Armour Residential REIT, Inc.
Form 10-Q
July 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015
OR
o 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	001-34766	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 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

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 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of outstanding shares of the Registrant’s common stock as of July 28, 2015 was 350,275,496.

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ARMOUR Residential REIT, Inc. and Subsidiary
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

	June 30, 2015	December 31, 2014
Assets		
Cash	$363,212	$494,561
Cash collateral posted to counterparties	137,657	129,004
Agency Securities, available for sale, at fair value (including pledged securities of $13,285,441 and $14,370,847)	13,795,986	15,297,529
Receivable for unsettled sales (including pledged securities of $741,531 and $251,251)	752,773	260,598
Derivatives, at fair value	32,609	60,518
Principal payments receivable	398	93
Accrued interest receivable	39,935	41,915
Prepaid and other assets	1,123	1,580
Total Assets	$15,123,693	$16,285,798
Liabilities and Stockholders’ Equity		
Liabilities:		
Repurchase agreements	$13,422,795	$13,881,921
Cash collateral posted by counterparties	162	48,240
Payable for unsettled purchases	—	445,292
Derivatives, at fair value	107,954	137,393
Accrued interest payable	5,050	7,012
Accounts payable and other accrued expenses	938	16,649
Total Liabilities	$13,536,899	$14,536,507
Commitments and contingencies (Note 9)		
Stockholders’ Equity:		
Preferred stock, $0.001 par value, 50,000 shares authorized;		
8.250% Series A Cumulative Preferred Stock; 2,181 issued and outstanding ($54,514 aggregate liquidation preference) at June 30, 2015 and December 31, 2014	2	2
7.875% Series B Cumulative Preferred Stock; 5,650 issued and outstanding ($141,250 aggregate liquidation preference) at June 30, 2015 and December 31, 2014	6	6
Common stock, $0.001 par value, 1,000,000 shares authorized, 350,271 and 353,159 shares issued and outstanding at June 30, 2015 and December 31, 2014	350	353
Additional paid-in capital	2,708,630	2,717,545
Accumulated deficit	(1,072,984)	(1,052,969)
Accumulated other comprehensive income (loss)	(49,210)	84,354
Total Stockholders’ Equity	$1,586,794	$1,749,291
Total Liabilities and Stockholders’ Equity	$15,123,693	$16,285,798

See notes to condensed consolidated financial statements.

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ARMOUR Residential REIT, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest income, net of amortization of premium on Agency Securities	$91,703	$113,892	$191,253	$236,974
Interest expense	(13,917)	(14,979)	(28,108)	(29,726)
Interest expense- U.S. Treasury Securities sold short	—	(4,263)	—	(4,263)
Net Interest Income	$77,786	$94,650	$163,145	$202,985
Other Income (Loss):				
Realized gain (loss) on sale of Agency Securities (reclassified from Other comprehensive income (loss))	(5,051)	11,167	1,493	81,036
Loss on short sale of U.S. Treasury Securities	—	(15,781)	—	(15,781)
Subtotal	$(5,051)	$(4,614)	$1,493	$65,255
Realized loss on derivatives (1)	(59,978)	(34,498)	(51,880)	(46,236)
Unrealized gain (loss) on derivatives	194,507	(116,273)	(21,831)	(292,629)
Subtotal	$134,529	$(150,771)	$(73,711)	$(338,865)
Total Other Income (Loss)	$129,478	$(155,385)	$(72,218)	$(273,610)
Expenses:				
Management fee	6,867	6,964	13,744	13,929
Professional fees	658	901	1,451	2,175
Insurance	172	186	342	369
Compensation	575	734	1,188	1,446
Other	974	670	1,653	1,424
Total Expenses	$9,246	$9,455	$18,378	$19,343
Net Income (Loss)	$198,018	$(70,190)	$72,549	$(89,968)
Dividends declared on preferred stock	(3,905)	(3,905)	(7,810)	(7,812)
Net Income (Loss) available (related) to common stockholders	$194,113	$(74,095)	$64,739	$(97,780)
Net income (loss) per share available (related) to common stockholders (Note 12):				
Basic	$0.55	$(0.21)	$0.18	$(0.27)
Diluted	$0.55	$(0.21)	$0.18	$(0.27)
Dividends declared per common share	$0.12	$0.15	$0.24	$0.30
Weighted average common shares outstanding:				
Basic	351,332	357,111	352,134	357,302
Diluted	352,175	357,111	352,977	357,302
Pro Forma for the effect of the pending 1 for 8 reverse stock split (See Note 1)				
Basic	$4.40	$(0.21)	$1.44	$(0.27)
Diluted	$4.40	$(0.21)	$1.44	$(0.27)
Dividends declared per common share	$0.96	$0.15	$1.92	$0.30
Weighted average common shares outstanding:				
Basic	43,916	357,111	44,017	357,302
Diluted	44,022	357,111	44,122	357,302

(1) Interest expense related to our interest rate swap contracts is recorded as realized loss on derivatives on the condensed consolidated statements of operations. For additional information, see Note 8 to the condensed consolidated financial statements.

See notes to condensed consolidated financial statements.

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ARMOUR Residential REIT, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net Income (Loss)	$198,018	$(70,190)	$72,549	$(89,968)
Other comprehensive income (loss):				
Reclassification adjustment for realized (gain) loss on sale of available for sale Agency Securities	5,051	(11,167)	(1,493)	(81,036)
Net unrealized gain (loss) on available for sale Agency Securities	(221,802)	221,767	(132,071)	337,931
Other comprehensive income (loss)	$(216,751)	$210,600	$(133,564)	$256,895
Comprehensive Income (Loss)	$(18,733)	$140,410	$(61,015)	$166,927

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)
(Unaudited)

	Preferred Stock						Common Stock					
	8.250% Series A			7.875% Series B								
	Shares	Par Amount	Additional Paid-in Capital	Shares	Par Amount	Additional Paid-in Capital	Shares	Par Amount	Additional Paid-in Capital	Total Additional Paid-in Capital	Accumulated Deficit	Accumulat Other Comprehe Income (Loss)
Balance, January 1, 2015	2,181	$2	$53,172	5,650	$6	$136,547	353,159	$353	$2,527,826	$2,717,545	$(1,052,969)	$84,354
Series A Preferred dividends declared	—	—	—	—	—	—	—	—	—	—	(2,249)	—
Series B Preferred dividends declared	—	—	—	—	—	—	—	—	—	—	(5,562)	—
Common stock dividends declared	—	—	—	—	—	—	—	—	—	—	(84,753)	—
Issuance of common stock, net	—	—	—	—	—	—	27	—	85	85	—	—
Stock based compensation, net of withholding requirements	—	—	—	—	—	—	160	—	494	494	—	—
Common stock repurchased	—	—	—	—	—	—	(3,075)	(3)	(9,494)	(9,494)	—	—
Net Income	—	—	—	—	—	—	—	—	—	—	72,549	—
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	—	(133,564)
Balance, June 30, 2015	2,181	$2	$53,172	5,650	$6	$136,547	350,271	$350	$2,518,911	$2,708,630	$(1,072,984)	$(49,210)

See notes to condensed consolidated financial statements.

