Armour Residential REIT, Inc.
Form 10-Q
May 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For Fiscal Quarter Ended March 31, 2011

OR

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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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on which registered
Common Stock, $0.001 par value	NYSE
Warrants to Purchase Common Stock	NYSE

Securities registered pursuant to Section 12(b) of the Act:

None.

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 ¨ 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 May 2, 2011 was 49,260,077.

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ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

PART I. Financial Information

Item 1. Financial Statements

		(Unaudited)		
Assets		**March 31, 2011**		**December 31, 2010**
Cash	$	47,174,161	$	35,343,907
Restricted cash		13,713,222		4,680,603
Agency securities, available for sale, at fair value (including pledged assets of $2,206,904,817 and $1,023,749,488)		2,273,914,732		1,161,850,680
Principal payments receivable		2,878,391		2,642,149
Accrued interest receivable		7,705,149		3,892,834
Prepaid and other assets		287,908		266,203
Refundable income taxes		-		547,574
Total Assets	$	2,345,673,563	$	1,209,223,950
Liabilities and Stockholders Equity				
Liabilities:				
Repurchase agreements	$	2,099,366,245	$	971,675,658
Payable for unsettled securities		19,941,430		125,418,369
Interest rate contracts, at fair value		4,666,298		2,530,645
Accounts payable and accrued expenses		971,324		454,379
Dividends payable		115,891		436,322
Total Liabilities		2,125,061,188		1,100,515,373
Stockholders Equity:				
Preferred stock, $0.001 par value, 25,000,000 shares authorized, none outstanding at March 31, 2011 and December 31, 2010		-		-
Common stock, $0.001 par value, 250,000,000 shares authorized, 32,254,054 and 16,441,554 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively.		32,254		16,442
Additional paid-in capital		229,733,052		116,748,175
Accumulated deficit		(4,677,964)		(3,826,510)
Accumulated other comprehensive loss		(4,474,967)		(4,229,530)
Total Stockholders Equity		220,612,375		108,708,577
Total Liabilities and Stockholders Equity	$	2,345,673,563	$	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 March 31, 2011		Three months Ended March 31, 2010
Interest Income:				
Interest income, net of amortization of premium	$	13,734,829	$	1,108,138
Total interest income		13,734,829		1,108,138
Interest expense:				
Repurchase agreements		(1,355,481)		(120,646)
Interest rate swap contracts		(2,021,259)		-
Total interest expense		(3,376,740)		(120,646)
Net interest income		10,358,089		987,492
Other Income:				
Change in fair value of interest rate contracts		(266,223)		(603,579)
Net interest income after change in fair value of interest rate contracts		10,091,866		383,913
Realized loss on interest rate contracts		(116,159)		-
Realized gain on sale of agency securities		-		208,199
Total net revenues		9,975,707		592,112
Expenses:				
Professional fees		371,014		146,030
Insurance		51,156		51,912
Management fee		755,820		57,598
Other		192,644		28,339
Total expenses		1,370,634		283,879
Net income before taxes		8,605,073		308,233
Income tax expense		(9,000)		(2,400)
Net Income	$	8,596,073	$	305,833
Weighted average shares outstanding :				
Basic and diluted		26,398,637		2,304,054
Net income per share				
Basic and diluted	$	0.33	$	0.13

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of STOCKHOLDERS EQUITY

(Unaudited)

	Common Stock		**Additional**		**Accumulated**		
			Paid-In	**Accumulated**	**Other Comprehensive**	**Comprehensive**	
	Shares	**Amount**	**Capital**	**Deficit**	**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	-	-	-	(9,447,527)	-	-	(9,447,527)
Sale of 15,812,500 shares, net of underwriters discount and offering expenses	15,812,500	15,812	112,974,513	-	-	-	112,990,325
Stock based compensation awarded to directors	-	-	10,364	-	-	-	10,364
Net income	-	-	-	8,596,073	-	8,596,073	8,596,073
Net change in unrealized loss on investment in Available for Sale securities	-	-	-	-	(245,437)	(245,437)	(245,437)
Comprehensive income	-	-	-	-	-	$ 8,350,636	
Balance, March 31, 2011	32,254,054	$ 32,254	$ 229,733,052	$ (4,677,964)	$ (4,474,967)		$ 220,612,375

See notes to condensed consolidated financial statements.

