Armour Residential REIT, Inc.
Form 10-Q
November 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For Fiscal Quarter Ended September 30, 2010

OR

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

For the transition period from __________ to

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**001-33736**	**26-1908763**
	(Commission File Number)	(I.R.S. Employer Identification No.)

(State or other jurisdiction of
incorporation or organization)

3001 Ocean Drive, Suite 201, Vero Beach, FL 32963

(Address of principal executive offices)(zip code)

(772) 617-4340

(Registrant s telephone number, including area code)

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

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

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

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ý NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ý Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

The number of outstanding shares of the Registrant s common stock as of November 9, 2010 was 12,014,054.

TABLE OF CONTENTS

ARMOUR Residential REIT, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

PART I. Financial Information

Item 1. Financial Statements

Assets		**(Unaudited)**		
		September 30, 2010		**December 31, 2009**
Cash	$	11,964,520	$	6,653,331
Restricted cash		6,862,088		299,280
Agency Securities, available for sale, at fair value (including pledged assets of $518,185,596 and $48,886,278)		540,070,197		118,648,724
Principal payments receivable		2,739,224		73,705
Accrued interest receivable		2,176,568		412,114
Interest rate contracts, at fair value		-		50,363
Prepaid and other assets		178,391		162,366
Refundable income taxes		393,725		393,725
Total Assets	$	564,384,713	$	126,693,608
Liabilities and Stockholders Equity				
Liabilities:				
Repurchase agreements	$	490,727,022	$	46,388,602
Payable for unsettled securities		11,130,519		58,559,479
Interest rate contracts, at fair value		5,394,674		-
Accounts payable and accrued expenses		320,398		76,493
Dividends payable		2,776,550		177,938
Total Liabilities		510,349,163		105,202,512
Stockholders Equity:				
Preferred stock, $0.001 par value, 25,000,000 shares		-		-

authorized, none outstanding at September 30, 2010 and December 31, 2009				
Common stock, $0.001 par value, 250,000,000 shares authorized, 7,414,054 and 2,304,054 shares issued and outstanding at September 30, 2010 and December 31, 2009		7,414		2,304
Additional paid-in capital		54,702,873		22,645,127
Accumulated deficit		(6,562,624)		(1,197,174)
Accumulated other comprehensive income		5,887,887		40,839
Total Stockholders Equity		54,035,550		21,491,096
Total Liabilities and Stockholders Equity	$	564,384,713	$	126,693,608

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months Ended September 30, 2010	Three months Ended September 30, 2009	Nine months Ended September 30, 2010	Nine months Ended September 30, 2009
Revenues:				
Interest income, net of amortization of premium	$ 3,891,240	$ 59,342	$ 6,415,001	$ 301,103
Interest expense	(386,602)	-	(680,330)	-
Net interest income	3,504,638	59,342	5,734,671	301,103
Change in fair value of interest rate contracts	(3,391,588)	-	(5,445,038)	-
Net interest income after change in fair value of interest rate contracts	113,050	59,342	289,633	301,103
Realized loss on interest rate contracts	(187,783)	-	(187,825)	-
Realized gain on sale of agency securities	-	-	208,094	-
Total net (losses) revenues	(74,733)	59,342	309,902	301,103
Expenses:				
Professional fees	84,497	-	311,509	-
Insurance	37,241	-	140,261	-
Management fee	225,000	-	367,996	-
Formation, operating and other costs	36,541	1,099,797	340,801	2,062,452
Total expenses	383,279	1,099,797	1,160,567	2,062,452
Net loss before taxes	(458,012)	(1,040,455)	(850,665)	(1,761,349)
Income tax (expense) benefit	(82)	147,490	(2,482)	394,190
Net loss	(458,094)	(892,965)	(853,147)	(1,367,159)
Less: Interest attributable to common stock subject to possible conversion (net of income taxes of $6,716 and $34,085)	-	(11,098)	-	(56,326)

Net loss attributable to common stock not subject to possible conversion	$	(458,094)	$	(904,063)	$	(853,147)	$	(1,423,485)
Maximum number of shares subject to possible conversion:								
Weighted average shares outstanding subject to possible conversion		-		7,499,999		-		7,499,999
Income per share amount (basic and diluted)	$	-	$	-	$	-	$	0.01
Weighted average shares outstanding not subject to conversion:								
Basic and diluted		7,414,054		23,750,001		4,306,875		23,750,001
Pro forma diluted		7,414,054		23,750,001		4,306,875		23,750,001
Net loss per common share								
Basic and diluted	$	(0.06)	$	(0.04)	$	(0.20)	$	(0.06)
Pro forma diluted	$	(0.06)	$	(0.04)	$	(0.20)	$	(0.06)
Dividends per share	$	0.36	$	-	$	1.16	$	-

