Armour Residential REIT, Inc.
Form 10-Q
November 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 September 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**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

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 November 2, 2011 was 84,766,397.

TABLE OF CONTENTS

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

		(Unaudited)		
Assets		**September 30, 2011**		**December 31, 2010**
Cash	$	250,485,889	$	35,343,907
Restricted cash		129,924,393		4,680,603
Agency securities, available for sale, at fair value (including pledged assets of $5,475,284,566 and $1,023,749,488)		5,975,823,418		1,161,850,680
Principal payments receivable		8,541,768		2,642,149
Accrued interest receivable		18,905,442		3,908,235
Prepaid and other assets		430,100		266,203
Refundable income taxes		-		547,574
Total Assets	$	6,384,111,010	$	1,209,239,351
Liabilities and Stockholders Equity				
Liabilities:				
Repurchase agreements	$	5,221,525,340	$	971,675,658
Payable for unsettled securities		475,109,262		125,418,369
Derivatives, at fair value		94,421,587		2,530,645
Accrued interest payable		17,051,708		295,005
Accounts payable and accrued expenses		1,219,235		174,775
Dividends payable		115,993		436,322
Total Liabilities		5,809,443,125		1,100,530,774
Stockholders Equity:				
Preferred stock, $0.001 par value, 25,000,000 shares authorized, none outstanding at September 30, 2011 and December 31, 2010		-		-
Common stock, $0.001 par value, 500,000,000 and 250,000,000 shares authorized, 84,758,505 and 16,441,554 shares issued and outstanding at September 30, 2011 and December 31, 2010		84,758		16,442
Additional paid-in capital		606,186,743		116,748,175
Accumulated deficit		(94,910,261)		(3,826,510)
Accumulated other comprehensive income (loss)		63,306,645		(4,229,530)
Total Stockholders Equity		574,667,885		108,708,577

Total Liabilities and Stockholders Equity	$	6,384,111,010	$	1,209,239,351

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of OPERATIONS

(Unaudited)

	Three months Ended September 30, 2011	Three months Ended September 30, 2010	Nine months Ended September 30, 2011	Nine months Ended September 30, 2010
Interest Income:				
Interest income, net of amortization of premium	$ 39,665,171	$ 3,891,240	$ 82,293,745	$ 6,415,001
Interest expense:				
Repurchase agreements	(3,450,885)	(376,728)	(7,157,796)	(650,021)
Total interest expense	(3,450,885)	(376,728)	(7,157,796)	(650,021)
Net interest income	36,214,286	3,514,512	75,135,949	5,764,980
Other Income (Loss):				
Realized gain on sale of agency securities	6,443,902	-	6,443,902	208,094
Subtotal	6,443,902	-	6,443,902	208,094
Realized loss on derivatives (1)	(8,420,990)	(197,657)	(16,424,950)	(218,134)
Unrealized loss on derivatives	(65,808,206)	(3,391,588)	(91,890,940)	(5,445,038)
Subtotal	(74,229,196)	(3,589,245)	(108,315,890)	(5,663,172)
Total other loss	(67,785,294)	(3,589,245)	(101,871,988)	(5,455,078)
Expenses:				
Professional fees	270,392	84,497	883,411	311,509
Insurance	60,488	37,241	163,425	140,261
Management fee	2,190,502	225,000	4,441,302	367,996
Other	377,480	36,541	910,221	340,801
Total expenses	2,898,862	383,279	6,398,359	1,160,567
Loss before income taxes	(34,469,870)	(458,012)	(33,134,398)	(850,665)
Income tax expense	(2,050)	(82)	(14,263)	(2,482)
Net Loss	$ (34,471,920)	$ (458,094)	$ (33,148,661)	$ (853,147)
Weighted average shares outstanding:				
Basic and diluted	78,360,049	7,414,054	52,862,872	4,306,875
Net loss per share:				
Basic and diluted	$ (0.44)	$ (0.06)	$ (0.63)	$ (0.20)
Dividends per share	$ 0.36	$ 0.36	$ 1.06	$ 1.16

(1)

Interest expense related to our interest rate swap contracts is recorded in realized losses on derivatives on the consolidated statements of operations. For additional information, see Note 6 to the condensed consolidated financial statements.

