Armour Residential REIT, Inc.
Form 10-Q
August 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011

OR

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

For the transition period from __________ to

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**001-33736**	**26-1908763**
		(I.R.S. Employer Identification No.)

(State or other jurisdiction of incorporation or organization)	(Commission File Number)

3001 Ocean Drive, Suite 201, Vero Beach, FL 32963

(Address of principal executive offices)(zip code)

(772) 617-4340

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 ý NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files). Yes ý NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨   Accelerated filer ¨   Non-accelerated filer ý   Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý

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

The number of outstanding shares of the Registrant s common stock as of August 2, 2011 was 75,726,081.

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ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

		(Unaudited)		
Assets		**June 30, 2011**		**December 31, 2010**
Cash	$	188,233,866	$	35,343,907
Restricted cash		55,311,283		4,680,603
Agency securities, available for sale, at fair value (including pledged assets of $4,884,190,551 and $1,023,749,488)		5,258,400,274		1,161,850,680
Principal payments receivable		3,516,060		2,642,149
Accrued interest receivable		15,956,541		3,892,834
Receivable from transfer agent		8,224,723		-
Prepaid and other assets		383,636		266,203
Refundable income taxes		-		547,574
Total Assets	$	5,530,026,383	$	1,209,223,950
Liabilities and Stockholders Equity				
Liabilities:				
Repurchase agreements	$	4,655,226,247	$	971,675,658
Payable for unsettled securities		302,680,242		125,418,369
Interest rate contracts, at fair value		36,008,818		2,530,645
Accounts payable and accrued expenses		1,964,352		454,379
Dividends payable		116,467		436,322
Total Liabilities		4,995,996,126		1,100,515,373
Stockholders Equity:				
Preferred stock, $0.001 par value, 25,000,000 shares authorized, none outstanding at June 30, 2011 and December 31, 2010		-		-
Common stock, $0.001 par value, 500,000,000 shares authorized, 74,781,174 and 16,441,554 shares issued and outstanding		74,781		16,442
Additional paid-in capital		533,807,928		116,748,175
Accumulated deficit		(32,164,751)		(3,826,510)
Accumulated other comprehensive income (loss)		32,312,299		(4,229,530)
Total Stockholders Equity		534,030,257		108,708,577
Total Liabilities and Stockholders Equity	$	5,530,026,383	$	1,209,223,950

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of OPERATIONS

(Unaudited)

	Three months Ended June 30, 2011	Three months Ended June 30, 2010	Six months Ended June 30, 2011	Six months Ended June 30, 2010
Interest Income:				
Interest income, net of amortization of premium	$ 29,461,571	$ 1,415,686	$ 43,196,400	$ 2,523,761
Interest expense:				
Repurchase agreements	(2,351,430)	(173,082)	(3,706,911)	(293,728)
Interest rate swap contracts	(6,107,390)	-	(8,128,648)	-
Total interest expense	(8,458,820)	(173,082)	(11,835,559)	(293,728)
Net interest income	21,002,751	1,242,604	31,360,841	2,230,033
Other Income:				
Change in fair value of interest rate contracts	(25,816,511)	(1,456,525)	(26,082,734)	(2,053,450)
Realized (loss) gain on interest rate contracts	(326,980)	6,611	(443,139)	(43)
Realized gain on sale of agency securities	-	-	-	208,094
Total net revenues	(5,140,740)	(207,310)	4,834,968	384,634
Expenses:				
Professional fees	241,654	80,982	612,668	227,012
Insurance	51,725	51,107	102,881	103,020
Management fee	1,494,979	85,398	2,250,799	142,996
Other	340,145	275,546	532,789	304,139
Total expenses	2,128,503	493,033	3,499,137	777,167
(Loss) Income before income taxes	(7,269,243)	(700,343)	1,335,831	(392,533)
Income tax expense	(3,213)	-	(12,213)	(2,400)
Net (Loss)/income	$ (7,272,456)	$ (700,343)	$ 1,323,618	$ (394,933)
Weighted average shares outstanding:				
Basic and diluted	53,258,925	3,146,362	39,902,981	2,727,535
Net (loss) income per share				
Basic and diluted	$ (0.14)	$ (0.22)	$ 0.03	$ (0.14)
Dividends per share	$ 0.36	$ 0.40	$ 0.70	$ 0.80

