

Armour Residential REIT, Inc.
Form 10-Q
August 05, 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 June 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
(State or other jurisdiction of
incorporation or organization)

001-33736
(Commission File Number)

26-1908763
(I.R.S. Employer Identification No.)

956 Beachland Blvd., Suite 11, Vero Beach, FL 32963

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(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
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Common Stock, \$0.001 par value	NYSE Amex LLC
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Warrants to Purchase Common Stock	NYSE Amex LLC
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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 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 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

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 August 5, 2010 was 7,414,054.

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ARMOUR Residential REIT, Inc. and Subsidiaries**Consolidated Balance Sheets****PART I. Financial Information****Item 1. Financial Statements****(Unaudited)**

Assets	June 30, 2010	December 31, 2009
Cash	\$ 21,887,268	\$ 6,653,331
Restricted cash	3,860,176	299,280
Agency securities available for sale, at fair value (including pledged assets of \$353,362,132 and \$48,886,278)	477,579,500	118,648,724
Principal payments receivable	1,778,381	73,705
Accrued interest receivable	1,548,678	412,114
Interest rate contracts, at fair value	-	50,363
Prepaid and other assets	114,802	162,366
Refundable income taxes	393,725	393,725
Total Assets	\$ 507,162,530	\$ 126,693,608

Liabilities and Stockholders Equity**Liabilities:**

Repurchase agreements	\$ 334,703,323	\$ 46,388,602
Payable for unsettled securities	114,870,537	58,559,479
Interest rate contracts, at fair value	2,003,086	-
Accounts payable and accrued expenses	237,107	76,493
Dividends payable	1,029,113	177,938
Total Liabilities	452,843,166	105,202,512

Stockholders Equity:

Preferred stock, \$0.001 par value, 25,000,000 shares authorized, none outstanding at June 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 June 30, 2010 and December 31, 2009	7,414	2,304
Additional paid-in capital	54,765,390	22,645,127
Accumulated deficit	(3,435,350)	(1,197,174)
Accumulated other comprehensive income	2,981,910	40,839

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Total Stockholders Equity		54,319,364	21,491,096
Total Liabilities and Stockholders Equity	\$	507,162,530	\$ 126,693,608

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three months Ended	Three months Ended	Six months Ended	Six months Ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Interest income, net of amortization of premium	\$ 1,415,686	\$ 96,365	2,523,761	\$ 241,761
Interest expense	(173,082)	-	(293,728)	-
Net interest income	1,242,604	96,365	2,230,033	241,761
Change in fair value of interest rate contracts	(1,456,525)	-	(2,053,450)	-
Net interest (expense) income after change in fair value adjustments	(213,921)	96,365	176,583	241,761
Realized gain (loss) on interest rate contracts	6,611	-	(43)	-
Realized gain on sale of agency securities	-	-	208,094	-
Total net revenues	(207,310)	96,365	384,634	241,761
Expenses:				
Professional fees	80,982	-	227,012	-
Insurance	51,107	-	103,020	-
Management fee	85,398	-	142,996	-
Formation, operating and other costs	275,546	720,821	304,139	962,655
Total expenses	493,033	720,821	777,167	962,655
Net (loss) before taxes	(700,343)	(624,456)	(392,533)	(720,894)
Income tax (expense) benefit	-	132,700	(2,400)	246,700
Net loss	(700,343)	(491,756)	(394,933)	(474,194)
Less: Interest attributable to common stock subject to possible conversion (net of income taxes of \$10,094 and \$42,268)	-	(18,019)	-	(45,228)
Net (loss) attributable to common stock not subject to possible conversion	\$ -	\$ (509,775)	\$ -	\$ (519,422)
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

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Weighted average shares outstanding
not subject to conversion:

Basic and diluted	3,146,362	23,750,001	2,727,535	23,750,001
Pro forma diluted	3,146,362	23,750,001	2,727,535	23,750,001
Net loss per common share				
Basic and diluted	\$ (0.22)	\$ (0.02)	\$ (0.14)	\$ (0.02)
Pro forma diluted	\$ (0.22)	\$ (0.02)	\$ (0.14)	\$ (0.02)
Dividends per share	\$ 0.40	\$ -	\$ 0.80	\$ -