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ARMOUR Residential REIT, Inc. and Subsidiary
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Cash Flows From Operating Activities:		
Net income (loss)	$72,549	$(89,968)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net amortization of premium on Agency Securities	56,747	30,668
Realized gain on sale of Agency Securities	(1,493)	(81,036)
Loss on short sale of U.S. Treasury Securities	—	15,781
Stock based compensation	494	597
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	1,380	(2,867)
Decrease in prepaid and other assets	462	424
(Increase) decrease in derivatives, at fair value	(1,530)	306,788
Increase (decrease) in accrued interest payable	(1,962)	1,259
Increase in accrued interest payable- U.S. Treasury Securities sold short	—	4,254
Decrease in accounts payable and other accrued expenses	(15,711)	(20,154)
Net cash provided by operating activities	$110,936	$165,746
Cash Flows From Investing Activities:		
Purchases of Agency Securities	(2,937,195)	(9,640,164)
Principal repayments of Agency Securities	993,520	733,237
Proceeds from sales of Agency Securities	2,319,228	6,779,853
Disbursements on reverse repurchase agreements	—	(3,080,908)
Receipts from reverse repurchase agreements	—	2,052,247
Increase in cash collateral posted to/by counterparties	(56,731)	(237,894)
Net cash provided by (used in) investing activities	$318,822	$(3,393,629)
Cash Flows From Financing Activities:		
Issuance of common stock, net of expenses	80	135
Proceeds from repurchase agreements	40,621,569	43,073,379
Principal repayments on repurchase agreements	(41,080,695)	(40,802,642)
Proceeds from short sales of U.S. Treasury Securities	—	1,011,705
Series A Preferred stock dividends paid	(2,249)	(2,250)
Series B Preferred stock dividends paid	(5,562)	(5,562)
Common stock dividends paid	(84,753)	(107,626)
Common stock repurchased	(9,497)	(2,585)
Net cash provided by (used in) financing activities	$(561,107)	$3,164,554
Net decrease in cash	(131,349)	(63,329)
Cash - beginning of period	494,561	496,478
Cash - end of period	$363,212	$433,149
Supplemental Disclosure:		
Cash paid during the period for interest	$140,950	$101,956
Non-Cash Investing and Financing Activities:		
Receivable for unsettled sales	$752,773	$—
Payable for unsettled purchases	$—	$38,816
Net unrealized gain (loss) on available for sale Agency Securities	$(132,071)	$337,931
Amounts receivable for issuance of common stock	$5	$19

See notes to condensed consolidated financial statements

ARMOUR Residential REIT, Inc. and Subsidiary
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(Unaudited)

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2015. These unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014.

The condensed consolidated financial statements include the accounts of ARMOUR Residential REIT, Inc. and its subsidiary. All intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the accompanying condensed consolidated financial statements include the valuation of Agency Securities (as defined below) and derivative instruments.

References to "we," "us," "our," "ARMOUR" or the "Company" are to ARMOUR Residential REIT, Inc. References to "ACM are to ARMOUR Capital Management LP, a Delaware limited partnership, formerly known as ARMOUR Residential Management LLC. On December 19, 2014, ARMOUR Residential Management LLC, our external manager under the Management Agreement (as defined below), changed its name to ARMOUR Capital Management LP and converted from a Delaware limited liability company to a Delaware limited partnership and continued as the manager under the same Management Agreement (the "Conversion").

One-For-Eight-Reverse Stock Split of Common Stock

On June 18, 2015, we announced that our Board of Directors had approved a reverse stock split of our outstanding shares of common stock at a ratio of one-for-eight (the "Reverse Stock Split"). The Reverse Stock Split is scheduled to take effect at about 5:00 p.m. Eastern Time on July 31, 2015 (the "Effective Time"). At the Effective Time, every eight issued and outstanding shares of common stock will be converted into one share of common stock, and as a result, the number of outstanding shares of common stock will be reduced from approximately 350,000 to approximately 43,750. At the Effective Time, the number of authorized shares of common stock will also be reduced, on a one-for-eight basis, from 1,000,000 to 125,000. The par value of each share of common stock will remain unchanged. Trading in our common stock on a split adjusted basis is expected to begin at the market open on August 3, 2015. Our common stock will continue trading on the NYSE under the symbol "ARR" but will be assigned a new CUSIP number. On July 28, 2015, our Board of Directors also increased the number of shares of common stock authorized for repurchase under our common stock repurchase program (the "Repurchase Program") to an aggregate of 9,000 shares on a post-reverse stock split basis, effective August 3, 2015.

No fractional shares will be issued in connection with the reverse stock split. Instead, each stockholder holding fractional shares will be entitled to receive, in lieu of such fractional shares, cash in an amount determined on the basis of the average closing price of our common stock on the NYSE for the three consecutive trading days ending on July 31, 2015. The Reverse Stock Split will apply to all of our authorized and outstanding shares of common stock as of the Effective Time. The Reverse Stock Split doesn't affect our Series A Cumulative Preferred Shares, (“Series A Preferred Stock”) or our Series B Cumulative Preferred Shares (“Series B Preferred Stock”).

Note 2 – Organization and Nature of Business Operations

We are an externally managed Maryland corporation organized in 2008, managed by ACM, an investment advisor registered with the SEC (see Note 9, “Commitments and Contingencies” and Note 14, “Related Party Transactions” for additional discussion). We invest in residential mortgage backed securities issued or guaranteed by a United States (“U.S.”) Government-sponsored entity (“GSE”), such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or guaranteed by the Government National Mortgage Administration (Ginnie Mae) (collectively, "Agency Securities"). We also may invest in other securities backed by residential mortgages for which the payment of principal

ARMOUR Residential REIT, Inc. and Subsidiary
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
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and interest is not guaranteed by a GSE or government agency (collectively, "Non-Agency Securities"). While we remain committed to investing in Agency Securities for so long as an adequate supply and pricing exists, we have the flexibility to invest in Non-Agency Securities and respond to changes in GSE policy as needed. At June 30, 2015 and December 31, 2014, Agency Securities accounted for 100% of our securities portfolio. It is expected that the percentage will continue to be 100% or close thereto. Our securities portfolio consists primarily of Agency Securities backed by fixed rate home loans. From time to time, a portion of our assets may be invested in Agency Securities backed by hybrid adjustable rate and adjustable rate home loans as well as unsecured notes and bonds issued by GSEs, 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 have elected to be taxed as a REIT under the Internal Revenue Code as amended (“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

Cash

Cash includes cash on deposit with financial institutions. 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.

Cash Collateral Posted To/By Counterparties

Cash collateral posted to/by counterparties represents cash posted by us to counterparties or posted by counterparties to us as collateral for our interest rate swap contracts (including swaptions and basis swap contracts), Eurodollar Futures Contracts (“Futures Contracts”) and repurchase agreements on our Agency Securities and to-be-announced (“TBA”) Agency Securities.

Agency Securities, Available For Sale

We generally intend to hold most of our Agency Securities for extended periods of time. We may, from time to time, sell any of our Agency Securities as part of the overall management of our securities 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. At June 30, 2015 and December 31, 2014, all of our Agency Securities were classified as available for sale securities. Agency Securities classified as available for sale are reported at their estimated fair values with unrealized gains and losses excluded from earnings and reported as part of the condensed consolidated statements of comprehensive income (loss).

Receivables and Payables for Unsettled Sales and Purchases

We account for purchases and sales of securities on the trade date, including purchases and sales for forward settlement. Receivables and payables for unsettled trades represent the agreed trade price multiplied by the outstanding balance of the securities at the balance sheet date.