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Comprehensive	
	Shares	**Amount**	**Capital**	**Deficit**	**income (loss)**	**Income**	**Total**
Balance, December 31, 2010	16,441,554	$ 16,442	$ 116,748,175	$ (3,826,510)	$ (4,229,530)	$ -	$ 108,708,577
Dividends declared		-	-	(29,661,859)	-	-	(29,661,859)
Issuance of common stock	58,333,597	58,333	417,003,398	-	-	-	417,061,731
Stock based compensation, net of cash settlement	9,442	9	82,234			-	82,243
Shares forfeited to pay taxes	(3,419)	(3)	(25,879)				(25,882)
Net income				1,323,618		1,323,618	1,323,618
Net change in unrealized gain on available for sale securities	-	-	-	-	36,541,829	36,541,829	36,541,829
Comprehensive income	-	-	-	-	-	$ 37,865,447	-
Balance, June 30, 2011	74,781,174	$ 74,781	$ 533,807,928	$ (32,164,751)	$ 32,312,299		$ 534,030,257

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(Unaudited)

		Six months Ended June 30, 2011		Six months Ended June 30, 2010
Cash Flows From Operating Activities:				
Net income (loss)	$	1,323,618	$	(394,933)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Net amortization of premium on Agency Securities		7,932,276		1,376,198
Change in fair value of interest rate contract liabilities		33,478,173		2,053,449
Gain on sale of Agency Securities		-		(208,094)
Stock based compensation		145,280		-
Changes in operating assets and liabilities:				
Increase in accrued interest receivable		(12,063,707)		(1,136,564)
Decrease in prepaid income taxes and other assets		430,141		47,564
Increase in accounts payable and accrued expenses		1,421,056		160,613
Net cash provided by operating activities		32,666,837		1,898,233
Cash Flows From Investing Activities:				
Purchases of Agency Securities		(4,254,339,075)		(418,550,949)
Principal repayments of Agency Securities		183,354,894		27,318,471
Proceeds from sales of Agency Securities		-		31,531,266
Increase in payable for unsettled security purchases		179,432,101		57,149,785
Net cash used in investing activities		(3,891,552,080)		(302,551,427)
Cash Flows From Financing Activities:				
Issuance of common stock, net of expenses		408,837,008		32,125,373
Proceeds from repurchase agreements		13,771,872,953		891,030,868
Principal repayments on repurchase agreements		(10,088,322,364)		(602,716,146)
Increase in restricted cash		(50,630,680)		(3,560,896)
Dividends paid		(29,981,715)		(992,068)
Net cash provided by financing activities		4,011,775,202		315,887,131
Net Increase in cash		152,889,959		15,233,937
Cash - beginning of period		35,343,907		6,653,331
Cash - end of period	$	188,233,866	$	21,887,268
Supplemental Disclosure:				
Cash paid for income taxes (not including tax refunds received)	$	15,213	$	3,025
Cash paid during the period for interest	$	2,970,102	$	200,223
Non-Cash Investing and Financing Activities:				
Net unrealized gain on investment in available for sale securities	$	36,541,829	$	2,941,071
Amounts receivable for issuance of common stock	$	8,224,723	$	-

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

Note 1 Basis of Presentation

The balance sheet as of December 31, 2010, which has been derived from the audited financial statements, and the unaudited financial statements included herein have been prepared from the books and records of ARMOUR Residential REIT, Inc. (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission for reporting in the Quarterly Report on Form 10-Q. The information and note disclosures normally included in complete financial statements prepared in accordance with generally accepted accounting principles in the U.S (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim financial information should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2010, which are filed on Form 10-K.

The Company s management is responsible for this interim financial information. Interim results may not be indicative of the results that may be expected for the year. However, we believe that all adjustments considered necessary for a fair presentation of this financial information have been included and are of a normal and recurring nature.

