ARLINGTON, Va., Oct. 28, 2013 /PRNewswire/ -- Arlington Asset Investment Corp. (NYSE: AI) (the "Company") today reported non-GAAP core operating income of $17.3 million for the quarter ended September 30, 2013, or $1.03 per share (diluted). A reconciliation of non-GAAP core operating income to GAAP net income appears at the end of this press release. On a GAAP basis, the Company reported net income of $3.1 million for the quarter ended September 30, 2013, or $0.18 per share (diluted), compared to net income of $3.2 million for the quarter ended June 30, 2013, or $0.19 per share (diluted), and net income of $3.1 million, or $0.31 per share (diluted), for the quarter ended September 30, 2012.

"While interest rates and market volatility have experienced sharp swings over the last two quarters, our complementary portfolios of private-label and agency mortgage-backed securities have exhibited durable spread income as well as relatively stable book value. Improvement in the credit performance of our private-label mortgage-backed securities portfolio accelerated during the quarter consistent with ongoing improvement in housing market conditions," said J. Rock Tonkel, Jr.
, the Company's President and Chief Operating Officer. "While the political environment and market conditions remain uncertain,
Arlington
benefits from the protection of long duration interest rate hedges approximately equal to the market value of our agency mortgage-backed securities portfolio and the variable rate nature of our private-label mortgage-backed securities portfolio."

Third Quarter Highlights

Net interest income for the third quarter was $20.7 million, including non-cash accretion on private-label mortgage-backed securities ("MBS") of
$1.9 million
required under GAAP. Net realized cash gains were
$2.2 million
during the quarter. The three-month constant prepayment rate ("CPR") for the Company's agency-backed MBS as of
September 30, 2013
was 9.85%. The Company's debt to equity ratio at
September 30, 2013
was approximately 3 to 1.

As of September 30, 2013, the Company's agency-backed MBS portfolio consisted of $1.6 billion in
face value with a cost basis of
$1.7 billion
and a fair value of
$1.6 billion
. As of
September 30, 2013
, all of the Company's agency-backed MBS were fixed-rate 30-year MBS specifically selected for their prepayment protections with a weighted average coupon of 4.08%, a weighted average cost of 107.5, a weighted average market price of 105.3, and had a weighted average cost of repo funding of 37 basis points. On a mark-to-market basis, the Company had an average of
$1.0 billion

in Eurodollar futures associated with the agency-backed MBS portfolio starting in December 2014 and ending in September 2018 with a rate of 2.11% and an equivalent funding cost over the next five years of approximately 1.54%. The Company also had $640 million in notional 10-year interest rate swap futures with a marked rate of approximately 2.85% resulting in a combined hedged notional amount of approximately $1.6 billion.

As of September 30, 2013, the Company's private-label MBS portfolio consisted of $511.8 million in face value with an amortized cost basis of $287.0 million and a fair value of $344.1 million. The following table presents certain statistics of our private-label MBS portfolio as of or for the quarter ended September 30, 2013 (dollars in millions):

	Total Private-Label MBS
Fair market value	$344.1
Fair market value (as a % of face value)	

67.2%

Quarterly cash yield (as a % of average fair market value, excluding GAAP non-cash accretion)

6.2%

Quarterly unlevered yield (GAAP, as a % of amortized cost)

10.3%

Quarterly unlevered cash yield (as a % of average amortized cost excluding GAAP non-cash accretion)

7.5%

Average cost (as a % of face value)

53.4%

Weighted average coupon

3.5%

Face value

$511.8

Amortized cost

$287.0

Purchase discount

$224.8

60+ days delinquent

16.3%

Credit enhancement

0.3%

Severity (3-month)

40.7%

Constant prepayment rate (3-month)

18.3%

Dividend

The Company's Board of Directors approved a $0.875 dividend for the third quarter of 2013. The dividend will be paid on October 31, 2013 to shareholders of record on September 30, 2013. This represented a 14% annualized dividend yield based on the Class A common stock closing price on the New York Stock Exchange (NYSE) of $25.21 on October 28, 2013.

(1) Non-GAAP Financial Measures

In addition to the financial results reported in accordance with generally accepted accounting principles as consistently applied in the United States (GAAP), the Company has disclosed non-GAAP core operating income for the quarter ended September 30, 2013 in this press release. This non-GAAP measurement is used by management to analyze and assess the Company's operating results and dividends. Management believes that this non-GAAP measurement assists investors in understanding the impact of these non-core items and non-cash expenses on the performance of the Company and provides additional clarity around the Company's forward earnings capacity and trend.

A limitation of utilizing this non-GAAP measure is that the GAAP accounting effects of these events do in fact reflect the underlying financial results of the Company's business and these effects should not be ignored in evaluating and analyzing the Company's financial results. Therefore, management believes net income on a GAAP basis and core operating income on a non-GAAP basis should be considered together.

In determining core operating income, the Company has excluded certain legacy litigation expenses and the following non-cash expenses: (i) compensation costs associated with stock-based awards, (ii) accretion of MBS purchase discounts adjusted for principal repayments in excess of proportionate invested capital, (iii) unrealized mark-to-market adjustments on the trading MBS and hedge instruments, (iv) other-than-temporary impairment charges recognized, and (v) non-cash income tax provisions.

