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.

ARMOUR Residential REIT, Inc. and Subsidiary
TABLE OF CONTENTS

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.

1

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.

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 8.250% Series A			7.875% Series B			Common Stock					
	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.

4

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
(in thousands, except per share amounts)
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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

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

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

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

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.

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.

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

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.

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

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.

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

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

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

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	%

16

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

(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.

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

June 30, 2015

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,

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

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

19

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

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)

20

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

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.

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

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

22

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

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

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

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;

- 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 $636, respectively for the quarter and six months ended June 30, 2014.

Pursuant to a Sub-Management Agreement between ARMOUR, ACM and Staton Bell Blank Check LLC (“SBBC”), ACM is responsible for the monthly payment of a sub-management fee to SBBC in an amount equal to 25% of the monthly management fee earned by ACM, net of expenses. In October 2014, SBBC elected to continue to act as sub-managers for ACM. As part of the Company’s founding in 2009, SBBC had the option to relinquish its sub-management agreement in exchange for a lump sum cash payment from us in November 2014. The option formula would have resulted in ARMOUR paying SBBC $33,559 in cash and receiving the ongoing sub-management fee. SBBC allowed the option to expire unexercised. In connection with the Conversion, SBBC became substantially wholly owned by ACM, effective January 1, 2015.

Note 15 – Interest Rate Risk

Our primary market risk is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned and the interest expense incurred in connection with the liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of Agency Securities and our ability to realize gains from the sale of these assets. 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.

Note 16 – Subsequent Events

On July 7, 2015, our wholly owned insurance subsidiary, SABRE Business Insurance LLC, became a member of the Federal Home Loan Bank of Des Moines.

On July 27, 2015, a cash dividend of $0.17 per outstanding share of Series A Preferred Stock, or $375 in the aggregate, and $0.16 per outstanding share of Series B Preferred Stock, or $927 in the aggregate, was paid to holders of record on July 15, 2015. We have also declared cash dividends of $0.17 and $0.16 per outstanding share of Series A Preferred Stock and Series B Preferred Stock, respectively, payable August 27, 2015 to holders of record on August 15, 2015 and payable September 28, 2015 to holders of record on September 15, 2015.

We have declared cash dividends of $0.04 per outstanding common share which were paid on July 27, 2015 to holders of record on July15, 2015. The expected July 2015 dividend rate of $0.04 per common share does not reflect the effect of the pending Reverse Stock Split and would be equivalent to $0.32 per common share on a basis reflecting the pending Reverse Stock Split. We also have declared cash dividends of $0.33 (post-split) per outstanding common share payable on August 27, 2015 to holders of record on August 17, 2015 and payable September 28, 2015 to holders of record on September 15, 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this report.

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, 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. Refer to the Glossary of Terms for definitions of capitalized terms and abbreviations used in this report.

U.S. dollar amounts and share numbers are presented in thousands, except per share amounts, or as otherwise noted.

Overview

We are a Maryland corporation formed to invest in and manage a leveraged portfolio of MBS and mortgage loans. The securities we invest in are issued or guaranteed by a GSE, such as Fannie Mae, Freddie Mac, or guaranteed by Ginnie Mae (collectively, "Agency Securities"). 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 REIT. Our charter permits us to invest in Agency Securities and Non-Agency Securities. At June 30, 2015 and December 31, 2014, Agency Securities account for 100% of our securities portfolio. It is expected that the percentage will continue to be 100% or close thereto.

We are externally managed by ACM, pursuant to the Management Agreement, which was most recently amended on February 23, 2015. ACM is an investment advisor registered with the SEC. ACM is also the external manager of JAVELIN, a publicly traded REIT, which invests in and manages a leveraged portfolio of Agency Securities and Non-Agency Securities. Our executive officers also serve as the executive officers of JAVELIN.

We seek attractive long-term investment returns by investing our equity capital and borrowed funds in our targeted asset class of Agency Securities. We earn returns on the spread between the yield on our assets and our costs, including the interest cost of the funds we borrow, after giving effect to our hedges. We identify and acquire Agency Securities, finance our acquisitions with borrowings under a series of short-term repurchase agreements at the most competitive interest rates available to us and then cost-effectively hedge our interest rate and other risks based on our entire portfolio of assets, liabilities and derivatives and our management's view of the market. Successful implementation of this approach requires us to address interest rate risk, maintain adequate liquidity and effectively hedge interest rate risks. We believe that the residential mortgage market will undergo significant changes in the coming years as the role of GSEs, such as Fannie Mae and Freddie Mac, is diminished, which we expect will create attractive investment opportunities for us. We execute our business plan in a manner consistent with our intention of qualifying as a REIT under the Code and avoiding regulation as an investment company under the 1940 Act.

We 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 our taxable income to our stockholders and as long as we satisfy the ongoing REIT requirements under the Code including meeting certain asset, income and stock ownership tests.

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"), to be effective after July 31, 2015. See Note 1 to the condensed consolidated financial statements for additional description of the Reverse Stock Split. The Reverse Stock Split doesn't affect our Series A Preferred Stock or our Series B Preferred Stock.

Factors that Affect our Results of Operations and Financial Condition

Our results of operations and financial condition are affected by various factors, many of which are beyond our control, including, among other things, our net interest income, the market value of our assets and the supply of and demand for such assets. We invest in financial assets and markets. Recent events, such as those discussed below, can affect our business in ways that are difficult to predict and may produce results outside of typical operating variances. Our net interest income varies primarily as a result of changes in interest rates, borrowing costs and prepayment speeds, the behavior of which involves various risks and uncertainties. Prepayment rates, as reflected by the rate of principal pay downs and interest rates vary according to the type of investment, conditions in financial markets, government actions, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment rates on our Agency Securities that are purchased at a premium increase, related purchase premium amortization increases, thereby reducing the net yield on such assets. Because changes in interest rates may significantly affect our activities, our operating results depend, in large part, upon our ability to manage interest rate risks and prepayment risks effectively while maintaining our status as a REIT.

For any period during which changes in the interest rates earned on our assets do not coincide with interest rate changes on our borrowings, such assets will tend to reprice more slowly than the corresponding liabilities. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our net interest income. With the maturities of our assets generally of longer term than those of our liabilities, interest rate increases will tend to decrease our net interest income and the market value of our assets (and therefore our book value). Such rate increases could possibly result in operating losses or adversely affect our ability to make distributions to our stockholders.

Prepayments on Agency Securities and the underlying mortgage loans may be influenced by changes in market interest rates and a variety of economic and geographic factors, policy decisions by regulators, as well as other factors beyond our control. Consequently, prepayment rates cannot be predicted with certainty. To the extent we hold Agency Securities acquired at a premium or discount to par, or face value, changes in prepayment rates may impact our anticipated yield. In periods of declining interest rates, prepayments on our Agency Securities will likely increase. If we are unable to reinvest the proceeds of such prepayments at comparable yields, our net interest income may decline. The recent climate of government intervention in the mortgage markets significantly increases the risk associated with prepayments.

