securities or currencies;
- traders in securities;
- Domestic Owners whose functional currency is not the United States dollar;
- persons holding common stock as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle, or synthetic security;
- persons subject to the alternative minimum tax;
- certain United States expatriates;
- financial institutions;

- insurance companies;

- controlled foreign corporations, passive foreign investment companies and regulated investment companies, and shareholders of such corporations;

- entities that are tax-exempt from U.S. federal income tax, such as retirement plans, individual retirement accounts, and tax-deferred accounts; and

- pass-through entities, including partnerships and entities and arrangements classified as partnerships for U.S. federal tax purposes, and beneficial owners of pass-through entities.

If you are a partnership (or an entity or arrangement classified as a partnership for U.S. federal income tax purposes) holding the common stock, or a partner in such a partnership, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership, and you are encouraged to consult your tax advisor regarding the U.S. federal income and estate tax consequences of purchasing, owning and disposing of the common stock.

You are encouraged to consult your tax advisor before you purchase the common stock regarding the particular U.S. federal, state and local and non-U.S. income and other tax consequences of purchasing, owning, and disposing of the common stock that may be applicable to you in light of your particular circumstances.

Taxation of Our Company

In the opinion of Hunton & Williams LLP, we qualified to be taxed as a REIT under the U.S. federal income tax laws for our taxable years ended December 31, 2013 through December 31, 2016, and our organization and current and proposed method of operation will enable us to continue to qualify as a REIT for our taxable year ending December 31, 2017 and thereafter. Investors should be aware that Hunton & Williams LLP s opinion is based upon customary assumptions, is conditioned upon certain representations made by us as to factual matters, including representations regarding the nature of our assets and the conduct of our business, is not binding upon the IRS or any court, and speaks as of the date issued. In addition, Hunton & Williams LLP s opinion is based on existing U.S. federal income tax law governing qualification as a REIT, which is subject to change either prospectively or retroactively. Moreover, our qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual and quarterly operating results, certain qualification tests set forth in the U.S. federal tax laws. Those qualification tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of ownership of our shares of beneficial interest, and the percentage of our earnings that we distribute. Hunton & Williams LLP will not review our compliance with those tests on a continuing basis. Accordingly, no assurance can be given that our actual results of operations for any particular taxable year will satisfy such requirements. Hunton & Williams LLP s opinion does not foreclose the possibility that we may have to use one or more of the REIT savings provisions, which would require us to pay an excise or penalty tax (which could be material) in order to maintain our REIT qualification. For a discussion of the tax consequences of our failure to qualify as a REIT, see Material U.S. Federal Income Tax Considerations Failure to Qualify in the accompanying prospectus.

Asset Tests

As described in Material U.S. Federal Income Tax Considerations Asset Tests, we expect that substantially all of the MBS that we acquire will be treated as real estate assets. Where a mortgage covers both real property and other property, an apportionment may be required in the same manner as described under Material U.S. Federal Income Tax Considerations Gross Income Tests Interest. IRS Revenue Procedure 2014-51 provides a safe harbor under which the IRS has stated that it will not challenge a REIT s treatment of a loan as being, in part, a qualifying real estate asset in an amount equal to the lesser of (i) the fair market value of the loan on the relevant quarterly REIT asset testing date or (ii) the greater of (a) the fair market value of the real property securing the loan on the relevant quarterly REIT asset testing date or (b) the fair market value of the real property securing the loan on the date the REIT committed to originate or acquire the loan. It is unclear how the safe harbor in Revenue Procedure 2014-51 is affected by the subsequent legislative changes regarding the treatment of loans secured by both real property and personal property where the fair market value of the personal property does not exceed 15% of the sum of the fair market values of the real property and personal property securing the loan. We intend to continue to seek to manage our portfolio to comply at all times with the various asset tests.

Annual Distribution Requirements

As discussed in the accompanying prospectus under Material U.S. Federal Income Tax Considerations Annual Distribution Requirements, we are required to make certain distributions to maintain our REIT status. For our 2014 and prior taxable years, such distributions must not have been preferential dividends. A dividend is not a preferential dividend if the distribution is (i) pro-rata among all outstanding shares of stock within a particular class and (ii) in accordance with the preferences among different classes of stock as set forth in our organizational documents. For taxable years beginning after December 31, 2014, so long as we continue to be a publicly offered REIT (i.e., a REIT that is required to file annual and periodic reports with the SEC under the Exchange Act), the preferential dividend rule will not apply to us.

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UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below, for whom Credit Suisse Securities (USA) LLC is acting as representative, has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of our common stock set forth opposite that underwriter s name.

Underwriters	Number of Shares
Credit Suisse Securities (USA) LLC	18,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	9,000,000
Goldman Sachs & Co. LLC	9,000,000
J.P. Morgan Securities LLC	9,000,000
Wells Fargo Securities, LLC	9,000,000
JMP Securities LLC	3,000,000
Sandler O Neill & Partners, L.P.	3,000,000
Total	60,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the option to purchase additional shares described below) if they purchase any of the shares.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 9,000,000 additional shares at the same price per share set forth on the cover of this prospectus supplement. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

The underwriters are purchasing the shares of common stock at a price of $11.66 per share, resulting in aggregate net proceeds to us of approximately $699.6 million before expenses, or approximately $804.5 million if the underwriters option to purchase additional shares is exercised in full. The underwriters propose to offer the shares of common stock for sale from time to time in one or more transactions (which may include block transactions), in negotiated transactions or otherwise, or a combination of those methods of sale, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices, subject to receipt and acceptance by the underwriters and subject to the underwriters right to reject any order in whole or in part. In connection with the sale of the shares of common stock offered hereby, the underwriters may be deemed to have received compensation in the form of underwriting discounts. The underwriters may do so by selling the shares to or through broker/dealers, who may receive compensation in the form of underwriting discounts, concessions or commissions from the underwriters and/or the purchasers of the shares for whom they may act as agents or to whom they may sell as principal.

Pursuant to certain lock-up agreements, we and our executive officers and directors (each of our executive officers and directors, a Lock-Up Party) have agreed, subject to certain exceptions, not to sell, offer, contract to sell, pledge, register, grant any option to purchase or otherwise dispose of, directly or indirectly, any shares of capital stock, or any securities convertible into, or exercisable, exchangeable or redeemable for shares of capital stock without the prior written consent of the representative for a period of 30 days after the date of this prospectus supplement, subject to certain exceptions.

We estimate that our total expenses incurred in connection with this offering will be approximately $250,000.

The shares are listed on the NYSE under the symbol NLY.