The following table presents a reconciliation of the GAAP financial results to non-GAAP measurements for the quarter ended September 30, 2013 (dollars in thousands):

GAAP net income

$3,093

Adjustments

Legacy litigation expenses[(a)]

(24)

Stock compensation

729

Non-cash interest income[b] related to purchase discount accretion

(1,915)

Net unrealized mark-to-market loss on trading MBS and

hedge instruments

12,898

Other-than-temporary impairment charges

380

Non-cash income tax provisions

2,170

Non-GAAP core operating income

$17,331

Non-GAAP core operating income per share (diluted)

$1.03

(a) Legacy litigation expenses relate to legal matters pertaining to events related to business activities th

(b) Non-cash interest income related to purchase discount accretion represents interest income from the

(2) Based on the annualized third quarter 2013 dividend and the Class A common stock closing price on the NYSE of $25.21 on October 28, 2013.

(3) The Company's dividends are eligible for the 23.8% federal income tax rate on qualified dividend income, whereas dividends paid by a REIT are generally subject to the higher 43.4% tax rate on ordinary income. To provide the same return after payment of federal income tax as the Company, a REIT would be required to pay dividends providing a 19% yield.

About the Company

Arlington Asset Investment Corp. (NYSE: AI) is a principal investment firm that invests in mortgage-related and other assets. The Company is headquartered in the

Washington, D.C.
metropolitan area. For more information, please visit
www.arlingtonasset.com
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Statements concerning future performance, market conditions, cash returns and earnings, book value, and any other guidance on present or future periods, constitute forward-looking statements that are subject to a number of factors, risks and uncertainties that might cause actual results to differ materially from stated expectations or current circumstances. These factors include, but are not limited to, changes in interest rates, increased costs of borrowing, decreased interest spreads, changes in political and monetary policies, changes in default rates, changes in the constant prepayment rate for the Company's MBS, changes in our operating efficiency, changes in the Company's returns, changes in the use of the Company's tax benefits, maintenance of the Company's low leverage posture, changes in the agency-backed MBS asset yield, changes in the Company's monetization of net operating loss carry-forwards, changes in the Company's ability to generate consistent cash earnings and dividends, preservation and utilization of our net operating loss and net capital loss carry-forwards, impacts of changes to Fannie Mae and Freddie Mac, actions taken by the U.S. Federal Reserve and the U.S. Treasury, availability of opportunities that meet or exceed our risk adjusted return expectations, ability and willingness to make future dividends, ability to generate sufficient cash through retained earnings to satisfy capital needs, changes in and the effects on the Company of mortgage prepayment speeds, ability to realize book value growth through reflation of private-label MBS, and general economic, political, regulatory and market conditions. These and other material risks are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, and any other documents filed by the Company with the SEC from time to time, which are available from the Company and from the SEC, and you should read and understand these risks when evaluating any forward-looking statement.

Financial data follows

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

Three Months Ended

Nine Months Ended

(Unaudited)

September 30,

September 30,

2013

2012

2013

2012

INTEREST INCOME

$ 22,995

$ 15,519

$ 64,468

$ 44,913

INTEREST EXPENSE

Interest on short-term debt

1,758

1,125

5,061

2,811

Interest on long-term debt

556

123

1,077

371

Total interest expense

2,314

1,248

6,138

3,182

Net interest income

20,681

14,271

58,330

41,731

OTHER LOSS, NET

Investment loss, net

(11,100)

(5,663)

(35,882)

(11,532)

Other loss

(3)

(3)

(11)

(11)

Total other loss, net

(11,103)

(5,666)

(35,893)

(11,543)

Operating income before other expenses

9,578

8,605

22,437

30,188

OTHER EXPENSES

Compensation and benefits

3,042

3,519

8,034

7,580

Professional services

297

862

1,973

3,337

Business development

45

39

107

111

Occupancy and equipment

96

110

328

355

Communications

49

49

142

154

Other operating expenses

501

453

1,142

1,351

Total other expenses

4,030

5,032

11,726

12,888

Income before income taxes

5,548

3,573

10,711

17,300

Income tax provision

2,455

450

1,247

1,271

Net income

$ 3,093

$ 3,123

$ 9,464

$ 16,029

Basic earnings per share

$ 0.19

$ 0.31

$ 0.60

$ 1.74

Diluted earnings per share

$ 0.18

$ 0.31

$ 0.59

$ 1.74

Weighted average shares outstanding - basic (in thousands)

16,669

9,977

15,761

9,192

Weighted average shares outstanding - diluted (in thousands)

16,845

10,041

15,934

9,219

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

ASSETS

September 30, 2013

December 31, 2012

Cash and cash equivalents

$ 16,347

$ 35,837

Receivables

Interest

5,271

4,869

Sold securities receivable

-

26,773

Other

461

644

Mortgage-backed securities, at fair value

Available-for-sale

344,165

199,156

Trading

1,633,263

1,556,440

Other investments

2,180

2,347

Derivative assets, at fair value

1,851

-

Deferred tax assets, net

151,255

162,281

Deposits

63,869

85,652

Prepaid expenses and other assets

1,437

159

Total assets

$ 2,220,099

$ 2,074,158

LIABILITIES AND EQUITY

Liabilities:

Repurchase agreements

$ 1,574,244

$ 1,497,191

Interest payable

791

582

Accrued compensation and benefits

4,025

1,542

Dividend payable

14,633

-

Derivative liabilities, at fair value

43,034

76,850

Accounts payable, accrued expenses and other liabilities

13,719

17,837

Long-term debt

40,000

15,000

Total liabilities

1,690,446

1,609,002

Equity:

Common stock

166

132

Additional paid-in capital

1,726,518

1,638,061

Accumulated other comprehensive income, net of taxes

49,378

38,985

Accumulated deficit

(1,246,409)

(1,212,022)

Total equity

529,653

465,156

Total liabilities and equity

$ 2,220,099

$ 2,074,158

Book Value per Share

$ 31.77

$ 35.24

Shares Outstanding (in thousands)

16,671

13,198

SOURCE Arlington Asset Investment Corp.

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