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock		**Additional Paid-In Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Comprehensive Income**	**Total**
	Shares	**Amount**					
Balance, December 31, 2009	2,304,054	$ 2,304*	$ 22,645,127*	$ (1,197,174)	$ 40,839	-	$ 21,491,096
Dividends declared	-	-	-	(4,512,303)	-	-	(4,512,303)
Sale of 5,110,000 shares, net of underwriters discount and offering expenses	5,110,000	5,110	32,057,746	-	-	-	32,062,856
Net loss	-	-	-	(853,147)	-	$ (853,147)	(853,147)
Net change in unrealized gain on investment in available for sale securities	-	-	-	-	5,847,048	5,847,048	5,847,048
Comprehensive income	-	-	-	-	-	$ 4,993,901	-
Balance, September 30, 2010	7,414,054	$ 7,414	$ 54,702,873	$ (6,562,624)	$ 5,887,887		$ 54,035,550

* These amounts have been reclassified to properly reflect the par value of the shares issued.

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

		Nine months ended September 30, 2010		Nine months ended September 30, 2009
Cash Flows From Operating Activities:				
Net loss	$	(853,147)	$	(1,367,159)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Net amortization of premium on Agency Securities		2,426,552		-
Change in fair value of interest rate contracts		5,445,038		-
Gain on sale of Agency Securities		(208,094)		-
Changes in operating assets and liabilities:				
Increase in accrued interest receivable		(1,764,454)		-
(Increase) decrease in prepaid income taxes and other assets		(16,026)		713,476
Increase in accounts payable and accrued expenses		243,905		130,649
Net cash provided by (used in) operating activities		5,273,774		(523,034)
Cash Flows From Investing Activities:				
Purchases of Agency Securities		(502,388,124)		-
Principal repayments of Agency Securities		49,559,729		-
Proceeds from sales of Agency Securities		31,531,266		-
Decrease in payable for unsettled securities		(46,590,233)		-
Investment income in trust account, net of expenses and taxes		-		634,647
Net cash (used in) provided by investing activities		(467,887,362)		634,647
Cash Flows From Financing Activities:				
Increase in restricted cash		(6,562,808)		-
Proceeds from repurchase agreements		2,236,866,975		-
Principal repayments on repurchase agreements		(1,792,528,555)		-
Sale of common stock, net of expenses		32,062,856		-
Dividends paid		(1,913,691)		-
Net cash provided by financing activities		467,924,777		-

Increase in Cash		5,311,189		111,613
Cash Beginning		6,653,331		2,086
Cash End	$	11,964,520	$	113,699
Supplemental Disclosure:				
Cash paid during the period for interest	$	515,779	$	-
Non-Cash Financing Activities				
Dividends declared, to be paid in subsequent period	$	2,776,550	$	-

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Note 1 Organization and Nature of Business Operations

Business

References to we , us , "ARMOUR" or the Company are to ARMOUR Residential REIT, Inc. References to "ARRM" are to ARMOUR Residential Management LLC, a Delaware limited liability company. References to Enterprise are to Enterprise Acquisition Corp., which became a wholly-owned subsidiary of ARMOUR after completion of the business combination (Merger Transaction) described below.

We are an externally-managed Maryland corporation organized in 2008, managed by ARRM. We invest primarily in hybrid adjustable rate, adjustable rate and fixed rate residential mortgage backed securities issued or guaranteed by a U.S. Government-chartered entity, such as the Federal National Mortgage Association (more commonly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac), or guaranteed by the Government National Mortgage Administration, a U.S. Government corporation (more commonly known as Ginnie Mae) (collectively, "Agency Securities"). From time to time, a portion of our portfolio may be invested in unsecured notes and bonds issued by U.S. Government-chartered entities (collectively, Agency Debt), U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a real estate investment trust (REIT).

We intend to qualify and have elected to be taxed as a REIT for the taxable year ended December 31, 2009 and thereafter upon filing our federal income tax return for that year. Our qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code (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.