Accrued Interest Receivable and Payable

Accrued interest receivable includes interest accrued between payment dates on Agency Securities. Accrued interest payable includes interest payable on our repurchase agreements and may, at certain times, contain interest payable on U.S. Treasury Securities sold short.

ARMOUR Residential REIT, Inc. and Subsidiary
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Repurchase Agreements

We finance the acquisition of our Agency Securities 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 Federal Funds Rate and the London Interbank Offered Rate (“LIBOR”). Under these repurchase agreements, we sell Agency Securities to a lender and agree to repurchase the same Agency 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. A repurchase agreement operates as a financing arrangement under which we pledge our Agency 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 interest 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.

In addition to the repurchase agreement financing discussed above, at certain times we have entered into reverse repurchase agreements with certain of our repurchase agreement counterparties. Under a typical reverse repurchase agreement, we purchase U.S. Treasury Securities from a borrower in exchange for cash and agree to sell the same securities in the future in exchange for a price that is higher than the original purchase price. The difference between the purchase price originally paid and the sale price represents interest received from the borrower. Reverse repurchase agreement receivables and repurchase agreement liabilities are presented net when they meet certain criteria, including being with the same counterparty, being governed by the same master repurchase agreement ("MRA"), settlement through the same brokerage or clearing account and maturing on the same day. We did not have any reverse repurchase agreements outstanding at June 30, 2015 and December 31, 2014.

Obligations to Return Securities Received as Collateral, at Fair Value

At certain times, we also sell to third parties the U.S. Treasury Securities received as collateral for reverse repurchase agreements and recognize the resulting obligation to return said U.S. Treasury Securities as a liability on our condensed consolidated balance sheets. Interest is recorded on the repurchase agreements, reverse repurchase agreements and U.S. Treasury Securities sold short on an accrual basis and presented as interest expense. Both parties to the transaction have the right to make daily margin calls based on changes in the fair value of the collateral received and/or pledged. We did not have any obligations to return securities received as collateral at June 30, 2015 and December 31, 2014.

Derivatives, at Fair Value

We recognize all derivatives as either assets or liabilities at fair value on our condensed consolidated balance sheets. All changes in the fair values of our derivatives are reflected in our condensed consolidated statements of operations. We designate derivatives as hedges for tax purposes and any unrealized derivative gains or losses would not affect our distributable net taxable income. These transactions include interest rate swap contracts, interest rate swaptions and basis swap contracts. We also utilize forward contracts for the purchase or sale of TBA Agency Securities. We account for TBA Agency Securities as derivative instruments if it is reasonably possible that we will not take or make physical delivery of the Agency Security upon settlement of the contract.

We may also enter into TBA Agency Securities as a means of investing in and financing Agency Securities (thereby increasing our "at risk" leverage) or as a means of disposing of or reducing our exposure to Agency Securities (thereby reducing our "at risk" leverage). Pursuant to TBA Agency Securities, we agree to purchase or sell, for future delivery, Agency Securities with certain principal and interest terms and certain types of collateral, but the particular Agency Securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a "pair off"), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA Agency Security for a later settlement date. This transaction is commonly referred to as a "dollar roll." When it is reasonably possible that we will pair off a TBA Agency Security, we account for that contract as a derivative.

Preferred Stock

At June 30, 2015, we were authorized to issue up to 50,000 shares of preferred stock, par value $0.001 per share, with such designations, voting and other rights and preferences as may be determined from time to time by our Board of Directors

(“Board”) or a committee thereof. We have designated 9,610 shares as 8.250% Series A Preferred Stock and 6,210 shares as 7.875% Series B Preferred Stock. At June 30, 2015, a total of 34,180 shares of our authorized preferred stock remain available for designation as future series.

Series A Preferred Stock

At June 30, 2015 and December 31, 2014, we had 2,181 shares of Series A Preferred Stock issued and outstanding with a par value of $0.001 per share and a liquidation preference of $25.00 per share, or $54,514 in the aggregate. At June 30, 2015 and December 31, 2014, there were no accrued or unpaid dividends on the Series A Preferred Stock. The Series A Preferred Stock is entitled to a dividend at a rate of 8.250% per year based on the $25.00 per share liquidation preference before the common stock is entitled to receive any dividends. The Series A Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends exclusively at our option commencing on June 7, 2017 (subject to our right under limited circumstances to redeem the Series A Preferred Stock earlier in order to preserve our qualification as a REIT). The Series A Preferred Stock is senior to our common stock and therefore in the event of liquidation, dissolution or winding up, the Series A Preferred Stock will receive a liquidation preference of $25.00 per share plus accumulated and unpaid dividends before distributions are paid to holders of our common stock, with no right or claim to any of our remaining assets thereafter. The Series A Preferred Stock generally does not have voting rights, except if we fail to pay dividends on the Series A Preferred Stock for eighteen months, whether or not consecutive. Under such circumstances, the Series A Preferred Stock will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set aside for payment. The Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by us or converted into our common stock in connection with a change of control by the holders of Series A Preferred Stock.

Series B Preferred Stock

At June 30, 2015 and December 31, 2014, we had 5,650 shares of Series B Preferred Stock issued and outstanding with a par value of $0.001 per share and a liquidation preference of $25.00 per share, or $141,250 in the aggregate. At June 30, 2015 and December 31, 2014, there were no accrued or unpaid dividends on the Series B Preferred Stock. The Series B Preferred Stock is entitled to a dividend at a rate of 7.875% per year based on the $25.00 per share liquidation preference before the common stock is entitled to receive any dividends. The Series B Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends exclusively at our option commencing on February 12, 2018 (subject to our right under limited circumstances to redeem the Series A Preferred Stock earlier in order to preserve our qualification as a REIT). The Series B Preferred Stock is senior to our common stock and ranks on parity with the Series A Preferred Stock. In the event of liquidation, dissolution or winding up, the Series B Preferred Stock will receive a liquidation preference of $25.00 per share plus accumulated and unpaid dividends before distributions are paid to holders of our common stock, with no right or claim to any of our remaining assets thereafter. The Series B Preferred Stock generally does not have voting rights, except if we fail to pay dividends on the Series B Preferred Stock for eighteen months, whether or not consecutive. Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Board, until all unpaid dividends have been paid or declared and set aside for payment. The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by us or converted into our common stock in connection with a change of control by the holders of Series B Preferred Stock.

Common Stock

Common Stock

At June 30, 2015, we were authorized to issue up to 1,000,000 shares of common stock, par value $0.001 per share, with such designations, voting and other rights and preferences as may be determined from time to time by our Board. We had 350,271 shares of common stock issued and outstanding at June 30, 2015 and 353,159 shares of common stock issued and outstanding at December 31, 2014.

Common Stock Repurchased

On March 5, 2014, our Board increased the authorization under our Repurchase Program to 50,000 shares of our common stock outstanding. Under the Repurchase Program, shares may be purchased in the open market, including block trades, through privately negotiated transactions, or pursuant to a trading plan separately adopted in the future. The timing, manner, price and amount of any repurchases will be at our discretion, subject to the requirements of the Securities Exchange Act of 1934, as amended, and related rules. We are not required to repurchase any shares under the Repurchase Program and it may be modified, suspended or terminated at any time for any reason. We do not intend to purchase shares from our Board or other affiliates. Under Maryland law, such repurchased shares are treated as authorized but unissued. For the six months ended June 30, 2015, we repurchased 3,075 shares of our common stock under the Repurchase Program for an aggregate of $9,497.