While we use strategies to economically hedge some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates and prepayment rates, as there are practical limitations on our ability to insulate our securities portfolio from all potential negative consequences associated with changes in short-term interest rates in a manner that will allow us to seek attractive net spreads on our securities portfolio. Also, since we have not elected to use cash flow hedge accounting, earnings reported in accordance with GAAP will fluctuate even in situations where our derivatives are operating as intended. As a result of this mark-to-market accounting treatment, our results of operations are likely to fluctuate far more than if we were to designate our derivative activities as cash flow hedges. Comparisons with companies that use cash flow hedge accounting for all or part of their derivative activities may not be meaningful. For these and other reasons more fully described under the section captioned “Derivative Instruments” below, no assurance can be given that our derivatives will have the desired beneficial impact on our results of operations or financial condition.

In addition to the use of derivatives to hedge interest rate risk, a variety of other factors relating to our business may also impact our financial condition and operating performance; these factors include

- our degree of leverage;

- our access to funding and borrowing capacity;
- the REIT requirements under the Code; and
- the requirements to qualify for an exclusion under the 1940 Act and other regulatory and accounting policies related to our business.

Our Manager

See Note 9 and Note 14 to the condensed consolidated financial statements.

Market and Interest Rate Trends and the Effect on our Securities Portfolio

Developments at Fannie Mae and Freddie Mac

The payments we receive on the Agency Securities in which we invest depend upon a steady stream of payments by borrowers on the underlying mortgages and the fulfillment of guarantees by GSEs. There can be no assurance that the U.S.

Government's intervention in Fannie Mae and Freddie Mac will continue to be adequate for the longer-term viability of these GSEs. These uncertainties may lead to concerns about the availability of and trading market for Agency Securities in the long term. Accordingly, if the GSEs defaulted on their guaranteed obligations, suffered losses or ceased to exist, the value of our Agency Securities and our business, operations and financial condition could be materially and adversely affected.

The passage of any new federal legislation affecting Fannie Mae and Freddie Mac may create market uncertainty and reduce the actual or perceived credit quality of securities issued or guaranteed by them. If Fannie Mae and Freddie Mac were reformed or wound down, it is unclear what effect, if any, this would have on the value of the existing Fannie Mae and Freddie Mac Agency Securities. The foregoing could materially adversely affect the pricing, supply, liquidity and value of the Agency Securities in which we invest and otherwise materially adversely affect our business, operations and financial condition.

Short-term Interest Rates and Funding Costs

The Fed has maintained a target range for the Federal Funds Rate of between 0.00% and 0.25%. Our funding costs, which traditionally have tracked the 30-day LIBOR have generally benefited by this monetary policy. Because of continued uncertainty in the credit markets and U.S. and global economic conditions, we expect that interest rates are likely to experience continued volatility, which will likely affect our financial results since our cost of funds is largely dependent on short-term rates.

Historically, 30-day LIBOR has closely tracked movements in the Federal Funds Rate and the Effective Federal Funds Rate. The Effective Federal Funds Rate can differ from the Federal Funds Rate in that the Effective Federal Funds Rate represents the volume weighted average of interest rates at which depository institutions lend balances at the Fed to other depository institutions overnight (actual transactions, rather than target rate).

Our borrowings in the repurchase market have also historically closely tracked the Federal Funds Rate and LIBOR. Traditionally, a lower Federal Funds Rate has indicated a time of increased net interest margin and higher asset values. The difference between 30-day LIBOR and the Effective Federal Funds Rate can be quite volatile, with the spread alternately returning to more normal levels and then widening out again. Volatility in these rates and divergence from the historical relationship among these rates could negatively impact our ability to manage our securities portfolio. If rates were to increase as a result, our net interest margin and the value of our securities portfolio might suffer as a result.

The following graph shows 30-day LIBOR as compared to the Effective Federal Funds Rate on a monthly basis from June 2013 to June 2015.

Results of Operations

Net Income (Loss) Summary

The following is a summary of our condensed consolidated results of operations:

	For the Quarter Ended		For the Six Months Ended		Change vs. Prior Periods	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	Quarter	YTD
Net Interest Income	$77,786	$94,650	$163,145	$202,985	(17.82)%	(19.63)%
Total Other Income (Loss)	129,478	(155,385)	$(72,218)	$(273,610)	183.33%	73.61%
Total Expenses	9,246	9,455	$18,378	$19,343	(2.21)%	(4.99)%
Net Income (Loss)	198,018	(70,190)	$72,549	$(89,968)	382.12%	180.64%
Dividends declared on preferred stock	(3,905)	(3,905)	(7,810)	(7,812)	—%	0.03%
Net Income (Loss) related to common stockholders	$194,113	$(74,095)	$64,739	$(97,780)	361.98%	166.21%
Net Income (Loss) related per share to common, basic	$0.55	$(0.21)	$0.18	$(0.27)	361.90%	166.67%
Net Income (Loss) related per share to common, diluted	$0.55	$(0.21)	$0.18	$(0.27)	361.90%	166.67%

The per share amounts above do not reflect the effect of the Reverse Stock Split to be effective after July 31, 2015.

The main factors for the change in net income in 2015 as compared to 2014 are the unrealized gains (losses) on derivatives in 2015 as compared to the unrealized losses in 2014. Declining net interest income in 2015 was also a factor. These factors result largely from the trend of generally rising interest rates in 2015 compared to falling interest rates in 2014.

Net Interest Income

	For the Quarter Ended		For the Six Months Ended		Change vs. Prior Period	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	Quarter	YTD
Interest income, net of amortization of premium on Agency Securities	$91,703	$113,892	$191,253	$236,974	(19.48)%	(19.29)%
Interest expense	(13,917)	(14,979)	(28,108)	(29,726)	7.09%	5.44%
Interest expense- U.S. Treasury Securities sold short	—	(4,263)	—	(4,263)	100.00%	100.00%
Net Interest Income	$77,786	$94,650	$163,145	$202,985	(17.82)%	(19.63)%

Net interest income is a function of both our securities portfolio size and net interest rate spread.

2015 vs. 2014

- Our six month average securities portfolio decreased 8.47% from $15,685 at June 30, 2014 to $14,357 at June 30, 2015.

Our six month net interest rate spread decreased 21.95% from 1.64% at June 30, 2014 to 1.28% at June 30, 2015. Our average portfolio yield decreased (0.26)% and our cost of funds decreased (0.16)% year over year. The decrease in the interest rate spread from 2014 to 2015 combined with the decrease in our securities portfolio resulted in decreased net interest income.