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock		Accumulated				Total
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Comprehensive Income	
Balance, December 31, 2009	2,304,054	\$ 2,304*	\$22,645,127*	\$ (1,197,174)	\$ 40,839		\$ 21,491,096
Dividends declared	-	-	-	(1,843,243)	-	-	(1,843,243)
Sale of 5,110,000 shares, net of underwriters discount and offering expenses	5,110,000	5,110	32,120,263	-	-	-	32,125,373
Net loss	-	-	-	(394,933)	-	(394,933)	(394,933)
Net change in unrealized gain(loss) on investment in available for sale securities	-	-	-	-	2,941,071	2,941,071	2,941,071
Comprehensive income	-	-	-	-	-\$	2,546,138	
Balance, June 30, 2010	7,414,054	\$ 7,414	\$ 54,765,390	\$ (3,435,350)	\$ 2,981,910		\$ 54,319,364

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

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Cash Flows From Operating Activities:		
Net loss	\$ (394,933)	\$ (474,194)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Net amortization of premium on Agency Securities	1,376,198	-
Unrealized loss on interest rate contracts	2,053,449	-
Gain on sale of Agency Securities	(208,094)	-
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(1,136,564)	-
Decrease (increase) in prepaid income taxes and other assets	47,564	(264,957)
Increase in accrued interest payable and accrued expenses	160,613	478,282
Net cash provided by (used in) operating activities	1,898,233	(260,869)
Cash Flows From Investing Activities:		
Purchases of Agency Securities	(418,550,949)	-
Principal repayments of Agency Securities	27,318,471	-
Proceeds from sales of Agency Securities	31,531,266	-
Unsettled security purchases	57,149,785	-
Investment income in trust account, net of expenses and taxes	-	317,990
Net cash (used in) provided by investing activities	(302,551,427)	317,990
Cash Flows From Financing Activities:		
Increase in restricted cash	(3,560,896)	-
Proceeds from repurchase agreements	891,030,868	-
Principal repayments on repurchase agreements	(602,716,146)	-
Sale of common stock, net of expenses	32,125,373	-
Dividends paid	(992,068)	-
Net cash provided by financing activities	315,887,131	-
Increase in Cash	15,233,937	57,121
Cash Beginning	6,653,331	2,086
Cash End	\$ 21,887,268	\$ 59,207
Supplemental Disclosure:		
Cash paid during the period for interest	\$ 200,223	\$ -
Non-Cash Financing Activities		
Dividends declared, to be paid in subsequent period	\$ 921,622	\$ -

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 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 plan to elect 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 CONSOLIDATED FINANCIAL STATEMENTS June 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, the company 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:

.

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

.

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 six months ended June 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 year 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 CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

Restricted Cash

Restricted cash at June 30, 2010, includes approximately \$3.9 million held by counterparties as collateral for interest rate contracts.

Agency Securities, at Fair Value

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

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

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

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

Fair Value of Financial Instruments

We consider our cash, restricted cash, Agency Securities, Available for Sale (settled and unsettled), accrued interest receivable, accounts payable, interest rate contracts, repurchase agreements and accrued interest payable to meet the definition of financial instruments. The carrying amount of cash, restricted cash, accrued interest receivable and accounts payable approximate their fair value due to the short maturities of these instruments. See 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 a financing under which we pledge our securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then prevailing financing rate. The repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

Derivatives

We recognize all derivative instruments as either assets or liabilities at fair value on the 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 the hedged interest rates 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 CONSOLIDATED FINANCIAL STATEMENTS June 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 or a committee thereof.

Common Stock and Warrants

We have 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 June 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 six months ended June 30, 2010 and June 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 consolidated statements of operations for the three and six months ended June 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 (18,019 and 45,228 for the three and six months ended June 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 plan to elect 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.

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 and the adoption did not have a material effect on the our financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

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 June 30, 2010 and December 31, 2009, all of our Agency Security values were based solely on third-party sources.