Revenue Recognition

Interest income is earned and recognized on Agency Securities based on their unpaid principal amounts and their contractual terms. Recognition of interest income commences on the settlement date of the purchase transaction and continues through the settlement date of the sale transaction. Premiums and discounts associated with the purchase of Multi-Family mortgage backed securities (“MBS”), which are generally not subject to prepayment, are amortized or accreted into interest income over the contractual lives of the securities using a level yield method. Premiums and discounts associated with the purchase of other Agency Securities are amortized or accreted into interest income over the actual lives of the securities, reflecting actual prepayments as they occur.

Fair Value of Agency Securities: We invest in Agency Securities representing interests in or obligations backed by pools of fixed rate, hybrid adjustable rate and adjustable rate mortgage loans. The authoritative literature requires us to classify our investments 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 currently classify all of our Agency Securities as available for sale. Agency Securities classified as available for sale are reported at their estimated fair values with unrealized gains and losses excluded from earnings and reported as part of the statements of comprehensive income (loss).

Security purchase and sale transactions, including purchase of TBA Agency Securities, are recorded on the trade date to the extent it is probable that we will take or make timely physical delivery of the related securities. Gains or losses realized from the sale of securities are included in income and are determined using the specific identification method.

Impairment of Assets: We evaluate Agency Securities for other than temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. We consider an impairment to be other than temporary if we (1) have the intent to sell the Agency Securities, (2) believe it is more likely than not that we will be required to sell the securities before recovery (for example, because of liquidity requirements or contractual obligations) or (3) a credit loss exists. Impairment losses recognized establish a new cost basis for the related Agency Securities.

Comprehensive Income (Loss)

Comprehensive income (loss) refers to changes in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners.

Note 4 – Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued ASU 2014-11, Repurchase-to Maturity Transactions, Repurchase Financing, and Disclosures, Transfers and Servicing (Topic 860). We do not have repurchase-to-maturity transactions or repurchase financing arrangements of the type covered by ASU 2014-11, therefore this amendment to the accounting standards will not affect our condensed consolidated balance sheets or statements of operations. The amendment also requires certain additional disclosures about repurchase agreements beginning with these second quarter 2015 financial statements, See Note 7, “Repurchase Agreements”.

Note 5 – Fair Value of Financial Instruments

Our valuation techniques for financial instruments use observable and unobservable inputs. Observable inputs reflect readily obtainable data from third party sources, while unobservable inputs reflect management’s market assumptions. The Accounting Standards Codification Topic No. 820, “Fair Value Measurement,” classifies these inputs into the following hierarchy:

Level 1 Inputs - Quoted prices for identical instruments in active markets.

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Level 2 Inputs - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs - Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect management’s assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

The following describes the valuation methodologies used for our assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. Any transfers between levels are assumed to occur at the beginning of the reporting period.

Cash - Cash includes cash on deposit with financial institutions. The carrying amount of cash is deemed to be its fair value and is classified as Level 1. Cash balances posted by us to counterparties or posted by counterparties to us as collateral are classified as Level 2 because they are integrally related to the Company's repurchase financing and interest rate swap agreements, which are classified as Level 2.

Agency Securities, Available for Sale - Fair value for the Agency Securities in our securities portfolio is based on obtaining a valuation for each Agency Security from third party pricing services and/or dealer quotes. The third party pricing services use common market pricing methods that may include pricing models that may 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 an Agency Security is not available from the third party pricing services or such data appears unreliable, we obtain quotes from up to three dealers who make markets in similar Agency Securities. In general, the dealers 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 Agency Security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the Agency Security. Management reviews pricing used to ensure that current market conditions are properly reflected. This review includes, but is not limited to, comparisons of similar market transactions or alternative third party pricing services, dealer quotes and comparisons to a third party pricing model. Fair values obtained from the third party pricing services for similar instruments are classified as Level 2 securities if the inputs to the pricing models used are consistent with the Level 2 definition. If quoted prices for a security are not reasonably available from the third party pricing service, but dealer quotes are, the security will be classified as a Level 2 security. If neither is available, management will determine the fair value based on characteristics of the security that we receive from the issuer and based on available market information received from dealers and classify it as a Level 3 security. At June 30, 2015 and December 31, 2014, all of our Agency Security fair values are classified as Level 2 based on the inputs used by our third party pricing services and dealer quotes.

Receivables and Payables for Unsettled Sales and Purchases - The carrying amount is generally deemed to be fair value because of the relatively short time to settlement. Such receivables and payables are classified as Level 2 because they are effectively secured by the related securities and could potentially be subject to counterparty credit considerations.

Repurchase Agreements - The fair value of repurchase agreements reflects the present value of the contractual cash flows discounted at the estimated LIBOR based market interest rates at the valuation date for repurchase agreements with a term equivalent to the remaining term to interest rate repricing, which may be at maturity, of our repurchase agreements. The fair value of the repurchase agreements approximates their carrying amount due to the short-term nature of these financial instruments. Our repurchase agreements are classified as Level 2.

Obligations to Return Securities Received as Collateral - The fair value of the obligations to return securities received as collateral are based upon the prices of the related U.S. Treasury Securities obtained from a third party pricing service, which are indicative of market activity. Such obligations are classified as Level 1.

Derivative Transactions - Our Futures Contracts are traded on the Chicago Mercantile Exchange (“CME”) and are classified as Level 1. The fair values of our interest rate swap contracts, interest rate swaptions and basis swaps are valued using third party pricing services that incorporate common market pricing methods that may include current interest rate curves, forward interest rate curves and market spreads to interest rate curves. We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities. Management compares pricing used to dealer quotes to ensure that the current market conditions are properly reflected. The fair values of our interest rate swap contracts, interest rate swaptions, basis swap contracts and TBA Agency Securities are classified as Level 2.

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The following tables provide a summary of our assets and liabilities that are measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Assets at Fair Value:				
Agency Securities, available for sale	$—	$13,795,986	$—	$13,795,986
Derivatives	$—	$32,609	$—	$32,609
Liabilities at Fair Value:				
Derivatives	$—	$107,954	$—	$107,954

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the six months ended June 30, 2015.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Assets at Fair Value:				
Agency Securities, available for sale	$—	$15,297,529	$—	$15,297,529
Derivatives	$—	$60,518	$—	$60,518
Liabilities at Fair Value:				
Derivatives	$180	$137,213	$—	$137,393

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the year ended December 31, 2014.

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The following tables provide a summary of the carrying values and fair values of our financial assets and liabilities not carried at fair value but for which fair value is required to be disclosed at June 30, 2015 and December 31, 2014.