Enterprise Acquisition Corp. was formed in 2007 as a Delaware corporation to acquire through a merger, stock exchange, asset acquisition or similar business combination an operating business or businesses. Prior to the Merger Transaction (described below), Enterprise had not commenced any operations, and all activity was related to Enterprises formation, an initial public offering (the Offering) and efforts to identify potential business combinations.

Enterprise closed the Offering on November 14, 2007 and remitted $247.6 million of the Offering proceeds into a trust account, the disposition of which was subject to (i) the consummation of a qualifying business combination (as defined and amended per the terms of the Offering) or (ii) the liquidation of Enterprise. The consummation of the Merger Agreement (described below) allowed for the disposition of funds from the trust account as follows:

		Enterprise Trust Funds
Funds available for distribution at October 31, 2009	$	249,479,648
Add:		
Interest income		410
Less:		
Reimbursement of Company expenses		(19,709)
Conversion of redeemable common stock		(74,837,567)
Trust account income relating to common stock redeemed		(1,200,614)
Shares contributed & shares redeemed in excess of estimates		(150,439,875)
Transaction fees		(912,584)
Investment in subsidiary		(22,069,709)
Funds remaining for distribution	$	-

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Merger Transaction

On July 29, 2009, ARMOUR entered into an Agreement and Plan of Merger (the "Merger Agreement") with Enterprise. On November 5, 2009, the stockholders of Enterprise approved certain proposals to: (i) amend Enterprise's amended and restated certificate of incorporation to allow for a business combination with ARMOUR, and (ii) adopt the Agreement and Plan of Merger, dated as of July 29, 2009, by and among Enterprise, ARMOUR and ARMOUR Merger Sub Corp., a Delaware corporation and a wholly-owned subsidiary of ARMOUR ("Merger Sub Corp."), and approve the merger of Merger Sub Corp. with and into Enterprise (the Merger Transaction).

On November 6, 2009, Merger Sub Corp. merged with and into Enterprise pursuant to the Merger Agreement. The Merger Agreement provided for two primary transactions: (i) the merger of Merger Sub Corp. with and into Enterprise with Enterprise surviving the merger and becoming a wholly-owned subsidiary of ARMOUR and (ii) ARMOUR becoming the new publicly-traded corporation of which the holders of Enterprise securities will be security holders. The ARMOUR securities have the same terms as the Enterprise securities for which they were exchanged.

At the closing of the merger with Enterprise, Enterprise had $249.5 million in cash and returned $226.5 million to stockholders who elected to exercise their conversion rights into a pro rata portion of the trust account. In the second quarter of 2010, we recorded a charge to operations for a payment to a related party related to a contingent obligation of the merger agreement that came due as the result of the subsequent equity capital raise.

In connection with the consummation of the Merger Agreement, the following transactions took place:

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The outstanding common stock and warrants of Enterprise were converted into like securities of ARMOUR,

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The holders of Enterprise common stock and warrants became holders of the securities of ARMOUR after the merger in the same proportion as their current holdings, except as increased by:

o

The cancellation immediately prior to the record date for a distribution to the holders of Enterprise common stock of 6.2 million shares of common stock of Enterprise acquired immediately prior to the Offering, and

o

The conversion of shares of common stock sold in the Offering by any holder thereof exercising its conversion rights.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation and Consolidation and Use of Estimates

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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. Because of the inherent volatility of the securities markets and interest rate environment, operating results for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in our annual report on Form 10-K for the ye ar ended December 31, 2009. 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 financial statements include the valuation of Agency Securities and interest rate contracts.

Cash

Cash includes cash on deposit with financial institutions and investments in high quality overnight money market funds, all of which have maturities of three months or less, at time of purchase. We may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, management believes we are not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. The carrying amount of cash is deemed to be its fair value.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Restricted Cash

Restricted cash at September 30, 2010, includes approximately $7.3 million held by counterparties as collateral for interest rate contracts net of $0.4 million pledged to us by counterparties as collateral for Agency Securities.

Agency Securities, at Fair Value

We invest primarily in Agency Securities. A portion of our portfolio may be invested in Agency Debt, U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a REIT. We have committed ourselves to the Agency asset class by including in our charter a requirement that all of our financial instrument investments will consist of Agency Securities, Agency Debt, U.S. Treasuries and money market instruments (including reverse repurchase agreements) and hedging and other derivative instruments related to the foregoing investments.

We classify our Agency Securities as either trading, available for sale or held to maturity securities. Management determines the appropriate classifications of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date.