As of June 30, 2010, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes \$114.8 million of current carrying value of forward settle security purchases.

	Amortized	Fair Market	Unrealized	Unrealized	Net
	Cost	Value	Loss	Gain	Unrealized
					Gain/(Loss)
Fannie Mae Certificates	\$ 265,364,437	\$ 267,130,283	\$ (345,385)	\$ 2,111,231	\$ 1,765,846
Freddie Mac Certificates	151,378,577	152,609,040	(116,794)	1,347,258	1,230,463
Ginnie Mae Certificates	57,854,576	57,840,177	(270,342)	255,943	(14,399)
Total Agency Securities	\$ 474,597,590	\$ 477,579,500	\$ (732,521)	\$ 3,714,432	\$ 2,981,910

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	Fair Market	Unrealized	Unrealized	Net
	Cost	Value	Loss	Gain	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)	\$ 383,724	\$ 40,839

ARMOUR Residential REIT, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010****(Unaudited)**

The components of the carrying value of available for sale Agency Securities at June 30, 2010 are presented below.

	June 30, 2010
Principal balance settled securities	\$ 345,342,751
Principal balance forward settle securities	109,471,211
Unamortized premium settled securities	14,499,759
Unamortized premium forward settle securities	5,283,868
Gross unrealized gains	3,714,432
Gross unrealized losses	(732,521)
Carrying value/estimated fair value	\$ 477,579,500

The components of the carrying value of available for sale Agency Securities at December 31, 2009 are presented below.

	December 31, 2009
Principal balance settled securities	\$ 57,218,423
Principal balance forward settle securities	56,769,011
Unamortized premium settled securities	2,984,485
Unamortized premium forward settle securities	1,635,966
Gross unrealized gains	383,724
Gross unrealized losses	(342,885)
Carrying value/estimated fair value	\$ 118,648,724

As of June 30, 2010, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settled securities, of 104.35%, due to the average interest rates on these securities being higher than prevailing market rates. As of June 30, 2010 we had approximately \$19.8 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. As of June 30, 2010 our investment portfolio of settled securities consisted of Agency Securities as follows.

Adjustable Rate Settled Securities as of June 30, 2010

Months to Reset	Portfolio	Percentage of	Reset	Current Face	Weighted Average	Coupon(2)	Weighted Average		Current Market
							Amortized Purchase	Amortized Market	
0-18	9.3 %	5.65	\$ 32,383,725	3.89%	\$ 104.39	\$ 33,805,567	\$ 104.23	\$ 33,753,488	
19-36	5.6	31.47	19,547,327	4.17	103.53	20,237,684	104.49	20,425,023	
37-60	40.0	54.86	138,320,444	4.66	103.75	143,508,986	104.82	144,982,995	
61-84	23.7	79.55	82,141,055	4.16	104.11	85,516,973	104.50	85,837,056	
Totals/Averages	78.6 %	54.78	\$272,392,551	4.39%	\$ 103.92	\$283,069,210	104.63	\$284,998,562	

Fixed Rate Settled Securities as of June 30, 2010

to Maturity	Portfolio	Percentage of	Maturity	Current Face	Weighted Average	Coupon(2)	Weighted Average		Current Market
							Amortized Purchase	Amortized Market	
0-90	0.4 %	66.68	\$ 1,358,806	6.17%	\$ 107.16	\$ 1,456,121	\$ 108.18	\$ 1,470,016	
91-180	21.00	167.61	71,591,394	4.90	105.20	75,317,179	106.52	76,261,798	
Totals/Averages	21.42 %	165.70	\$72,950,200	4.92%	\$ 105.24	\$76,773,300	106.55	\$77,731,814	

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

All Settled Securities as of June 30, 2010

				Weighted			
				Average		Weighted	
Percentage		Current	Weighted	Amortized		Average	Current
Of Settled		Face	Average	Purchase	Amortized	Market	Market
Portfolio		Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Value(6)
Totals/Averages	100.0 %	\$345,342,751	4.50 %	\$ 104.20	\$359,842,510	\$ 105.03	\$362,730,376

- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the security.