At June 30, 2015 and December 31, 2014, our Agency Securities in our securities portfolio were carried at a net premium to par value with a weighted average amortized cost of 105.96% and 105.05% due to the average interest rates on these securities being higher than prevailing market rates.

The following table presents the components of the net interest margin earned on our Agency Security portfolio for the quarterly periods presented. Cost of funds includes interest expense on repurchase agreements and net cash payments or receipts on currently effective interest rate swap contracts and basis swap contracts. Our cost of funds does not include swap termination fees or forward starting interest rate swap contracts which are not yet effective.

Quarter Ended	Asset Yield		Cost of Funds		Net Interest Margin		Interest Expense on Repurchase Agreements	
June 30, 2015	2.60	%	1.24	%	1.36	%	0.40	%
March 31, 2015	2.72	%	1.52	%	1.20	%	0.39	%
December 31, 2014	2.71	%	1.44	%	1.27	%	0.40	%
September 30, 2014	2.68	%	1.25	%	1.43	%	0.38	%
June 30, 2014	2.86	%	1.40	%	1.46	%	0.39	%

The yield on our assets is most significantly affected by the rate of repayments on our Agency Securities. The following graph shows the annualized CPR on a monthly basis.

Other Income (Loss)

	For the Quarter Ended		For the Six Months Ended		Change vs. Prior Period	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	Quarter	YTD
Realized gain (loss) on sale of Agency Securities (reclassified from Other comprehensive income (loss))	$(5,051)	$11,167	$1,493	$81,036	(145.23)%	(98.16)%
Loss on short sale of U.S. Treasury Securities	—	(15,781)	—	(15,781)	100.00%	100.00%
Realized loss on derivatives (1)	(59,978)	(34,498)	(51,880)	(46,236)	(73.86)%	(12.21)%
Unrealized gain (loss) on derivatives	194,507	(116,273)	(21,831)	(292,629)	267.28%	92.54%
Total Other Income (Loss)	$129,478	$(155,385)	$(72,218)	$(273,610)	183.33%	73.61%

(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.

2015 vs. 2014

- Gains (losses) on Agency Securities resulted from the sales of Agency Securities during the quarter and six months ended June 30, 2015 of $1,445,097 and $2,817,635, respectively, compared to $1,206,494 and $6,782,481, respectively, during the quarter and six months ended June 30, 2014. At June 30, 2015, June 30, 2014 and December 31, 2014, we also considered whether at those balance sheet dates, 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.
- Gains (losses) on derivatives resulted from a combination of the following:

We increased our total interest rate swap contracts aggregate notional balance from $10,030,000 at June 30, 2014 to $12,675,000 at June 30, 2015, respectively.

We decreased our total interest rate swaptions notional balance from $5,250,000 at June 30, 2014 to $0 at June 30, 2015, respectively.

We entered into $2,000,000 notional of basis swap contracts during the quarter ended June 30, 2015.

We purchased $1,600,000 par amount of TBA Agency Securities during the quarter ended June 30, 2015.

The net gains (losses) for the quarters ended June 30, 2015 and June 30, 2014 were the result of gradual and sustained increase in interest rates for 2015 and decline in interest rates for 2014.

Expenses

	For the Quarter Ended		For the Six Months Ended		Change vs. Prior Year	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	Quarter	YTD
Management fee	$6,867	$6,964	$13,744	$13,929	(1.39)%	(1.33)%
Professional fees	658	901	1,451	2,175	(26.97)%	(33.29)%
Insurance	172	186	342	369	(7.53)%	(7.32)%
Compensation	575	734	1,188	1,446	(21.66)%	(17.84)%
Other	974	670	1,653	1,424	45.37 %	16.08 %
Total Expenses	$9,246	$9,455	$18,378	$19,343	(2.21)%	(4.99)%

Management fees are determined based on gross equity raised. Therefore, our management fee increases when we raise capital and declines when we repurchase previously issued stock or pay dividends in excess of taxable income. However, because the management fee rate decreased to 0.75% per annum for gross equity raised in excess of $1.0 billion pursuant to the Management Agreement, the effective average management fee rate has generally declined over time. Gross equity raised was $2,657,332 at June 30, 2015 compared to $2,712,758 at June 30, 2014.

Professional fees include securities clearing, legal, audit and consulting costs and are generally driven by the size and complexity of our securities portfolio, the volume of transactions we execute and the extent of research and due diligence activities we undertake on potential transactions.

Insurance includes premiums for both general business and directors and officers liability coverage.

Compensation includes both director compensation as well as the restricted stock awarded to our executive officers and other ACM employees through ACM. The decline in 2015 is primarily the result of lower stock based compensation due to a decline in our stock price and award vesting. No new awards have been granted since 2013.

Other expenses include fees for market and pricing data, analytics and risk management systems and portfolio related data processing costs as well as stock exchange listing fees and similar shareholder related expenses.

Taxable Income

See Note 13 to the condensed consolidated financial statements for information regarding our taxable income.

Other Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. During the quarter and six months ended June 30, 2015, other comprehensive loss totaled $(216,751) and $(133,564), respectively, reflecting net unrealized losses on available for sale Agency Securities net of amounts reclassified upon sale. During the quarter and six months ended June 30, 2014, other comprehensive income totaled $210,600 and $256,895, respectively, reflecting net unrealized gains on available for sale Agency Securities net of amounts reclassified upon sale.

Financial Condition

Agency Securities and TBA Agency Securities

Security purchase and sale transactions, including purchases and sales for forward settlement, 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. We typically purchase Agency Securities at premium prices. The premium price paid over par value on those assets is expensed as the underlying mortgages experience repayment or prepayment. The lower the constant prepayment rate, the lower the amount of amortization expense for a particular period. Accordingly, the yield on an asset and earnings, are higher. If prepayment rates increase, the amount of amortization expense for a particular period will go up. These increased prepayment rates would act to decrease the yield on an asset and would decrease earnings.

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. 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 estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities. TBA Agency Securities are included in the table below on a gross basis as they can be used to establish and finance portfolio positions in Agency Securities.

The tables below summarize certain characteristics of our Agency Securities and TBA Agency Securities at June 30, 2015 and December 31, 2014.