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, January 1, 2011	16,441,554	$ 16,442	$ 116,748,175	$ (3,826,510)	$ (4,229,530)	$ -	$ 108,708,577
Dividends declared		-	-	(57,935,090)			(57,935,090)
Issuance of common stock, net	68,304,774	68,304	489,336,294	-			489,404,598
Stock based compensation, net of withholding requirements	12,177	12	102,274	-			102,286
Net loss	-	-	-	(33,148,661)		(33,148,661)	(33,148,661)
Net change in unrealized gain on available for sale securities	-	-	-	-	67,536,175	67,536,175	67,536,175
Comprehensive income	-	-	-	-	-	$ 34,387,514	-
Balance, September 30, 2011	84,758,505	$ 84,758	$ 606,186,743	$ (94,910,261)	$ 63,306,645		$ 574,667,885

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(Unaudited)

		Nine months Ended September 30, 2011		**Nine months Ended September 30, 2010**
Cash Flows From Operating Activities:				
Net loss	$	(33,148,661)	$	(853,147)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Net amortization of premium on Agency Securities		17,636,433		2,426,552
Unrealized loss on derivatives		91,890,940		5,445,038
Gain on sale of Agency Securities		(6,443,902)		(208,094)
Stock based compensation		102,286		-
Changes in operating assets and liabilities:				
Increase in accrued interest receivable		(15,012,608)		(1,764,454)
Decrease (increase) in prepaid income taxes and other assets		387,464		(16,026)
Increase in accrued interest payable		16,822,805		59,243
Increase in accounts payable and accrued expenses		993,760		184,662
Net cash provided by operating activities		73,228,517		5,273,774
Cash Flows From Investing Activities:				
Purchases of Agency Securities		(5,704,829,944)		(502,388,124)
Principal repayments of Agency Securities		426,473,862		49,559,729
Proceeds from sales of Agency Securities		512,657,141		31,531,266
Increase (decrease) in payable for unsettled security purchases		351,861,121		(46,590,233)
Net cash used in investing activities		(4,413,837,820)		(467,887,362)
Cash Flows From Financing Activities:				
Issuance of common stock, net of expenses		489,400,811		32,062,856
Proceeds from repurchase agreements		28,660,677,323		2,236,866,975
Principal repayments on repurchase agreements		(24,410,827,641)		(1,792,528,555)
Increase in restricted cash		(125,243,790)		(6,562,808)
Dividends paid		(58,255,418)		(1,913,691)
Net cash provided by financing activities		4,555,751,285		467,924,777
Net Increase in cash		215,141,982		5,311,189
Cash - beginning of period		35,343,907		6,653,331
Cash - end of period	$	250,485,889	$	11,964,520
Supplemental Disclosure:				
Cash paid for income taxes (not including tax refunds received)	$	18,831	$	3,116
Cash paid during the period for interest	$	5,844,214	$	515,779
Non-Cash Investing and Financing Activities:				
Net unrealized gain on investment in available for sale securities	$	67,536,175		5,847,048

Amounts receivable for issuance of common stock	$	3,787	$	-

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(Unaudited)

Note 1 Basis of Presentation

The consolidated 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 (SEC) for reporting in the Quarterly Report on Form 10-Q. The information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim consolidated 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 consolidated 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., which is 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

September 30, 2011

(Unaudited)

Reclassification

We reclassified previously presented financial information to conform to the presentation in our condensed consolidated financial information as of and for the three and nine month periods ended September 30, 2011. Accrued interest payable, which was previously included in the caption accounts payable and accrued expenses , has been reclassified and is presented in a separate item. Previously included in accounts payable and accrued expenses was accrued interest receivable and payable with respect to our interest rate swap contracts which was previously netted, and has been reclassified to accrued interest receivable and accrued interest payable, as applicable. Certain commissions with respect to Futures Contracts which were previously included in interest expense have been reclassified into realized gain or loss on those contracts. The unrealized gains and losses on our derivatives previously classified on our statement of operations as an adjustment to arrive at net interest income after change in fair value of interest rate contracts is no longer presented as an adjustment to interest income and has been reclassified into other income as part of the unrealized gain or loss on derivatives. This reclassification caused accrued interest receivable to increase by $15,401 and accrued interest payable to increase by $295,005, respectively for the period ending December 31, 2010. This reclassification also caused interest expense to decrease by $9,874 and $30,309 and other income (loss) to decrease by the same amounts, respectively for the three and nine months ended September 30, 2010. In addition, amounts previously reported for the six months ended June 30, 2011 have been reclassified. For the six months ended June 30, 2011 $7,560,821 of interest expense has been reclassified to realized loss on derivatives within other income (loss) for the nine months ended September 30, 2011.

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 and creditworthiness of the depository institutions in which those deposits are held.

Restricted Cash

Restricted cash at September 30, 2011 and December 31, 2010, represents approximately $129.9 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 for long-term periods, 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 September 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