As of June 30, 2010, we had committed to purchase securities for settlements in July. The information below is current as of June 30, 2010, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon.

Adjustable Rate Forward Settle Securities as of June 30, 2010

	Percentage of Forward Settle Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Totals/Averages	68.1	% 55.60	\$75,030,015	4.39%	\$ 104.00	\$ 78,030,975	\$ 104.24	\$ 78,209,689

Fixed Rate Forward Settled Securities as of June 30, 2010

	Percentage of Forward Settle Portfolio	Weighted Average Months to Maturity	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Totals/Averages	31.9	% 173.7	\$34,441,196	4.87%	\$ 106.63	\$ 36,725,200	\$ 106.38	\$ 36,639,435

All Forward Settle Securities as of June 30, 2010

	Percentage of Forward Settle Portfolio	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Totals/Averages	100.0	% \$109,471,211	4.54%	\$ 104.83	\$ 114,756,175	\$ 104.91	\$ 114,849,124

All Settled and Forward Settle Securities as of June 30, 2010

Percentage Of Settled and Forward Settle Portfolio		Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average		Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
				Amortized Purchase Price(3)				
Totals/Averages	100.0 %	\$454,813,962	4.51 %	\$ 104.35		\$474,598,685	\$ 105.01	\$477,579,500

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is essentially a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the mortgage.

As of December 31, 2009, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settle securities, of 104.07%, due to the average interest rates on these securities being higher than prevailing market rates. As of December 31, 2009 we had approximately \$4.6 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. All unsettled purchases of securities as of December 31, 2009 were settled in January and February 2010.

As of December 31, 2009, our investment portfolio of settled securities consisted of Agency Securities as follows:

Adjustable Rate Settled Securities as of December 31, 2009

Months to Reset	Percentage	Weighted	Current	Weighted	Weighted	Amortized	Weighted	Current
			Face					

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	of	Average	Value(1)	Average	Average	Cost(4)	Average	Market
	Portfolio	Months		Coupon(2)	Amortized		Market	Value(6)
		to			Purchase		Price(5)	
		Reset			Price(3)			
0-18	9.5 %	1.6	\$ 5,568,961	2.79%	\$ 102.03	\$ 5,681,963	102.34	\$ 5,699,059
19-36	2.7	30.4	1,512,149	5.38	102.60	1,551,508	105.27	1,591,791
37-60	39.1	54.5	22,268,269	5.50	105.18	23,421,507	105.64	23,523,759
61-80	17.9	66.4	10,214,641	5.43	105.61	10,787,220	105.64	10,790,323
Totals/Averages	69.2 %	49.4	\$39,564,020	5.11%	\$ 104.76	\$41,442,198	105.17	\$41,604,932

Fixed Rate Settled Securities as of December 31, 2009

	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted
	Average	Average	Current	Average	Amortized	Amortized	Average	Current
	Months	Months	Face	Amortized	Purchase	Purchase	Market	Market
	to Maturity	to Maturity	Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Value(6)
0-90	2.9%	73.3	\$ 1,628,086	6.18%	\$ 107.11	\$ 1,743,902	\$ 106.87	\$ 1,739,867
91-180	27.9	167.2	16,026,317	4.97	106.18	17,016,808	104.72	16,782,673
Totals/Averages	30.8%	158.4	\$17,654,403	5.08%	\$ 106.27	\$18,760,710	104.92	\$18,522,540

All Settled Securities as of December 31, 2009

	Percentage	Current	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted
	Of Settled	Face	Average	Amortized	Amortized	Market	Average	Current
	Portfolio	Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Price(5)	Value(6)
Totals/Averages	100.0 %	\$ 57,218,423	5.10%	\$ 105.23	\$60,202,908	\$ 105.10	\$ 105.10	\$60,127,472

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

denominator is the original principal balance.

- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.

ARMOUR Residential REIT, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010****(Unaudited)**

- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the security.