June 30, 2015

Asset Type	Principal Amount	Fair Value	Weighted Average Coupon		CPR (1)		Weighted Average Month to Reset or Maturity	% of Total Agency Securities	
ARMs & Hybrids	$126,171	$132,481	2.74	%	12.99	%	13	0.85	%
Multi-Family MBS	2,281,496	2,315,249	3.07	%	0.00	%	111	15.43	
10 Year Fixed	44,218	46,915	4.05	%	9.60	%	116	0.30	
15 Year Fixed	5,150,870	5,413,979	3.33	%	8.94	%	156	34.82	
20 Year Fixed	4,522,499	4,752,052	3.65	%	14.51	%	199	30.58	
25 Year Fixed	31,502	34,157	4.50	%	23.79	%	271	0.21	
30 Year Fixed	1,034,133	1,101,153	4.00	%	5.31	%	351	6.99	
Subtotal	$13,190,889	$13,795,986						89.18	%
TBA Agency Securities (2)	1,600,000	1,645,954	3.50	%	—	%	360	10.82	
Total or Weighted Average	$14,790,889	$15,441,940	3.46	%	8.11	%	197	100.00	%

(1) Weighted average for all prepayments during the quarter ended June 30, 2015, including prepayments related to Agency Securities purchased during the quarter.
(2) Our TBA Agency Securities are recorded as derivative instruments in our accompanying condensed consolidated financial statements. As of June 30, 2015, our TBA Agency Securities had a net carrying value of $9,615, reported as derivative liability on our accompanying condensed consolidated balance sheets. The net carrying value represents the difference between the fair value of the underlying Agency Security in the TBA Agency Security and the cost basis or

the forward price to be paid or received for the underlying Agency Security. The weighted average months to maturity represents the maximum maturity acceptable within the delivery standards. Securities actually delivered may have shorter maturities.

December 31, 2014

Asset Type	Principal Amount	Fair Value	Weighted Average Coupon		CPR (1)		Weighted Average Month to Reset or Maturity	% of Total Agency Securities	
ARMs & Hybrids	$124,680	$131,722	3.38	%	15.13	%	7	0.86	%
Multi-Family MBS	1,206,290	1,261,903	3.26	%	0.00	%	114	8.33	
10 Year Fixed	5,671	6,140	4.53	%	8.00	%	108	0.04	
15 Year Fixed	7,295,657	7,690,241	3.33	%	6.97	%	163	50.38	
20 Year Fixed	4,659,352	4,931,150	3.60	%	8.50	%	205	32.18	
25 Year Fixed	19,386	21,139	4.50	%	0.00	%	254	0.13	
30 Year Fixed	1,170,133	1,255,234	4.01	%	0.91	%	356	8.08	
Total or Weighted Average	$14,481,169	$15,297,529	3.47	%	6.45	%	187	100.00	%

(1) Weighted average for all prepayments during the quarter ended December 31, 2014, including prepayments related to Agency Securities purchased during the quarter.

Recognition of interest income commences on the settlement date of the purchase transaction and continues through the settlement date of the sale transaction. At June 30, 2015, we had investment related receivables of $752,773 with respect to unsettled sales of Agency Securities. We did not have any investment related payables at June 30, 2015. At December 31, 2014, we had investment related receivables of $260,598 and investment related payables of $445,292 with respect to unsettled sales and purchases of Agency Securities, respectively.

Our net interest income is primarily a function of the difference between the yield on our assets and the financing cost of owning those assets. Since we tend to purchase Agency Securities at a premium to par, the main item that can affect the yield on our Agency Securities after they are purchased is the rate at which the mortgage borrowers repay the loan. While the scheduled repayments, which are the principal portion of the homeowners’ regular monthly payments, are fairly predictable, the unscheduled repayments, which are generally refinancing of the mortgage but can also result from repurchases of delinquent, defaulted, or modified loans, are less so. Being able to accurately estimate and manage these repayment rates is a critical portion of the management of our securities portfolio, not only for estimating current yield but also for considering the rate of reinvestment of those proceeds into new securities, the yields which those new securities may add to our securities portfolio and our hedging strategy.

At June 30, 2015 and December 31, 2014, the adjustable and hybrid adjustable rate mortgage loans underlying our Agency Securities have fixed-interest rates for an average period of approximately 13 months and 7 months, respectively, after which time the interest rates reset and become adjustable. After a reset date, interest rates on our adjustable and hybrid adjustable Agency Securities float based on spreads over various indices, typically LIBOR or the one-year constant maturity treasury rate. These interest rates are subject to caps that limit the amount the applicable interest rate can increase during any year, known as an annual cap and through the maturity of the security, known as a lifetime cap.

Liabilities

We have entered into repurchase agreements to finance most of our Agency Securities. Our repurchase agreements are secured by our Agency Securities and bear interest at rates that have historically moved in close relationship to the Federal Funds Rate and LIBOR. We have established borrowing relationships with numerous investment banking firms and other lenders, 29 of which had open repurchase agreements with us at June 30, 2015 and 28 of which had open repurchase agreements with us at December 31, 2014. We had outstanding balances under our repurchase agreements at June 30, 2015 and December 31, 2014 of $13,422,795 and $13,881,921, respectively.

Derivative Instruments

We use various interest rate contracts to manage our interest rate risk as we deem prudent in light of market conditions and the associated costs with counterparties that have a high quality credit rating and with futures exchanges. We generally pay a fixed rate and receive a floating rate with the objective of fixing a portion of our borrowing costs and hedging the change in our book value to some degree. The floating rate we receive is generally the Federal Funds Rate or LIBOR. While our policies do not contain specific requirements as to the percentages or amount of interest rate risk that we are required to hedge, we maintain an overall target of hedging at least 40% of our non-adjustable rate mortgages. At June 30, 2015 and December 31, 2014, the notional value of our interest rate swap contracts was 92.77% and 85.92%, respectively, of the fair market value of our non-adjustable rate mortgages. For interest rate risk mitigation purposes, we consider Agency Securities to be ARMs if their interest rate is either currently subject to adjustment according to prevailing rates or if they are within 18 months of the period where such adjustments will occur. No assurance can be given that our derivatives will have the desired beneficial impact on our results of operations or financial condition. We have not elected cash flow hedge accounting treatment as allowed by GAAP. Since we do not designate our derivative activities as cash flow hedges, realized as well as unrealized gains/losses from these transactions will impact our GAAP earnings.

Use of derivative instruments may fail to protect or could adversely affect us because, among other things:

- available derivatives may not correspond directly with the interest rate risk for which protection is sought (e.g., the difference in interest rate movements for long-term U.S. Treasury Securities compared to Agency Securities);
- the duration of the derivatives may not match the duration of the related liability;
- the counterparty to a derivative agreement with us may default on its obligation to pay or not perform under the terms of the agreement and the collateral posted may not be sufficient to protect against any consequent loss;
- we may lose collateral we have pledged to secure our obligations under a derivative agreement if the associated counterparty becomes insolvent or files for bankruptcy;
- we may experience a termination event under one or more of our derivative agreements related to our REIT status, equity levels and performance, which could result in a payout to the associated counterparty and a taxable loss to us;
- the credit-quality of the party owing money on the derivatives may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the value of derivatives may be adjusted from time to time in accordance with GAAP to reflect changes in fair value; downward adjustments, or “mark-to-market losses,” would reduce our net income or increase any net loss.