June 30, 2015			Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash	$363,212	$363,212	$363,212	$—	$—
Cash collateral posted to counterparties	$137,657	$137,657	$—	$137,657	$—
Receivable for unsettled sales	$752,773	$752,773	$—	$752,773	$—
Principal payments receivable	$398	$398	$—	$398	$—
Accrued interest receivable	$39,935	$39,935	$—	$39,935	$—
Financial Liabilities:					
Repurchase agreements	$13,422,795	$13,422,795	$—	$13,422,795	$—
Cash collateral posted by counterparties	$162	$162	$—	$162	$—
Accrued interest payable- repurchase agreements	$5,050	$5,050	$—	$5,050	$—

December 31, 2014			Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash	$494,561	$494,561	$494,561	$—	$—
Cash collateral posted to counterparties	$129,004	$129,004	$—	$129,004	$—
Receivable for unsettled sales	$260,598	$260,598	$—	$260,598	$—
Principal payments receivable	$93	$93	$—	$93	$—
Accrued interest receivable	$41,915	$41,915	$—	$41,915	$—
Financial Liabilities:					
Repurchase agreements	$13,881,921	$13,881,921	$—	$13,881,921	$—
Cash collateral posted by counterparties	$48,240	$48,240	$—	$48,240	$—
Payable for unsettled purchases	$445,292	$445,292	$—	$445,292	$—
Accrued interest payable- repurchase agreements	$7,012	$7,012	$—	$7,012	$—

Note 6 – 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 and changes in fair value reported as part of the statements of comprehensive income (loss). At June 30, 2015 and December 31, 2014, investments in Agency Securities accounted for 100% of our securities portfolio.

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We evaluated our Agency Securities with unrealized losses at June 30, 2015, June 30, 2014 and December 31, 2014, to determine whether there was an other than temporary impairment. All of our Agency Securities are issued and guaranteed by GSEs or Ginnie Mae. The GSEs have a long term credit rating of AA+. At those dates, we also considered whether we intended to sell Agency Securities and whether it was more likely than not that we could meet our liquidity requirements and contractual obligations without selling Agency Securities. As a result of this evaluation, no other than temporary impairment was recognized for the quarter and six months ended June 30, 2015 and June 30, 2014 and for the year ended December 31, 2014, respectively, because we determined that we 1) did not have the intent to sell the Agency Securities in an unrealized loss position, 2) did not believe it more likely than not that we were required to sell the securities before recovery (for example, because of liquidity requirements or contractual obligations), and/or (3) determined that a credit loss did not exist.

At June 30, 2015, we had the following Agency Securities in an unrealized gain or loss position as presented below. The components of the carrying value of our Agency Securities at June 30, 2015 are also presented below. Our Agency Securities had a weighted average coupon of 3.45% at June 30, 2015.

June 30, 2015	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value	Percent of Total
Fannie Mae					
ARMs & Hybrids	$50,962	$(121)	$685	$51,526	0.37 %
Multi-Family MBS	2,341,459	(36,706)	10,496	2,315,249	16.78
10 Year Fixed	24,486	(39)	424	24,871	0.18
15 Year Fixed	5,178,206	(1,744)	25,944	5,202,406	37.71
20 Year Fixed	3,091,571	(33,318)	5,915	3,064,168	22.21
25 Year Fixed	34,379	(222)	—	34,157	0.25
30 Year Fixed	1,104,916	(3,777)	14	1,101,153	7.98
Total Fannie Mae	$11,825,979	$(75,927)	$43,478	$11,793,530	85.48 %
Freddie Mac					
ARMs & Hybrids	13,460	(30)	233	13,663	0.10 %
10 Year Fixed	21,684	(43)	403	22,044	0.16
15 Year Fixed	210,300	(557)	1,480	211,223	1.53
20 Year Fixed	1,706,015	(22,051)	3,920	1,687,884	12.23
Total Freddie Mac	$1,951,459	$(22,681)	$6,036	$1,934,814	14.02 %
Ginnie Mae					
ARMs & Hybrids	67,432	(384)	244	67,292	0.50 %
15 Year Fixed	326	—	24	350	0.00
Total Ginnie Mae	$67,758	$(384)	$268	$67,642	0.50 %
Total Agency Securities	$13,845,196	$(98,992)	$49,782	$13,795,986	100.00 %

There were no unsettled purchases at June 30, 2015.

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At December 31, 2014, we had the following securities in an unrealized gain or loss position as presented below. The components of the carrying value of our Agency Securities at December 31, 2014 are also presented below. Our Agency Securities had a weighted average coupon of 3.47% at December 31, 2014.

December 31, 2014	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value	Percent of Total
Fannie Mae					
ARMs&Hybrids	$40,410	$(119)	$729	$41,020	0.27 %
Multi-Family MBS	1,239,227	—	22,676	1,261,903	8.25
10 Year Fixed	5,336	(3)	201	5,534	0.04
15 Year Fixed	7,394,694	(539)	54,041	7,448,196	48.69
20 Year Fixed	3,050,676	(13,867)	16,756	3,053,565	19.96
25 Year Fixed	21,194	(55)	—	21,139	0.14
30 Year Fixed	1,249,696	(227)	5,765	1,255,234	8.21
Total Fannie Mae	$13,001,233	$(14,810)	$100,168	$13,086,591	85.56 %
Freddie Mac					
ARMs&Hybrids	14,049	(33)	246	14,262	0.09
10 Year Fixed	600	(3)	8	605	0.00
15 Year Fixed	239,438	(315)	2,499	241,622	1.58
20 Year Fixed	1,881,496	(12,258)	8,346	1,877,584	12.27
Total Freddie Mac	$2,135,583	$(12,609)	$11,099	$2,134,073	13.94 %
Ginnie Mae					
ARMs&Hybrids	75,962	(187)	665	76,440	0.50
15 Year Fixed	397	—	28	425	0.00
Total Ginnie Mae	$76,359	$(187)	$693	$76,865	0.50 %
Total Agency Securities	$15,213,175	$(27,606)	$111,960	$15,297,529	100.00 %

Included in the table above are unsettled purchases with an aggregate cost of $445,292 and estimated fair value of $445,527 at December 31, 2014.

Actual maturities of Agency Securities are generally shorter than stated contractual maturities because actual maturities of Agency Securities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The following table summarizes the weighted average lives of our Agency Securities at June 30, 2015 and December 31, 2014.

	June 30, 2015		December 31, 2014	
Weighted Average Life of all Agency Securities	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Less than one year	$26	$27	$—	$—
Greater than or equal to one year and less than three years	38,730	38,659	48,298	47,929
Greater than or equal to three years and less than five years	7,282,891	7,257,422	10,712,331	10,667,135

Greater than or equal to five years	6,474,339	6,549,088	4,536,900	4,498,111
Total Agency Securities	$13,795,986	$13,845,196	$15,297,529	$15,213,175

We use a third party model to calculate the weighted average lives of our Agency Securities. Weighted average life is calculated based on expectations for estimated prepayments for the underlying mortgage loans of our Agency Securities. These

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estimated prepayments are based on assumptions such as interest rates, current and future home prices, housing policy and borrower incentives. The weighted average lives of our Agency Securities at June 30, 2015 and December 31, 2014 in the table above are based upon market factors, assumptions, models and estimates from the third party model and also incorporate management's judgment and experience. The actual weighted average lives of our Agency Securities could be longer or shorter than estimated.

The following table presents the unrealized losses and estimated fair value of our Agency Securities by length of time that such securities have been in a continuous unrealized loss position at June 30, 2015 and December 31, 2014.