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ARMOUR Residential REIT, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(Unaudited)

		Three months Ended March 31, 2011		Three months Ended March 31, 2010
Cash Flows From Operating Activities:				
Net income	$	8,596,073	$	305,833
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of premium on Agency Securities		3,274,606		610,659
Change in fair value of interest rate contracts		2,135,653		596,925
Gain on sale of Agency Securities		-		(208,199)
Stock based compensation		10,364		-
Changes in operating assets and liabilities:				
Increase in accrued interest receivable		(3,812,315)		(550,054)
Decrease (increase) in prepaid income taxes and other assets		525,869		(24,296)
Increase in accounts payable and accrued expenses		516,945		45,694
Net cash provided by operating activities		11,247,195		776,562
Cash Flows From Investing Activities:				
Purchases of Agency Securities		(1,189,243,231)		(147,963,888)
Principal repayments of Agency Securities		71,252,666		6,562,794
Proceeds from sales of Agency Securities		-		31,531,266
Unsettled security purchases		(103,306,711)		(15,927,169)
Net cash used in investing activities		(1,221,297,276)		(125,796,997)
Cash Flows From Financing Activities:				
Sale of common stock, net of expenses		112,990,325		-
Proceeds from repurchase agreements		4,541,638,738		306,657,050
Principal repayments on repurchase agreements		(3,413,948,151)		(184,520,559)
Increase in restricted cash		(9,032,619)		(917,184)
Dividends paid		(9,767,958)		(70,447)
Net cash provided by financing activities		1,221,880,335		121,148,860
Net Increase (decrease) in cash		11,830,254		(3,871,575)
Cash - beginning of period		35,343,907		6,653,331
Cash - end of period	$	47,174,161	$	2,781,756
Supplemental Disclosure:				
Cash paid for income taxes (not including tax refunds received)	$	12,000	$	3,025
Cash paid during the period for interest	$	1,104,971	$	88,381
Non-Cash Investing Activity:				
Net unrealized(loss) gain or investment in available for sale securities	$	(245,437)		542,418

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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.

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. The carrying amount of cash is deemed to be its fair value.

Restricted Cash

Restricted cash at March 31, 2011 and December 31, 2010, represents approximately $13.7 million and $4.7 million, respectively, held by counterparties as collateral for interest rate contracts.

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. 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.

We may recognize impairments in our investment portfolio which, among other things, requires: the determination as to when an investment is considered impaired; whether that impairment is other than temporary; the measurement of an impairment loss; accounting considerations subsequent to the recognition of an other than temporary impairment; and certain disclosures about unrealized losses that have not been recognized as other than temporary impairments.

We assess our investment portfolio for other than temporary impairment on a quarterly basis, or more frequently if conditions merit. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other than temporary.

Fair Value of Financial Instruments

We consider our cash, restricted cash, Agency Securities, Available for Sale (settled and unsettled), accrued interest receivable, accounts payable, interest rate contracts, repurchase agreements and accrued interest payable to meet the definition of financial instruments. The carrying amount 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 dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. Management reviews pricing used to ensure that current market conditions are properly represented. This review may include, but is not limited to, comparisons of similar market transactions, alternative third-party pricing services and dealer quotes, or comparisons to a pricing model. The resulting unrealized gains and losses are reflected in our condensed consolidated balance sheets as accumulated other comprehensive loss.