At June 30, 2015 and December 31, 2014, we had interest rate swap contracts with an aggregate notional balance of $12,675,000 and $13,020,000, respectively. At June 30, 2015 all of our Futures Contracts had expired. At December 31, 2014, we had purchased or sold Futures Contracts with an aggregate notional balance of $2,000,000. Futures Contracts are traded on the CME. Counterparty risk of interest rate swap contracts, interest rate swaptions and Futures Contracts are limited to some degree because of daily mark-to-market and collateral requirements. In addition, substantial credit support for the Futures Contracts is provided by the CME. These derivative transactions are designed to lock in a portion of funding costs for financing activities associated with our assets in such a way as to help assure the realization of attractive net interest margins and to vary inversely in value with our Agency Securities. Such contracts are based on assumptions about prepayments which, if not realized, will cause results to differ from expectations. We also entered into $2,000,000 notional of basis swap contracts during the quarter ended June 30, 2015 and we purchased $1,600,000 par amount of TBA Agency Securities during the quarter ended June 30, 2015

Although we attempt to structure our derivatives to offset the changes in asset prices, they are not perfectly correlated and depend on the corresponding durations and sections of the yield curve that moves to offset each other. We recognized a net gains (loss) of $134,529 and $(73,711), respectively, for the quarter and six months ended June 30, 2015, related to our derivatives. We recognized net losses of $(150,771) and $(338,865), respectively, for the quarter and six months ended June 30, 2014, related to our derivatives. For the quarter and six months ended June 30, 2015, the net unrealized change in the fair value of our Agency Securities decreased by $(221,802) and $(132,071), respectively. For the quarter and six months ended June 30, 2014, the net unrealized change in the fair value of our Agency Securities increased by $221,767 and $337,931, respectively.

As required by the Dodd-Frank Act, the Commodity Futures Trading Commission has adopted rules requiring certain interest rate swap contracts to be cleared through a derivatives clearing organization. We are required to clear certain new interest rate swap contracts. Cleared interest rate swaps may have higher margin requirements than un-cleared interest rate swaps we previously had. We have established an account with a futures commission merchant for this purpose. To date, we have not entered into any cleared interest rate swap contracts.

We are required to account for our TBA Agency Securities as derivatives when it is reasonably possible that we will not take or make timely physical delivery of the related securities. However, we use TBA Agency Securitiess primarily to effectively establish and finance portfolio positions. See Agency Securities and Net TBA Agency Securities above.

Liquidity and Capital Resources

During the six months ended June 30, 2015, we issued 27 shares of common stock under our common stock DRIP and raised additional net proceeds of approximately $85. During the six months ended June 30, 2015, we repurchased 3,075 shares of our outstanding common stock under our Repurchase Program for an aggregate cost of $9,497. At times, we purchased assets for forward settlement up to 90 days in the future to minimize purchase prices. Our management fee expense also increased in absolute terms under the provisions of the Management Agreement. However, pursuant to the Management Agreement, the average effective management fee rate declined because the management fee rate stepped down as the amounts of equity raised exceeded $1.0 billion.

At June 30, 2015, we financed our securities portfolio with approximately $13,422,795 of net borrowings under repurchase agreements. Our leverage ratio at June 30, 2015, was 8.46 to 1. At June 30, 2015, our liquidity totaled $884,999, consisting of $363,212 of cash plus $521,787 of unpledged Agency Securities (including securities received as collateral). Our primary sources of funds are borrowings under repurchase arrangements, monthly principal and interest payments on our Agency Securities and cash generated from our operating results. Other sources of funds may include proceeds from equity and debt offerings and asset sales. We generally maintain liquidity to pay down borrowings under repurchase arrangements to reduce borrowing costs and otherwise efficiently manage our long-term investment capital. Because the level of our borrowings can be adjusted on a daily basis, the level of cash carried on our balance sheet is significantly less important than our potential liquidity available under our borrowing arrangements. We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on repurchase borrowings, reacquisition of securities to be returned to borrowers and the payment of cash dividends as required for continued qualification as a REIT.

In addition to the repurchase agreement financing discussed above, from time to time 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 back in the future. We then sell such U.S. Treasury Securities to third parties and recognize a liability to return the securities to the original 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 MRA, settlement through the same brokerage or clearing account and maturing on the same day. The practical effect of these transactions is to replace a portion of our repurchase agreement financing of our Agency Securities in our securities portfolio with short positions in U.S. Treasury Securities. We believe that this helps to reduce interest rate risk, and therefore counterparty credit and liquidity risk. Both parties to the repurchase and reverse repurchase transactions have the right to make daily margin calls based on changes in the value of the collateral obtained and/or pledged. We did not have any reverse repurchase agreements outstanding at June 30, 2015 and December 31, 2014.

Our primary uses of cash are to purchase Agency Securities, pay interest and principal on our borrowings, fund our operations and pay dividends. During the six months ended June 30, 2015, we purchased $2,937,195 of Agency Securities using proceeds from repurchase agreements and principal repayments. During the six months ended June 30, 2015, we received cash of $993,520 from prepayments and scheduled principal payments on our Agency Securities. We received net proceeds of $85 from common equity issuances under our common stock DRIP and we repurchased 3,075 shares of our outstanding common stock under our Repurchase Program for an aggregate cost of

$9,497. We had a net cash increase from our repurchase agreements of $459,126 for the six months ended June 30, 2015 and made cash interest payments of approximately $140,950 on our liabilities. Part of funding our operations includes providing margin cash to offset liability balances on our derivatives. We recovered $8,653 of cash collateral posted to counterparties and decreased our liability by $48,078 for cash collateral posted by counterparties at June 30, 2015.

We have continued to pursue additional lending counterparties in order to help increase our financial flexibility and ability to withstand periods of contracting liquidity in the credit markets.

Repurchase Agreements

Declines in the value of our Agency Securities portfolio can trigger margin calls by our lenders under our repurchase agreements. An event of default or termination event under the standard MRA would give our counterparty the option to terminate all repurchase transactions existing with us and require any amount due to be payable immediately.

Changing capital or other financial market regulatory requirements may cause our lenders to exit the repurchase market, increase financing rates, tighten lending standards or increase the amount of required equity capital or haircut we post, any of which could make it more difficult or costly for us to obtain financing.

Financial sector volatility can also lead to increased demand and prices for high quality debt securities, including Agency Securities. While increased prices may increase the value of our Agency Securities, higher values may also reduce the return on reinvestment of capital, thereby lowering our future profitability.

The following graph represents the month-end outstanding balances of our repurchase agreements (before the effect of netting reverse repurchase agreements), which finance most of our Agency Securities. Our repurchase agreements balance will fluctuate based on our change in capital, leverage targets and the market prices of our assets. The balance of repurchase agreements outstanding will fluctuate within any given month based on changes in the market value of the particular Agency Security pledged as collateral (including the effects of principal paydowns) and the level and timing of investment and reinvestment activity.

See Note 7 to the condensed consolidated financial statements for more information.