	Unrealized Loss Position For:					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015	$5,302,050	$(54,015)	$2,117,182	$(44,977)	$7,419,232	$(98,992)
December 31, 2014	$895,382	$(2,324)	$2,463,523	$(25,282)	$3,358,905	$(27,606)

During the quarter and six months ended June 30, 2015, we sold $1,445,097 and $2,817,635, respectively, of Agency Securities, which resulted in realized (loss) gain of $(5,051) and $1,493, respectively. During the quarter and six months ended June 30, 2014, we sold $1,206,494 and $6,782,481, respectively of Agency Securities, which resulted in realized gains of $11,167 and $81,036, respectively. Sales of Agency Securities are done to reposition our securities portfolio and to reach our target level of liquidity.

Note 7 – Repurchase Agreements

The following table represents the contractual repricing regarding our repurchase agreements to finance Agency Security purchases at June 30, 2015 and December 31, 2014. No amounts below are subject to offsetting.

	June 30, 2015		December 31, 2014	
	Repurchase Agreements	Weighted Average Contractual Rate	Repurchase Agreements	Weighted Average Contractual Rate
Within 30 days	$4,464,914	0.38%	$3,994,656	0.36%
31 days to 60 days	5,339,228	0.39%	5,631,858	0.37%
61 days to 90 days	1,976,610	0.42%	2,348,839	0.39%
Greater than 90 days	1,642,043	0.46%	1,906,568	0.44%
Total or Weighted Average	$13,422,795	0.40%	$13,881,921	0.38%

Our repurchase agreements require that we maintain adequate pledged collateral. A decline in the value of the Agency Securities pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels. We manage this risk by maintaining an adequate balance of available cash and unpledged securities. We also may receive cash or securities as collateral from our derivative counterparties which we may use as additional collateral for repurchase agreements. Certain interest rate swap contracts provide for cross collateralization and cross default with repurchase agreements and other contracts with the same counterparty.

The following table represents the MRAs and other information regarding our repurchase agreements to finance Agency Security purchases at June 30, 2015 and December 31, 2014.

	June 30, 2015	December 31, 2014
Number of MRAs	37	40
Number of counterparties with repurchase agreements outstanding	29	28
Weighted average maturity in days	52	60
Haircut for repurchase agreements (1)	4.81 %	4.81 %

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(1) The Haircut represents the weighted average margin requirement, or the percentage amount by which the collateral value must exceed the loan amount. Among other things, it is a measure of our unsecured credit risk to our lenders.

At June 30, 2015, 8 repurchase agreement counterparties individually accounted for between 5% and 10% of our aggregate borrowings. In total, these counterparties accounted for approximately 53.42% of our repurchase agreement borrowings outstanding at June 30, 2015. At December 31, 2014, we had 7 repurchase agreement counterparties that individually accounted for between 5% and 10% of our aggregate borrowings. In total, these counterparties accounted for approximately 48.11% of our repurchase agreement borrowings outstanding at December 31, 2014. At June 30, 2015 and December 31, 2014, we did not have any repurchase counterparties that individually account for 5% or greater of our stockholders' equity.

Note 8 – Derivatives

We enter into derivative transactions to manage our interest rate risk exposure. These transactions include entering into interest rate swap contracts and interest rate swaptions as well as purchasing or selling Futures Contracts. These transactions are designed to lock in funding costs for repurchase agreements associated with our assets in such a way to help assure the realization of net interest margins. Such transactions are based on assumptions about prepayments which, if not realized, will cause transaction results to differ from expectations. Basis swap contracts allow us to exchange one floating interest rate basis for another, for example, 3 month LIBOR and Fed Funds Rates, thereby allowing us to diversify our floating rate basis exposures. We also utilize forward contracts for the purchase or sale of TBA Agency Securities.

We have agreements with our derivative counterparties that provide for the posting of collateral based on the fair values of our interest rate swap contracts, swaptions, basis swap contracts and TBA Agency Securities. Through this margin process, either we or our swap counterparty may be required to pledge cash or Agency Securities as collateral. Collateral requirements vary by counterparty and change over time based on the fair value, notional amount and remaining term of the contracts. Certain interest rate swap contracts provide for cross collateralization and cross default with repurchase agreements and other contracts with the same counterparty.

Interest rate swaptions generally provide us the option to enter into an interest rate swap agreement at a certain point of time in the future with a predetermined notional amount, stated term and stated rate of interest in the fixed leg and interest rate index on the floating leg.

Our Futures Contracts are traded on the CME which requires the use of daily mark-to-market collateral and the CME provides substantial credit support. The collateral requirements of the CME require us to pledge assets under a bi-lateral margin arrangement, including either cash or Agency Securities and these requirements may vary and change over time based on the market value, notional amount and remaining term of the Futures Contracts. In the event we are unable to meet a margin call under one of our Futures Contracts, the counterparty to such agreement may have the option to terminate or close-out all of the outstanding Futures Contracts with us. In addition, any close-out amount due to the counterparty upon termination of the counterparty’s transactions would be immediately payable by us pursuant to the applicable agreement.

TBA Agency Securities are forward contracts for the purchase ("long position") or sale ("short position") of Agency Securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency Securities delivered into the contract upon the settlement date, published each month by the

Securities Industry and Financial Markets Association, are not known at the time of the transaction. We may enter into TBA Agency Securities as a means of hedging against short-term changes in interest rates. We may also enter into TBA Agency Securities as a means of acquiring or disposing of Agency Securities and we may from time to time utilize TBA dollar roll transactions to finance Agency Security purchases.

We account for TBA Agency Securities as derivative instruments if it is reasonably possible that we will not take or make physical delivery of the Agency Security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions.

We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities.

The following tables present information about our derivatives on the accompanying condensed consolidated balance sheets at June 30, 2015 and December 31, 2014.

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Derivative Type	Remaining / Underlying Term	Weighted Average Remaining Swap / Option Term (Months)	Weighted Average Rate		Notional Amount (3)	Asset Fair Value (1)	Liability Fair Value (1)	
Interest rate swap contracts	0-12 Months	8	1.16	%	$2,725,000	$—	$(26,269	)
Interest rate swap contracts	13-24 Months	13	1.24	%	550,000	—	(10,939	)
Interest rate swap contracts	25-36 Months	30	0.99	%	1,050,000	—	(1,439	)
Interest rate swap contracts	49-60 Months	53	1.47	%	2,350,000	2,871	(481	)
Interest rate swap contracts	73-84 Months	81	2.05	%	1,025,000	1,163	(1,679	)
Interest rate swap contracts	85-96 Months	92	2.13	%	1,625,000	1,088	(1,581	)
Interest rate swap contracts	109-120 Months	114	2.66	%	1,000,000	—	(55,433	)
Interest rate swap contracts	121-132 Months	129	2.29	%	2,350,000	27,476	(191	)
Basis swap contracts (2)	0-60 Months	28	0.22	%	2,000,000	11	(327	)
TBA Agency Securities	—	—	—		1,600,000	—	(9,615	)
Total or Weighted Average					$16,275,000	$32,609	$(107,954	)

(1) See Note 5, "Fair Value of Financial Instruments" for additional discussion.
(2) Weighted average rate is the spread over the pay index.
(3) Notional amount includes $6,375,000 of forward starting interest rate swap contracts which become effective within 12 months.