Repurchase Agreements

We finance the acquisition of elements of our investment portfolio through the use of repurchase agreements. Our repurchase agreements are secured by our Agency Securities and bear interest rates that have historically moved in close relationship to the London Interbank Offered Rate (LIBOR). Under these agreements, we sell securities to a lender and agree to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sales price that we receive and the repurchase price that we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as financing under which we pledge our securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then prevailing financing rate. The repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

Derivatives

We seek to mitigate the exposure to potential interest rate mismatches between the interest earned on investments and the borrowing costs caused by fluctuations in short-term interest rates. In a simple interest rate swap, one investor pays a floating rate of interest on a notional principal amount and receives a fixed rate of interest on the same notional principal amount for a specified period of time. Alternatively, an investor may pay a fixed rate and receive a floating rate. During the term of the interest rate swap, we make or receive periodic payments and unrealized gains or losses are recorded as a result of marking the swaps to their fair value. If a swap is terminated prior to maturity, we record a realized gain or loss equal to the difference between the proceeds from (or cost of) the closing transaction and our cost basis in the contract, if any. The periodic payments and any realized gains or losses are reported under realized gain (loss) on interest rate contracts in our statement of operations. All unrealized gains or losses are reported under change in fair value of interest rate contracts in our statements of operations. Swaps involve a risk that interest rates will move contrary to our expectations, which may reduce the periodic payments we receive or increase our payment obligations.

We are exposed to credit loss in the event of nonperformance by the counterparty to the swap, limited to any gains recognized. However, as of March 31, 2011, we did not anticipate nonperformance by any counterparty. Should interest rates move unexpectedly, we may not achieve the anticipated benefits of the interest rate swaps and may realize a loss.

We recognize all derivative instruments as either assets or liabilities at fair value on our condensed consolidated balance sheet. We do not designate our interest rate risk mitigation activities as cash flow hedges, which, among other factors, would require us to match the pricing dates of both hedging transactions and repurchase agreements. Operational issues and credit market volatility make such matching impractical for us. Since we will not qualify for hedge accounting treatment as prescribed by GAAP, our operating results may reflect greater volatility than otherwise would be the case, because gains or losses on the interest rate risk mitigation instruments may not be offset by changes in the fair value or cash flows of the transaction within the same accounting period, or ever. Consequently, any declines in our interest rate contracts would result in a charge to earnings. We will continue to designate interest rate risk mitigation activities as hedges for tax purposes and any unrealized gains or losses should not affect our distributable net income.

Credit Risk

We have limited our exposure to credit losses on our portfolio of Agency Securities by only purchasing securities issued by Freddie Mac, Fannie Mae or Ginnie Mae. The payment of principal and interest on the Freddie Mac and Fannie Mae Agency Securities are guaranteed by those respective agencies, and the payment of principal and interest on the Ginnie Mae Agency Securities are backed by the full faith and credit of the U.S. government.

Market Risk

Weakness in the mortgage market may adversely affect the performance and market value of our investments. This could negatively impact our net book value. Furthermore, if our lenders are unwilling or unable to provide additional financing, we could be forced to sell our Agency Securities at an inopportune time when prices are depressed. The principal payments are guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae on our Agency Securities.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

Preferred Stock

We are authorized to issue 25,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors (Board) or a committee thereof.

Common Stock and Warrants

At March 31, 2011, we had 32,254,054 shares of common stock issued and outstanding, and have authorized 250,000,000 shares of common stock, par value $0.001. At March 31, 2011, we had outstanding warrants to purchase 32,500,000 shares of common stock, which are exercisable at $11.00 per share and expire in 2013.

Income per Common Share

Basic income per common share for all periods is computed by dividing the earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period. Warrants issued in the offering and sponsor warrants were contingently exercisable upon consummation of a business combination. The basic and pro forma diluted income per common share for the quarter ended March 31, 2011 and March 31, 2010, does not include 32,500,000 warrants as the effect of including such warrants would be anti-dilutive. Pro forma diluted income per share would reflect the potential dilution assuming common shares were issued upon the exercise of outstanding warrants and the proceeds thereof were used to purchase common shares at the average market price during the period.

Comprehensive Income

Other comprehensive income refers to revenue, expenses, gains and losses that are recorded directly as an adjustment to shareholders equity. Other comprehensive income arises primarily from changes in unrealized gains or losses generated from changes in market values of our Agency Securities held as available for sale.