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

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

Fair Value of Financial Instruments

We consider our cash, restricted cash, Agency Securities, Available for Sale (settled and unsettled), accrued interest receivable, accounts payable, interest rate contracts, repurchase agreements and accrued interest payable to meet the definition of financial instruments. The carrying amount of cash, restricted cash, accrued interest receivable and accounts payable approximate their fair value due to the short maturities of these instruments. See footnotes 4 and 5, respectively, for discussion of the fair value of Agency Securities, Available for Sale and interest rate contracts. The carrying amount of repurchase agreements and accrued interest payable is deemed to approximate fair value due to the short term maturities of these instruments.

Repurchase Agreements

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

Derivatives

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Preferred Stock

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

Common Stock and Warrants

At September 30, 2010, we had 7,414,054 shares of common stock issued and outstanding, and have authorized 250,000,000 shares of common stock, par value $0.001. At September 30, 2010, we had outstanding warrants to purchase 32,500,000 shares of common stock, which are exercisable at $11.00 per share and expire in 2013.

Loss per Common Share

Basic loss per common share for all periods is computed by dividing the earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period. Warrants issued in the offering and sponsor warrants were contingently exercisable upon consummation of a business combination. The basic and pro forma diluted loss per common share for the three and nine months ended September 30, 2010 and September 30, 2009, does not include 32,500,000 warrants as the effect of including such warrants would be anti-dilutive. Pro forma diluted loss per share would reflect the potential dilution assuming common shares were issued upon the exercise of outstanding warrants and the proceeds thereof were used to purchase common shares at the average market price during the period.

Our condensed consolidated statements of operations for the three and nine months ended September 30, 2009, includes a presentation of earnings per share for common stock subject to possible conversion for prior periods in a manner similar to the two-class method of earnings per share. Basic and diluted net income per share amount for the maximum number of shares subject to possible conversion is calculated by dividing the net interest income attributable to common shares subject to conversion ($11,098 and $56,326 for the three and nine months ended September 30, 2009) by the weighted average number of shares subject to possible conversion. Basic, diluted and pro forma diluted earnings per share amount for the shares outstanding not subject to possible conversion is calculated by dividing the net income exclusive of the net interest income attributable to common shares subject to conversion by the weighted average number of shares not subject to possible conversion.

Comprehensive Income

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

Revenue Recognition

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

Income Taxes

We intend to qualify and have elected to be taxed as a REIT as of the taxable year ending December 31, 2009 and thereafter upon filing our federal income tax return for that year. We will generally not be subject to federal income tax to the extent that we distribute 90% of our taxable income to our shareholders, and as long as we satisfy the ongoing REIT requirements including meeting certain asset, income and stock ownership tests.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on reported consolidated earnings.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Note 3 Recent Accounting Pronouncements

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

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

Note 4 Agency Securities, Available for Sale

All of our Agency Securities are classified as available for sale and, as such, are reported at their estimated fair value. Management generally determines the fair values of Agency Securities by obtaining a valuation for each Agency Security from an independent pricing service. If the fair value of a security is not available from the independent pricing service or such data appears unreliable, we obtain quotes from up to three dealers. At September 30, 2010 and December 31, 2009, all of our Agency Security values were based solely on third-party sources.

As of September 30, 2010, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes $11.1 million of current carrying value of forward settle security purchases.

	Amortized Cost	Fair Market Value	Unrealized Loss	Unrealized Gain	Net Unrealized Gain
Fannie Mae Certificates	$ 147,770,861	$ 149,572,080	$ (76,089)	$ 1,877,308	$ 1,801,219
Freddie Mac Certificates	329,883,035	333,302,471	(221,981)	3,641,417	3,419,436
Ginnie Mae Certificates	56,528,414	57,195,646	(85,385)	752,617	667,232
Total Agency Securities	**$ 534,182,310**	**$ 540,070,197**	**$ (383,455)**	**$ 6,271,342**	**$ 5,887,887**

As of December 31, 2009, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes $58.6 million of current carrying value of forward settle security purchases.

	Amortized Cost	Fair Market Value	Unrealized Loss	Unrealized Gain	Net Unrealized Gain
Fannie Mae Certificates	$ 40,867,510	$ 40,879,103	$ (125,238)	$ 136,831	$ 11,593
Freddie Mac Certificates	62,343,183	62,365,433	(217,647)	239,897	22,250
Ginnie Mae Certificates	15,397,192	15,404,188	-	6,996	6,996
Total Agency Securities	**$ 118,607,885**	**$ 118,648,724**	**$ (342,885)**	**$**	