December 31, 2014

Derivative Type	Remaining / Underlying Term	Weighted Average Remaining Swap / Option Term (Months)	Weighted Average Rate		Notional Amount	Asset Fair Value (1)	Liability Fair Value (1)	
Interest rate swap contracts	0-12 Months	5	1.13	%	$920,000	$—	$(9,349	)
Interest rate swap contracts	13-24 Months	16	1.23	%	2,900,000	—	(54,396	)
Interest rate swap contracts	25-36 Months	31	0.63	%	350,000	2,083	—	
Interest rate swap contracts	37-48 Months	37	1.00	%	300,000	2,090	—	
Interest rate swap contracts	49-60 Months	59	1.56	%	2,000,000	—	(7,414	)
Interest rate swap contracts	61-72 Months	61	1.48	%	300,000	2,921	—	
Interest rate swap contracts	85-96 Months	91	1.47	%	2,450,000	50,650	—	
Interest rate swap contracts	97-108 Months	98	2.08	%	2,800,000	2,774	(7,534	)
Interest rate swap contracts	121-132 Months	120	2.66	%	1,000,000	—	(58,520	)
Futures Contracts	0-15 Months	9	2.11	%	10,000	—	(180	)
Total or Weighted Average		63	1.60	%	$13,030,000	$60,518	$(137,393	)

(1) See Note 5, "Fair Value of Financial Instruments" for additional discussion.

We have netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by the International Swap and Derivatives Association. We are also required to post or hold cash collateral based upon the net underlying market value of our open positions with the counterparty.

The following tables present information about our derivatives and the potential effects of netting if we were to offset the assets and liabilities of these financial instruments on the accompanying condensed consolidated balance sheets. Currently,

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we present these financial instruments at their gross amounts and they are included in derivatives, at fair value on the accompanying condensed consolidated balance sheet at June 30, 2015.

June 30, 2015		Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Assets	Gross and Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Interest rate swap contracts	$32,598	$(98,012)	$98,572	$33,158
Basis swap contracts	11	(11)	—	—
Totals	$32,609	$(98,023)	$98,572	$33,158

June 30, 2015		Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Liabilities	Gross and Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Interest rate swap contracts	$(98,012)	$98,012	$—	$—
Basis swap contracts	(327)	11	—	(316)
TBA Agency Securities	(9,615)	—	12,027	2,412
Totals	$(107,954)	$98,023	$12,027	$2,096

The following tables present information about our derivatives and the potential effects of netting if we were to offset the assets and liabilities of these financial instruments on the accompanying condensed consolidated balance sheets. Currently, we present these financial instruments at their gross amounts and they are included in derivatives, at fair value on the accompanying condensed consolidated balance sheet at December 31, 2014.

December 31, 2014		Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Assets	Gross and Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Interest rate swap contracts	$60,518	$(137,213)	$119,561	$42,866
Totals	$60,518	$(137,213)	$119,561	$42,866

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December 31, 2014		Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
Liabilities	Gross and Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Interest rate swap contracts	$(137,213)	$137,213	$—	$—
Futures Contracts	(180)	—	227	47
Totals	$(137,393)	$137,213	$227	$47

The following table represents the location and information regarding our derivatives which are included in Other Income (Loss) in the accompanying condensed consolidated statements of operations for the quarter and six months ended June 30, 2015 and June 30, 2014.

		Income (Loss) Recognized For the Quarter Ended		For the Six Months Ended	
Derivatives	Location on Condensed Consolidated Statements of Operations	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest rate swap contracts:					
Realized gain (loss)	Realized loss on derivatives	$(20,585)	$—	$28,346	$—
Interest income	Realized loss on derivatives	3,247	3,505	7,425	6,742
Interest expense	Realized loss on derivatives	(32,041)	(37,536)	(76,961)	(75,388)
Changes in fair value	Unrealized gain (loss) on derivatives	204,346	(98,356)	(12,080)	(201,663)
		$154,967	$(132,387)	$(53,270)	$(270,309)
Interest rate swaptions:					
Realized gain	Realized loss on derivatives	—	—	—	23,318
Changes in fair value	Unrealized gain (loss) on derivatives	—	(18,372)	—	(91,830)
		$—	$(18,372)	$—	$(68,512)
Futures Contracts:					
Realized loss	Realized loss on derivatives	(93)	(467)	(184)	(908)
Changes in fair value	Unrealized gain (loss) on derivatives	92	455	180	864
		$(1)	$(12)	$(4)	$(44)
Basis swap contracts:					
Changes in fair value	Unrealized gain (loss) on derivatives	(316)	—	(316)	—
		$(316)	$—	$(316)	$—

TBA Agency Securities:					
Realized loss	Realized loss on derivatives	(10,506)	—	(10,506)	—
Changes in fair value	Unrealized gain (loss) on derivatives	(9,615)	—	(9,615)	—
		$(20,121)	$—	$(20,121)	$—
Totals		$134,529	$(150,771)	$(73,711)	$(338,865)

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Note 9 – Commitments and Contingencies

Management Agreement with ACM

As discussed in Note 14, "Related Party Transactions" we are externally managed by ACM pursuant to a management agreement (the "Management Agreement"), which was most recently amended on February 23, 2015. The Management Agreement entitles ACM to receive a management fee payable monthly in arrears. Currently, the monthly management fee is 1/12th of the sum of (a) 1.5% of gross equity raised up to $1.0 billion plus (b) 0.75% of gross equity raised in excess of $1.0 billion. The cost of repurchased stock and any dividend representing a return of capital for tax purposes will reduce the amount of gross equity raised used to calculate the monthly management fee. At June 30, 2015, the effective management fee was 1.03% based on gross equity raised of $2,657,332. The ACM monthly management fee is not calculated based on the performance of our assets. Accordingly, the payment of our monthly management fee may not decline in the event of a decline in our earnings and may cause us to incur losses. We are also responsible for any costs and expenses that ACM incurred solely on behalf of ARMOUR other than the various overhead expenses specified in the terms of the Management Agreement. ACM is further entitled to receive a termination fee from us under certain circumstances.

Indemnifications and Litigation

We enter into certain contracts that contain a variety of indemnifications, principally with ACM and underwriters, against third party claims for errors and omissions in connection with their services to us. We have not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the estimated fair value of these agreements, as well as the maximum amount attributable to past events, is not material. Accordingly, we have no liabilities recorded for these agreements at June 30, 2015 and December 31, 2014.

We are not party to any pending, threatened or contemplated litigation.

Note 10 – Stock Based Compensation

We adopted the 2009 Stock Incentive Plan as amended, (the "Plan") to attract, retain and reward directors and other persons who provide services to us in the course of operations. The Plan authorizes the Board to grant awards including common stock, restricted shares of common stock, stock options, performance shares, performance units, stock appreciation rights and other equity and cash-based awards (collectively "Awards"), subject to terms as provided in the Plan.

On May 8, 2014, our stockholders approved an amendment to the Plan to increase the number of shares issuable thereunder from 2,000 to 15,000 shares and the Plan was amended accordingly.

Transactions related to awards issued under the Plan for the six months ended June 30, 2015 are summarized below:

	June 30, 2015	
	Number of Awards	Weighted Average Grant Date Fair Value per Award

Unvested Awards Outstanding-beginning of period	1,055	$6.47
Vested	(212)	$7.06
Unvested Awards Outstanding-end of period	843	$6.34

At June 30, 2015, there was approximately $2,369 of unvested non-cash stock based compensation related to the Awards (based on the June 30, 2015 stock price of $2.81 per share), that we expect to recognize as an expense over the remaining average service period of 1.3 years. We also pay our Board quarterly fees of $33, which is payable in cash, common stock, or a combination of common stock and cash at the option of the director.