Effects of Margin Requirements, Leverage and Credit Spreads

Our Agency Securities have values that fluctuate according to market conditions and, as discussed above, the market value of our Agency Securities will decrease as prevailing interest rates or credit spreads increase. When the value of the securities pledged to secure a repurchase agreement decreases to the point where the positive difference between the collateral value and the loan amount is less than the haircut, our lenders may issue a margin call, which means that the lender will require us to pay the margin call in cash or pledge additional collateral to meet that margin call. Under our repurchase facilities, our lenders have full discretion to determine the value of the Agency Securities we pledge to them. Most of our lenders will value securities based on recent trades in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled principal repayments are announced monthly.

We experience margin calls in the ordinary course of our business and under certain conditions, such as during a period of declining market value for Agency Securities and we may experience margin calls as frequently as daily. In seeking to effectively manage the margin requirements established by our lenders, we maintain a position of cash and unpledged securities. We refer to this position as our liquidity. The level of liquidity we have available to meet margin calls is directly affected by our leverage levels, our haircuts and the price changes on our securities. If interest rates increase as a result of a yield curve shift or for another reason or if credit spreads widen, the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline and we may experience margin calls. We will use our liquidity to meet such margin calls. There can be no assurance that we will maintain sufficient levels of liquidity to meet any margin calls. If our haircuts increase, our liquidity will proportionately decrease. If we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness. In addition, certain of our MRAs contain a restriction that prohibits our leverage from exceeding twelve times our stockholders' equity as well as termination events in the case of significant reductions in equity capital.

We intend to maintain a level of liquidity in relation to our assets that enables us to meet reasonably anticipated margin calls but that also allows us to be substantially invested in Agency Securities. We may misjudge the appropriate amount of our liquidity by maintaining excessive liquidity, which would lower our investment returns, or by maintaining insufficient liquidity, which would force us to involuntarily liquidate assets into unfavorable market conditions and harm our results of operations and financial condition.

We generally seek to borrow (on a recourse basis) between six and ten times the amount of our total stockholders' equity. At June 30, 2015 and December 31, 2014, our total net borrowings were approximately $13,422,795 and $13,881,921 (excluding accrued interest), respectively. At June 30, 2015 and December 31, 2014, we had a leverage ratio of approximately 8.46:1 and 7.94:1, respectively. At June 30, 2015, we had a leverage ratio (including TBA Agency Securities) of 9.05:1, including TBA Agency Securities purchased forward and excluding debt related to forward settling sales.

Forward-Looking Statements Regarding Liquidity

Based on our current portfolio, leverage rate and available borrowing arrangements, we believe that our cash flow from operations and our ability to make timely portfolio adjustments, will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements such as to fund our investment activities, meet our financing obligations, pay fees under the Management Agreement and fund our distributions to stockholders and pay general corporate expenses.

We may increase our capital resources by obtaining long-term credit facilities or making public or private offerings of equity or debt securities, including classes of preferred stock, common stock and senior or subordinated notes to meet our long-term (greater than one year) liquidity. Such financing will depend on market conditions for capital raises and for the investment of any proceeds and there can be no assurances that we will successfully obtain any such financing.

Stockholders' Equity

See Note 11 to the condensed consolidated financial statements.

Off-Balance Sheet Arrangements

At June 30, 2015 and December 31, 2014, we had not maintained any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Furthermore, at June 30, 2015 and December 31, 2014, we had not guaranteed any obligations of any unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

Critical Accounting Policies

See Note 3 to the condensed consolidated financial statements for our significant accounting policies.

Valuation of Agency Securities and Derivatives

We carry our Agency Securities and derivatives at fair value. Our Agency Securities are classified as available for sale, and therefore unrealized changes in fair value are reflected directly in total stockholders' equity as accumulated other comprehensive income or loss. We do not use hedge accounting for our derivatives for financial reporting purposes and therefore changes in fair value are reflected in net income as other gain or loss. To the extent that fair value changes on derivatives offset fair value changes in our Agency Securities, the fluctuation in our stockholders' equity will be lower. For example, rising interest rates may tend to result in an overall increase in our reported net income even while our total stockholders' equity declines.

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.

The fair values of our derivatives are valued using information provided by 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. Management compares pricing information received to dealer quotes to ensure that the current market conditions are properly reflected.

Realized Gains and Losses on Agency Securities

Security purchase and sale transactions, including purchases and sales for forward settlement, 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. We realize gains and losses on our Agency Securities upon their sale. At that time, previously unrealized amounts included in accumulated other comprehensive income are reclassified and reported in net income as other gain or loss. To the extent that we sell Agency Securities in later periods after changes in the fair value of those Agency Securities have occurred, we may report significant net income or net loss without a corresponding change in our total stockholders' equity.

Declines in the fair values of our Agency Securities that represent other than temporary impairments are also treated as realized losses and reported in net income as other loss. 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. Gains or losses on subsequent sales are determined by reference to such new cost basis.

Inflation

Virtually all of our assets and liabilities are interest rate-sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and any distributions we may make will be determined by our Board based in part on our REIT taxable income as calculated according to the requirements of the Code; in each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

Subsequent Events

See Note 16 to the condensed consolidated financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains various “forward-looking statements.” Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “would,” “could,” “should,” “seeks,” “approximately,” “intends,” “p “estimates” or “anticipates” or the negative of these words and phrases or similar words or phrases. All forward-looking statements may be impacted by a number of risks and uncertainties, including statements regarding the following subjects:

- our business and investment strategy;
- our anticipated results of operations;
- statements about future dividends;
- our ability to obtain financing arrangements;
- our understanding of our competition and ability to compete effectively;

- market, industry and economic trends; and
- interest rates.

The forward-looking statements in this report are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the impact of the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government and the Fed system;
- the possible material adverse effect on our business if the U.S. Congress passed legislation reforming or winding down Fannie Mae or Freddie Mac;
- mortgage loan modification programs and future legislative action;
- the impact of the delay or failure of the U.S. Government in reaching an agreement on the national debt ceiling;
- availability, terms and deployment of capital;
- changes in economic conditions generally;
- changes in interest rates, interest rate spreads and the yield curve or prepayment rates;
- general volatility of the financial markets, including markets for mortgage securities;
- inflation or deflation;
- availability of suitable investment opportunities;
- the degree and nature of our competition, including competition for Agency Securities from the U.S. Treasury;
- changes in our business and investment strategy;
- our dependence on ACM and ability to find a suitable replacement if ACM were to terminate its management relationship with us;
- the existence of conflicts of interest in our relationship with ACM, certain of our directors and our officers, which could result in decisions that are not in the best interest of our stockholders;
- changes in personnel at ACM or the availability of qualified personnel at ACM;
- limitations imposed on our business by our status as a REIT under the Code;
- changes in GAAP, including interpretations thereof; and
- changes in applicable laws and regulations.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements, which apply only as of the date of this report. We do not intend and disclaim any duty or obligation to update or revise any industry information or forward-looking statements set forth in this report to reflect new information, future events or otherwise, except as required under the U.S. Federal securities laws.