Revenue Recognition

Interest income is earned and recognized based on the outstanding principal amount of the investment securities and their contractual terms. Premiums and discounts associated with the purchase of investment securities are amortized or accreted into interest income over the actual lives of the securities.

Income Taxes

We intend to qualify and have elected to be taxed as a REIT under the Code. We will generally not be subject to federal income tax to the extent that we distribute 90% of our taxable income to our shareholders, and as long as we satisfy the ongoing REIT requirements including meeting certain asset, income and stock ownership tests.

Our management is responsible for determining whether a tax position taken by us is more likely than not to be sustained on its merits. We have no material unrecognized tax benefits and have not recognized in these financial statements any interest or penalties related to income taxes. Should any such penalties and interest be recognized, they will be included in other expenses and interest expense, respectively. No tax returns of ours have been examined by federal, state or local authorities; therefore all years which are statutorily open are subject to examination by the appropriate authorities.

Note 4 - Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued new authoritative literature, which clarifies certain existing disclosure requirements and requires additional disclosures for recurring and nonrecurring fair value measurements. These additional disclosures include amounts and reasons for significant transfers between Level 1 and Level 2 of the fair value hierarchy; significant transfers in and out of Level 3 of the fair value hierarchy; and information about purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 measurements. The requirements of this standard are effective for periods beginning after December 15, 2009, with the exception of the requirement of information about purchases, sales, issuances and settlements of Level 3 measurements, which becomes effective for periods beginning after December 15, 2010. We adopted the guidance related to Level 1 and Level 2 disclosures effective January 1, 2010 and adopted the guidance related to Level 3 disclosures effective January 1, 2011; the full adoption of this guidance did not have a material effect on our financial statements.

In July 2010, the FASB issued guidance that primarily requires additional disaggregated disclosures of (i) credit risks associated with financing receivables, and (ii) impaired financing receivables and the related allowance for credit losses. The guidance is generally effective for the first interim or annual period ending after December 15, 2010; however certain disclosures are not required until the first interim or annual period beginning after December 15, 2010. The adoption of the guidance did not require us to include additional disclosures in the notes to our condensed consolidated financial statements.

Note 5 - Agency Securities, Available for Sale

All of our Agency Securities are classified as available for sale and, as such, are reported at their estimated fair value. Management generally determines the fair values of Agency Securities by 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. The dealer quotes incorporate common market pricing methods, including a spread measurement to the Treasury curves or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, rate reset period, issuer, additional credit support and expected life of the security. Management reviews pricing used to ensure that current market conditions are represented. This review may include, but is not limited to, comparisons of similar market transactions, alternative third-party pricing services and dealer quotes, or comparisons to a pricing model. At March 31, 2011 and December 31, 2010, all of our Agency Security values were based solely on third-party sources.

As of March 31, 2011, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes $20.0 million of current carrying value of forward settle security purchases.

	Amortized Cost	Fair Market Value	Unrealized Loss	Unrealized Gain	Net Unrealized Gain (Loss)
Fannie Mae Certificates	$ 1,567,549,404	$ 1,563,180,227	$ (7,466,750)	$ 3,097,573	$ (4,369,177)
Freddie Mac Certificates	298,146,974	297,345,505	(1,883,880)	1,082,411	(801,469)
Ginnie Mae Certificates	412,693,321	413,389,000	(677,995)	1,373,674	695,679
	$ 2,278,389,699	$ 2,273,914,732	$ (10,028,625)	$ 5,553,658	$ (4,474,967)

Total Agency Securities

As of December 31, 2010, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes $125.3 million of current carrying value of forward settle security purchases.

	Amortized Cost	Fair Market Value	Unrealized Loss	Unrealized Gain	Net Unrealized Gain(Loss)
Fannie Mae Certificates	$ 847,473,686	$ 843,872,174	$ (5,767,276)	$ 2,165,764	$ (3,601,512)
Freddie Mac Certificates	258,457,021	257,316,342	(2,060,057)	919,378	(1,140,679)
Ginnie Mae Certificates	60,149,503	60,662,164	(45,676)	558,337	512,661
Total Agency Securities	$ 1,166,080,210	$ 1,161,850,680	$ (7,873,009)	$ 3,643,479	$ (4,229,530)

The components of the carrying value of available for sale Agency Securities at March 31, 2011, are presented below.