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Note 11 – Stockholders' Equity

Dividends

The following table presents our common stock dividend transactions for the six months ended June 30, 2015.

Record Date	Payment Date	Rate per common share	Aggregate amount paid to holders of record
January 15, 2015	January 27, 2015	$0.04	$14,168
February 13, 2015	February 27, 2015	$0.04	14,169
March 13, 2015	March 27, 2015	$0.04	14,149
April 15, 2015	April 27, 2015	$0.04	14,133
May 15, 2015	May 27, 2015	$0.04	14,089
June 15, 2015	June 29, 2015	$0.04	14,045
Total dividends paid			$84,753

The following table presents our Series A Preferred Stock dividend transactions for the six months ended June 30, 2015.

Record Date	Payment Date	Rate per Series A Preferred Share	Aggregate amount paid to holders of record
January 15, 2015	January 27, 2015	$0.17	$374.8
February 15, 2015	February 27, 2015	$0.17	374.8
March 15, 2015	March 27, 2015	$0.17	374.8
April 15, 2015	April 27, 2015	$0.17	374.8
May 15, 2015	May 27, 2015	$0.17	374.8
June 15, 2015	June 29, 2015	$0.17	374.8
Total dividends paid			$2,248.8

The following table presents our Series B Preferred Stock dividend transactions for the six months ended June 30, 2015.

Record Date	Payment Date	Rate per Series B Preferred Share	Aggregate amount paid to holders of record
January 15, 2015	January 27, 2015	$0.16	$927
February 15, 2015	February 27, 2015	$0.16	927
March 15, 2015	March 27, 2015	$0.16	927
April 15, 2015	April 27, 2015	$0.16	927
May 15, 2015	May 27, 2015	$0.16	927
June 15, 2015	June 29, 2015	$0.16	927

Total dividends paid	$5,562

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Equity Capital Raising Activities

The following table presents our equity transactions for the six months ended June 30, 2015.

Transaction Type	Completion Date	Number of Shares	Per Share price (1)	Net Proceeds
Common stock dividend reinvestment program	January 26, 2015 through June 29, 2015	27	$3.14	$85

(1) Weighted average price

Common Stock Repurchases

The following table presents our common stock repurchases for the six months ended June 30, 2015.

Transaction Type	Completion Date	Number of Shares	Per Share price (1)	Net Cost
Repurchased common shares	March 5, 2015 through June 9, 2015	3,075	3.09	$9,497

(1) Weighted average price

Note 12 – Net Income (Loss) per Common Share

The following table presents a reconciliation of net income (loss) and the shares used in calculating weighted average basic and diluted earnings per common share for the quarter and six months ended June 30, 2015 and June 30, 2014.

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net Income (Loss)	$198,018	$(70,190)	$72,549	$(89,968)
Less: Preferred dividends	(3,905)	(3,905)	(7,810)	(7,812)
Net income (loss) related to common stockholders	$194,113	$(74,095)	$64,739	$(97,780)
Weighted average common shares outstanding – basic	351,332	357,111	352,134	357,302
Add: Effect of dilutive non-vested awards, assumed vested	843	—	843	—
Weighted average common shares outstanding – diluted	352,175	357,111	352,977	357,302

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Note 13 – Income Taxes

The following table reconciles our GAAP net income (loss) to estimated REIT taxable income for the quarter and six months ended June 30, 2015 and June 30, 2014.

	For the Quarter Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
GAAP net income (loss)	$198,018	$(70,190)	$72,549	$(89,968)
Book to tax differences:				
Changes in interest rate contracts	(163,416)	116,273	3,991	269,311
(Gain) Loss on Security Sales	5,051	4,614	(1,493)	(65,255)
Amortization of deferred hedging gains (costs)	(1,216)	461	(3,093)	755
Net premium amortization differences	—	(266)	—	(5,609)
Other	4	5	8	11
Estimated taxable income	$38,441	$50,897	$71,962	$109,245

Interest rate contracts are treated as hedging transactions for tax purposes. Unrealized gains and losses on open interest rate contracts are not included in the determination of REIT taxable income. Realized gains and losses on interest rate contracts terminated before their maturity are deferred and amortized over the remainder of the original term of the contract for tax purposes.

Net capital losses realized in 2013 and 2014 totaling $(579,322) and $(341,850), respectively, may be available to offset future capital gains realized through 2018 and 2019, respectively.

The aggregate tax basis of our assets and liabilities was less than our total Stockholders' Equity at June 30, 2015 by approximately $(42,487), or approximately $(0.12) per common share (based on the 350,271 common shares then outstanding).

We are required and intend to timely distribute substantially all of our REIT taxable income in order to maintain our REIT status under the Code. Total dividend payments to stockholders were $92,564 for the six months ended June 30, 2015. Our estimated REIT taxable income available for distribution as dividends was $71,962 for the six months ended June 30, 2015. Our taxable REIT income and dividend requirements to maintain our REIT status are determined on an annual basis. Dividends paid in excess of REIT taxable income for the year (including amounts carried forward from prior years) will generally not be taxable to common stockholders.

Our management is responsible for determining whether tax positions taken by us are more likely than not to be sustained on their merits. We have no material unrecognized tax benefits or material uncertain tax positions.

Note 14 – Related Party Transactions

We are externally managed by ACM pursuant to the Management Agreement. All of our executive officers are also employees of ACM. ACM manages our day-to-day operations, subject to the direction and oversight of the Board. The Management Agreement expires after an initial term of ten years on June 18, 2022 and is thereafter automatically renewed for an additional five-year term unless terminated under certain circumstances. Either party must provide 180 days prior written notice of any such termination.

Under the terms of the Management Agreement, ACM is responsible for costs incident to the performance of its duties, such as compensation of its employees and various overhead expenses. ACM is responsible for the following primary roles:

- Advising us with respect to, arranging for and managing the acquisition, financing, management and disposition of, elements of our investment portfolio;
- Evaluating the duration risk and prepayment risk within the investment portfolio and arranging borrowing and hedging strategies;
- Coordinating capital raising activities;

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- Advising us on the formulation and implementation of operating strategies and policies, arranging for the acquisition of assets, monitoring the performance of those assets and providing administrative and managerial services in connection with our day-to-day operations; and
- Providing executive and administrative personnel, office space and other appropriate services required in rendering management services to us.

In accordance with the Management Agreement, we incurred $6,867 and $13,744 in management fees for the quarter and six months ended June 30, 2015 and $6,964 and $13,929 in management fees for the quarter and six months ended June 30, 2014, respectively.

We are required to take actions as may be reasonably required to permit and enable ACM to carry out its duties and obligations. We are also responsible for any costs and expenses that ACM incurred solely on our behalf other than the various overhead expenses specified in the terms of the Management Agreement. For the quarter and six months ended June 30, 2015, we reimbursed ACM $489 and $871, respectively, for other expenses incurred on our behalf. For the quarter and six months ended June 30, 2014, we reimbursed ACM $419 and $878, respectively, for other expenses incurred on our behalf. In consideration of our 2012 results, in 2013, we also elected to make a restricted stock award to our executive officers and other ACM employees through ACM. The award vests through 2017 and resulted in our recognizing stock based compensation expense of $158 and $336, respectively, for the quarter and six months ended June 30, 2015 and $264 and