GLOSSARY OF TERMS

“Agency Securities” means securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae; interests in or obligations backed by pools of adjustable rate, hybrid adjustable rate and fixed rate mortgage loans

"ARMs" means Adjustable Rate Mortgage backed securities

"Basis swap contracts" means derivative contracts that 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.

“Board” means ARMOUR’s Board of Directors

“common stock DRIP” means the Company's dividend reinvestment and stock purchase plan

"CME" means the Chicago Mercantile Exchange

“Code” means the Internal Revenue Code, as amended

“CPR” means constant prepayment rate

“Fannie Mae” means the Federal National Mortgage Association

“Fed” means the U.S. Federal Reserve

“Freddie Mac” means the Federal Home Loan Mortgage Corporation

“Futures Contracts” means Eurodollar Futures Contracts

“GAAP” means accounting principles generally accepted in the United States of America

“Ginnie Mae” means the Government National Mortgage Administration

“GSE” means U.S. Government Sponsored Entity, such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Administration (Ginnie Mae).

"Haircut" means 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.

“JAVELIN” means JAVELIN Mortgage Investment Corp.

“LIBOR” means the London Interbank Offered Rate

“Management Agreement” means the management agreement between ARR and ACM whereby ACM performs certain services for the Company in exchange for a specified fee. The current version of the Management Agreement was filed as an exhibit to our 2014 Form 10-K.

“MBS” means mortgage backed securities, a security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and "passes through" the principal and interest to the security holders on a pro rata basis.

“MRA” means master repurchase agreement. A document that outlines standard terms between the Company and counterparties for repurchase agreement transactions.

“Non-Agency Securities” means securities backed by residential mortgages in which we may invest, for which the payment of principal and interest is not guaranteed by a GSE or government agency.

“REIT” means Real Estate Investment Trust. A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage mortgage loans and/or income property.

"Repurchase Program" means the Company's common stock repurchase program

“RMBS” means residential mortgage backed securities

“SEC” means the Securities and Exchange Commission

“SBBC” means Staton Bell Blank Check LLC

“Sub-Management Agreement” means the Sub-Management Agreement between ARMOUR, ACM and SBBC. ACM is responsible for the payment of a monthly sub-management fee to SBBC.

"TBA Agency Securities" means 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.

“1940 Act” means the Investment Company Act of 1940, as amended

“U.S.” means United States

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We seek to manage our risks related to the credit-quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate, Cap and Mismatch Risk

A portion of our securities portfolio consists of hybrid adjustable rate and adjustable rate Agency Securities. Hybrid mortgages are ARMs that have a fixed-interest rate for an initial period of time (typically three years or greater) and then convert to an adjustable rate for the remaining loan term. Our debt obligations are generally repurchase agreements of limited duration that are periodically refinanced at current market rates.

ARMs are typically subject to periodic and lifetime interest rate caps that limit the amount the interest rate can change during any given period. ARMs are also typically subject to a minimum interest rate payable. Our borrowings are not subject to similar restrictions. Hence, in a period of increasing interest rates, interest rates on our borrowings could increase without limitation, while the interest rates on our mortgage related assets could be limited. This exposure would be magnified to the extent we acquire fixed rate Agency Securities or ARMs that are not fully indexed. Furthermore, some ARMs may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our liquidity, net income and our ability to make distributions to stockholders.

We fund the purchase of a substantial portion of our ARMs with borrowings that have interest rates based on indices and repricing terms similar to, but of shorter maturities than, the interest rate indices and repricing terms of our mortgage assets. Thus, we anticipate that in most cases the interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. During periods of changing interest rates, such interest rate mismatches could negatively impact our net interest income, dividend yield and the market price of our stock. Most of our adjustable rate assets are based on the one-year constant maturity treasury rate and the one-year LIBOR rate and our debt obligations are generally based on LIBOR. These indices generally move in the same direction, but there can be no assurance that this will continue to occur.

Our ARMs and borrowings reset at various different dates for the specific asset or obligation. In general, the repricing of our debt obligations occurs more quickly than on our assets. Therefore, on average, our cost of funds may rise or fall more quickly than our earnings rate on our assets.

Furthermore, our net income may vary somewhat as the spread between one-month interest rates, the typical term for our repurchase agreements and six-month and twelve-month interest rates, the typical reset term of ARMs, varies.

Prepayment Risk

As we receive repayments of principal on our Agency Securities from prepayments and scheduled payments, premiums paid on such securities are amortized against interest income and discounts are accreted to interest income as realized. Premiums arise when we acquire Agency Securities at prices in excess of the principal balance of the mortgage loans underlying such Agency Securities. Conversely, discounts arise when we acquire Agency Securities at

prices below the principal balance of the mortgage loans underlying such Agency Securities. Volatility in actual prepayment speeds will create volatility in the amount of premium amortization we recognize. Higher speeds will reduce our interest income and lower speeds will increase our interest income.
At June 30, 2015, substantially all of our Agency Securities were purchased at a premium.

Interest Rate Risk and Effect on Market Value Risk

Another component of interest rate risk is the effect changes in interest rates will have on the market value of our Agency Securities. We face the risk that the market value of our Agency Securities will increase or decrease at different rates than that of our liabilities, including our derivative instruments and obligations to return securities received as collateral.

We primarily assess our interest rate risk by estimating the effective duration of our assets and the effective duration of our liabilities and by estimating the time difference between the interest rate adjustment of our assets and the interest rate adjustment of our liabilities. Effective duration essentially measures the market price volatility of financial instruments as interest rates change.

We generally estimate effective duration using various financial models and empirical data. Different models and methodologies can produce different effective duration estimates for the same securities.

The sensitivity analysis tables presented below reflect the estimated impact of an instantaneous parallel shift in the yield curve, up and down 50 and 100 basis points, on the market value of our interest rate-sensitive investments and net interest income, at June 30, 2015 and December 31, 2014. It assumes that the spread between the interest rates on Agency Securities and long term U.S. Treasury Securities remains constant. Actual interest rate movements over time will likely be different, and such differences may be material. When evaluating the impact of changes in interest rates, prepayment assumptions and principal reinvestment rates are adjusted based on ACM's expectations. The analysis presented utilized assumptions, models and estimates of ACM based on ACM's judgment and experience.