	March 31, 2011
Principal balance settled securities	$ 2,169,947,596
Principal balance forward settle securities	19,011,912
Unamortized premium settled securities	88,500,672
Unamortized premium forward settle securities	929,519
Gross unrealized gains	5,553,658
Gross unrealized losses	(10,028,625)
Carrying value/estimated fair value	$ 2,273,914,732

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

The components of the carrying value of available for sale Agency Securities at December 31, 2010, are presented below.

		December 31, 2010
Principal balance settled securities	$	995,994,552
Principal balance forward settle securities		120,473,239
Unamortized premium settled securities		44,724,477
Unamortized premium forward settle securities		4,887,942
Gross unrealized gains		3,643,479
Gross unrealized losses		(7,873,009)
Carrying value/estimated fair value	$	1,161,850,680

As of March 31, 2011, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settle securities, of 104.09%, due to the average interest rates on these securities being higher than prevailing market rates. As of March 31, 2011, we had approximately $89.4 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. As of March 31, 2011, our investment portfolio of securities consisted of Agency Securities as follows:

Adjustable Rate Settled Securities as of March 31, 2011

Months to Reset	Percentage of Settled Securities Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
0-18	5.1%	7	$ 109,352,905	3.66%	$ 104.65	$ 114,432,859	$ 105.03	$ 114,857,148

19-36	6.6	31	140,561,407	4.68	105.04	147,651,539	105.43	148,199,438
37-60	30.1	49	652,800,207	3.86	103.91	678,340,432	103.96	678,663,343
61-84	20.1	76	440,884,194	3.70	103.58	456,667,882	102.74	452,949,612
85+	1.9	112	41,853,098	4.08	105.39	44,108,611	102.84	43,040,109
Total/Average	63.8%	54	$1,385,451,811	3.88%	$ 104.02	$1,441,201,323	$ 103.77	$1,437,709,650

<u>Fixed Rate Settled Securities as of March 31, 2011</u>

Months to Reset	**Percentage of Settled Securities Portfolio**	**Weighted Average Months to Reset**	**Current Face Value(1)**	**Weighted Average Coupon(2)**	**Weighted Average Amortized Purchase Price(3)**	**Amortized Cost(4)**	**Weighted Average Market Price(5)**	**Current Market Value(6)**
0-90	0.1%	70	$ 1,581,176	5.60%	$ 106.51	$ 1,684,121	$ 107.47	$ 1,699,346
91-180	36.1	171	782,914,609	4.21	104.17	815,562,824	104.03	814,473,705
Total/Average	36.2	170	$784,495,785	4.21%	$ 104.17	$817,246,945	$ 104.04	$816,173,051

<u>All Settled Securities as of March 31, 2011</u>

	Percentage of Settled Securities Portfolio	**Current Face Value(1)**	**Weighted Average Coupon(2)**	**Weighted Average Amortized Purchase Price(3)**	**Amortized Cost(4)**	**Weighted Average Market Price(5)**	**Current Market Value(6)**
Total/Average	100.0%	$2,169,947,596	4.00%	$ 104.08	$2,258,448,268	$ 103.87	$2,253,882,701

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

(1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
(2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
(3) Amortized purchase price is the dollar amount, per $100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
(4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
(5) Market price is the dollar amount of market value, per $100 of nominal, or face value, of the Agency Security. We value our Agency Securities using a third party pricing service whose pricing model incorporates common market pricing methods. Management reviews the pricing to ensure that current market conditions are properly represented.
(6) Market value is the total market value for the security.

As of March 31, 2011, we had committed to purchase securities for settlements in April of 2011. The information below was current as of March 31, 2011, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon.