Note 2 - Organization and Nature of Business Operations

Business

References to we , us , our "ARMOUR" or the Company are to ARMOUR Residential REIT, Inc. References to "ARRM" are to ARMOUR Residential Management LLC, a Delaware limited liability company. References to Enterprise are to Enterprise Acquisition Corp., a wholly-owned subsidiary of ARMOUR.

We are an externally-managed Maryland corporation organized in 2008, managed by ARRM. We invest primarily in hybrid adjustable rate, adjustable rate and fixed rate residential mortgage backed securities issued or guaranteed by a U.S. Government-chartered entity, such as the Federal National Mortgage Association (more commonly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac), or guaranteed by the Government National Mortgage Administration, a U.S. Government corporation (more commonly known as Ginnie Mae) (collectively, "Agency Securities"). From time to time, a portion of our portfolio may be invested in unsecured notes and bonds issued by U.S. Government-chartered entities (collectively, Agency Debt), U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a real estate investment trust (REIT).

We intend to qualify and have elected to be taxed as a REIT under the Internal Revenue Code (the Code). Our qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and our manner of operations enables us to meet the requirements for taxation as a REIT for federal income tax purposes.

As a REIT, we will generally not be subject to federal income tax on the REIT taxable income that we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax at regular corporate rates. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to some federal, state and local taxes on our income.

Note 3 - Summary of Significant Accounting Policies

Basis of Presentation and Consolidation and Use of Estimates

Our financial statements are presented in U.S. dollars in conformity with GAAP. The condensed consolidated financial statements include the accounts of ARMOUR and all subsidiaries; all intercompany accounts and transactions have been eliminated.

The preparation of financial information in conformity with GAAP requires management to make estimates that affect the reported assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

Cash

Cash includes cash on deposit with financial institutions and investments in high quality overnight money market funds, all of which have maturities of three months or less, at time of purchase. We may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, management believes we are not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Restricted Cash

Restricted cash at June 30, 2011 and December 31, 2010, represents approximately $55.3 million and $4.7 million, respectively, held by counterparties as collateral.

Agency Securities, at Fair Value

We invest primarily in Agency Securities. A portion of our portfolio may be invested in Agency Debt, U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a REIT. We have committed ourselves to the Agency asset class by including in our charter a requirement that all of our financial instrument investments will consist of Agency Securities, Agency Debt, U.S. Treasuries and money market instruments (including reverse repurchase agreements) and hedging and other derivative instruments related to the foregoing investments.

We classify our Agency Securities as either trading, available for sale or held to maturity securities. Although we generally intend to hold most of our Agency Securities until maturity, we may, from time to time, sell any of our Agency Securities as part of our overall management of our portfolio. Management determines the appropriate classifications of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. As of June 30, 2011 all of our Agency Securities were classified as available for sale. Agency securities classified as available for sale are reported at estimated fair value, based on fair values obtained and compared to independent sources, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders equity. Agency securities transactions are recorded on the trade date. Realized gains and losses on sales of Agency Securities are determined using the specific identification method.

We evaluate securities for other than temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. We determine if we (1) have the intent to sell the Agency Securities, (2) are more likely than not that we will be required to sell the securities before recovery, or (3) do not expect to recover the entire amortized cost basis of the Agency Securities. There was no other than temporary impairment for the six month period ended June 30, 2011 and year ended December 31, 2010.

Fair Value of Financial Instruments

The carrying amounts of cash, restricted cash, accrued interest receivable and accounts payable approximate their fair value due to the short maturities of these instruments. See Notes 5 and 6, respectively, for discussion of the fair value of Agency Securities, Available for Sale and Interest Rate Contracts. The carrying amount of repurchase agreements and accrued interest payable is deemed to approximate fair value due to the short-term maturities of these instruments.

Agency Security Valuation

Agency Securities are valued using third-party pricing services and dealer quotes. The third-party pricing services use common market pricing methods including pricing models that incorporate such factors as coupons, prepayment speeds, spread to the Treasury curves and interest rate swap curves, duration, periodic and life caps and credit enhancement. If the fair value of a security is not available from the independent pricing service, or such data appears unreliable, we obtain valuations from up to three deale