June 30, 2015

Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value Including Derivatives
1.00%	(5.85)%	(0.60)%
0.50%	(2.76)%	(0.11)%
(0.50)%	8.47%	0.48%
(1.00)%	6.46%	0.26%

December 31, 2014

Change in Interest Rates	Percentage Change in Projected Net Interest Income	Percentage Change in Projected Portfolio Value Including Derivatives
1.00%	31.23%	(0.07)%
0.50%	15.70%	0.06%
(0.50)%	7.20%	(0.30)%
(1.00)%	1.83%	(1.12)%

While the tables above reflect the estimated immediate impact of interest rate increases and decreases on a static securities portfolio, we rebalance our securities portfolio from time to time either to seek to take advantage of or reduce the impact of changes in interest rates. It is important to note that the impact of changing interest rates on market value and net interest income can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the market value of our assets could increase significantly when interest rates change beyond amounts shown in the tables above. In addition, other factors impact the market value of and net interest income from our interest rate-sensitive investments and derivative instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, interest income would likely differ from that shown above and such difference might be material and adverse to our stockholders.

The above tables quantify the potential changes in net interest income and securities portfolio value, which includes the value of our derivatives, should interest rates immediately change. Given the low level of interest rates at June 30, 2015 and December 31, 2014, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to the presence of this floor, it is anticipated that any hypothetical interest rate decrease would have a limited positive impact on our funding costs beyond a certain level; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate decrease or otherwise) could result in an acceleration of our premium amortization and the reinvestment of such prepaid principal in lower yielding assets. As a result, the presence of this floor limits the positive impact of any interest rate decrease on our funding costs. Therefore, at some point, hypothetical interest rate decreases could cause the fair value of our financial instruments and our net interest income to decline.

Market Value Risk

All of our Agency Securities are classified as available for sale assets. As such, they are reflected at fair value with the periodic adjustment to fair value (that is not considered to be an other than temporary impairment) reported as part of “Accumulated other comprehensive income (loss)” that is included in the stockholders’ equity section of our condensed consolidated balance sheets. The market value of our assets can fluctuate due to changes in interest rates and other factors. Weakness in the mortgage market may adversely affect the performance and market value of our investments. This could negatively impact our 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 and interest payments on our Agency Securities are guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae.

Credit Risk

We have limited our exposure to credit losses on our securities portfolio of Agency Securities. 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 Agency Securities guaranteed by Ginnie Mae are backed by the full faith and credit of the U.S. Government.

Fannie Mae and Freddie Mac remain in conservatorship of the U.S. Government. There can be no assurances as to how or when the U.S. Government will end these conservatorships or how the future profitability of Fannie Mae and Freddie Mac and any future credit rating actions may impact the credit risk associated with Agency Securities and, therefore, the value of the Agency Securities in our securities portfolio.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity Agency Securities with short-term debt. The interest rates on our borrowings generally adjust more frequently than the interest rates on our ARMs. Accordingly, in a period of rising interest rates, our borrowing costs will usually increase faster than our interest earnings from Agency Securities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Co-Chief Executive Officers (“Co-CEOs”) and Chief Financial Officer (“CFO”) participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of our fiscal quarter that ended on June 30, 2015. Based on their participation in that evaluation, our Co-CEOs and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2015 to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to ensure that information required to be disclosed in our reports filed or furnished under the Exchange Act, is accumulated and communicated to our management, including our Co-CEOs and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

Our Co-CEOs and CFO also participated in an evaluation by our management of any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2015. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any legal proceedings, as described in Item 103 of Regulation S-K.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015 except as set forth below.

The membership of our insurance subsidiary, SABRE Business Insurance LLC ("SABRE"), in the Federal Home Loan Bank ("FHLB") of Des Moines may be terminated, and any advances outstanding to SABRE from the FHLB of Des Moines would be immediately unwound, possibly at a loss.

In September 2014, the Federal Housing Financing Authority issued RIN 2590-AA39, Notice of Proposed Rulemaking and Request for Comments Involving Proposed Changes to Regulations Concerning Federal Home Loan Bank Membership Criteria (the "Proposed Rule"). The Proposed Rule, among other things, addresses membership terminations for captive insurance companies that became members of the FHLB systems after publication of the Proposed Rule, which would include SABRE. Under the Proposed Rule, SABRE would be ineligible to continue as a member of the FHLB of Des Moines as of the effective date of the final rule, if adopted as proposed, and as a result would be required to immediately terminate such membership. If SABRE's membership in the FHLB were terminated, the FHLB would have up to five years to redeem the FHLB stock that SABRE purchased and owns as the result of its membership and level of FHLB activity. In addition, if such membership were terminated, SABRE would be required to promptly unwind any outstanding debt advances from the FHLB. This could cause us to experience losses and may have a material adverse effect on our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table presents information regarding our common stock repurchases made during the three months ended June 30, 2015 (in thousands, except per share price).

	Total Number of Shares Purchased (1)	Per Share Price (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs (3)
May 1, 2015 through May 29, 2015	1,363	$3.07	1,363	42,958
June 1, 2015 through June 9, 2015	837	$2.99	837	42,121

(1) All shares were repurchased pursuant to a stock repurchase program ("Repurchase Program") (see Note 3 to the condensed consolidated financial statements).
(2) Weighted average price.
(3) In December 2012, our Board authorized a Repurchase Program of up to $100,000 of our common stock outstanding. On March 5, 2014, our Board increased the authorization to 50,000 shares of our common stock outstanding. On July 28, 2015, our Board of Directors also increased the number of shares of common stock authorized for repurchase under our Repurchase Program to an aggregate of 9,000 shares on a post-reverse stock split basis, effective August 3, 2015.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

As previously reported in the proxy statement for the Company's 2015 Annual Meeting of Stockholders (the "2015 Meeting"), the Board recommended that stockholders vote, on an advisory (non-binding) basis, in favor of annual future "say-on-pay" votes. Say-on-pay votes are periodic advisory (non-binding) stockholder votes to approve the compensation paid to the Company's named executive officers. At the 2015 Meeting, a majority of the shares cast on the matter voted in favor of an annual frequency for say-on-pay votes, and these results were timely reported in the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 1, 2015.

The Board has considered the appropriate frequency of future say-on-pay votes. Among other factors, the Board considered the voting results at the 2015 Meeting with respect to the non-binding advisory vote regarding the frequency of future say-on-pay votes. The Board has determined that future say-on-pay votes will be submitted to stockholders of the Company on an annual basis until the next required non-binding advisory vote on the frequency of say-on-pay votes. The Company is required to hold advisory votes on the frequency of say-on-pay votes every six calendar years.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

July 29, 2015	ARMOUR RESIDENTIAL REIT, INC.
	/s/ James R. Mountain James R. Mountain Chief Financial Officer, Duly Authorized Officer and Principal Financial and Accounting Officer

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) (1)
31.2	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) (1)
31.3	Certification of Chief Financial Officer Pursuant to SEC Rule 13a14(a)/15d-14(a) (1)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (2)
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (2)
32.3	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350 (2)
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

(1) Filed herewith
(2) Furnished herewith