Adjustable Rate Forward Settle Securities as of March 31, 2011

Months to Reset	Percentage of Forward Settle Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)

0-18	4.0%	10	$ 754,533	5.50%	$ 103.88	$ 783,771	$ 105.31	$ 794,585
19-36	9.4	32	1,762,997	4.48	104.43	1,841,129	106.40	1,875,900
37-60	11.3	40	2,144,811	4.75	105.05	2,253,086	105.56	2,263,988
61-84	5.6	84	1,074,602	4.94	105.38	1,132,362	106.16	1,140,761
Total/Average	30.3%	42	$ 5,736,943	5.11%	$ 104.77	$ 6,010,348	$ 105.90	$ 6,075,234

Fixed Rate Forward Settle Securities as of March 31, 2011

	Percentage of Forward Settle Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
90-180	69.7%	179	$13,274,969	4.50%	$ 104.94	$ 13,931,083	$ 105.14	$13,956,797
Total/Average	69.7%	179	$13,274,969	4.50%	$ 104.94	$ 13,931,083	$ 105.14	$13,956,797

All Forward Settle Securities as of March 31, 2011

	Percentage of Forward Settle Portfolio	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Total/Average	100.0%	$ 19,011,912	4.68%	$ 104.89	$ 19,941,431	$ 105.37	$ 20,032,031

All Settled and Forward Settle Securities as of March 31, 2011

Percentage of Settled and Forward	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)

	Settle			Price(3)			
	Portfolio						
Total/Average	100.0%	$2,188,959,508	4.01%	$ 104.09	$2,278,389,699	$ 103.88	$2,273,914,732

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ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

(1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
(2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
(3) Amortized purchase price is the dollar amount, per $100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
(4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
(5) Market price is the dollar amount of market value, per $100 of nominal, or face value, of the Agency Security. We value our Agency Securities using a third party pricing service whose pricing model incorporates common market pricing methods. Management reviews the pricing to ensure that current market conditions are properly represented.
(6) Market value is the total market value for the security.

As of December 31, 2010, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settle securities, of 104.44%, due to the average interest rates on these securities being higher than prevailing market rates. As of December 31, 2010, we had approximately $49.6 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. All unsettled purchases of securities as of December 31, 2010, were settled in January and February 2011. As of December 31, 2010, our investment portfolio of settled securities consisted of Agency Securities as follows:

Adjustable Rate Settled Securities as of December 31, 2010

Months to Reset	Percentage of Settled	Weighted Average	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized	Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)

	Securities Portfolio	Months to Reset			Purchase Price(3)			
0-18	4.8%	7	$ 47,989,156	3.67%	$ 104.31	$ 50,058,987	$ 104.45	$ 50,126,097
19-36	3.3	29	32,967,374	4.00	103.71	34,192,034	104.37	34,407,131
37-60	25.0	52	247,952,187	4.00	103.96	257,686,509	104.44	258,969,161
61-84	32.5	78	325,954,726	3.87	104.26	339,833,155	103.34	336,849,193
85+	4.4	114	44,397,480	4.07	105.39	46,789,017	102.66	45,578,166
Total/Average	70.0%	64	$699,260,923	3.92%	$ 104.20	$728,559,702	$ 103.81	$725,929,748

Fixed Rate Settled Securities as of December 31, 2010

Months to Reset	Percentage of Settled Securities Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
0-90	0.1%	63	$ 1,171,170	6.15%	$ 107.23	$ 1,255,843	$ 108.53	$ 1,271,054
91-180	29.9	172	295,562,459	4.33	105.19	310,903,484	104.65	309,319,711
Total/Average	30.0%	171	$296,733,629	4.34%	$ 105.20	$312,159,327	$ 104.67	$310,590,765

All Settled Securities as of December 31, 2010

	Percentage Of Settled Securities Portfolio	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Total/Average	100.0%	$995,994,552	4.04%	$ 104.50	$1,040,719,029	$ 104.07	$1,036,520,513

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ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

(1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
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(6) Market value is the total market value for the security.

As of December 31, 2010, we had committed to purchase securities for settlements in January and February of 2011. The information below was current as of December 31, 2010, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon. All, but one, of the forward settling Agency Securities were adjustable rate with a minimum expected reset of 11 months and a maximum expected reset of 71 months.

Adjustable Rate Forward Settle Securities as of December 31, 2010