As of December 31, 2009, we had committed to purchase securities for settlements in January and February of 2010. The information below was current as of December 31, 2009, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon. All, but one, of the forward settling Agency Securities was adjustable rate with a minimum expected months to reset of eleven months and a maximum expected months to reset of 71 months.

Adjustable Rate Forward Settle Securities as of December 31, 2009

	Percentage of Forward Settle Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)	Expected Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
Totals/Averages	91.0	% 59.0	\$51,636,165	4.29%	\$ 102.89	\$ 53,126,166	\$ 103.19	\$53,282,749

Fixed Rate Forward Settled Securities as of December 31, 2009

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Percentage of Forward Settle Portfolio	Weighted Average		Weighted Average	Weighted Average		Weighted Average	Current Market
	Months to Maturity	Current Face Value(1)		Amortized Purchase Price(3)	Expected Amortized Cost(4)		
Totals/Averages	9.0	% 163.0	\$5,132,846	4.50%	\$ 102.84	\$ 5,278,811	\$ 102.06 \$5,238,503

All Forward Settle Securities as of December 31, 2009

Percentage of Forward Settle Portfolio	Weighted Average		Weighted Average	Weighted Average		Weighted Average	Current Market
	Current Face Value(1)	Coupon(2)		Amortized Purchase Price(3)	Expected Amortized Cost(4)		
Totals/Averages	100.0	% \$ 56,769,011	4.31%	\$ 102.89	\$ 58,404,977	\$ 103.09	\$58,521,252

All Settled and Forward Settle Securities as of December 31, 2009

Percentage Of Settled and Forward Settle Portfolio	Weighted Average		Weighted Average	Weighted Average		Weighted Average	Current Market
	Current Face Value(1)	Coupon(2)		Amortized Purchase Price(3)	Expected Amortized Cost(4)		
Totals/Averages	100.0	% \$113,987,434	4.71%	\$ 104.07	\$118,607,885	\$ 104.10	\$118,648,724

- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is essentially a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through

certificate may change as the underlying mortgage loans are prepaid.

- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
 - (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
 - (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
 - (6) Market value is the total market value for the mortgage.
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ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

Our investment portfolio consisted of the following breakdown between Fannie Mae, Freddie Mac and Ginnie Mae at June 30, 2010.

Agency Securities	June 30, 2010	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 213,373,807	44.7 %
Freddie Mac Certificates	100,724,372	21.0
Ginnie Mae	48,632,197	10.2
Forward Settle Securities		
Fannie Mae Certificates	53,756,476	11.3
Freddie Mac Certificates	51,884,668	10.9
Ginnie Mae	9,207,980	1.9
Total Securities	\$ 477,579,500	100.0 %

Our investment portfolio consisted of the following breakdown between Fannie Mae, Freddie Mac and Ginnie Mae at December 31, 2009:

Agency Securities	December 31, 2009	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 32,500,935	27.3 %
Freddie Mac Certificates	27,372,349	23.1
Ginnie Mae	254,188	0.2
Forward Settle Securities		
Fannie Mae Certificates	8,378,168	7.1
Freddie Mac Certificates	34,993,084	29.5
Ginnie Mae	15,150,000	12.8
Total Securities	\$ 118,648,724	100.0 %

As of June 30, 2010 and December 31, 2009, the adjustable and hybrid adjustable rate mortgage loans underlying our Agency Securities had fixed interest rates for an average period of approximately 55 months and 49 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, or CMT, 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. Most of our adjustable and hybrid adjustable Agency Securities, but not all, have an initial 5% adjustment cap after the fixed period ends. The average annual cap, after the initial adjustment cap, on increases (or decreases) to the interest rates on our Agency Securities is typically, but not always, 2% per year. The typical average lifetime cap on increases to the interest rates on our Agency Securities is 5% from the initial stated rate, although in some cases it may be 6%.

Note 5 Interest Rate Contracts

We enter into transactions to manage our interest rate risk exposure. These transactions are purchasing or selling Eurodollar futures contracts (Futures Contracts) designed to lock in funding costs for financing activities associated with our assets in such a way to help assure the realization of attractive net interest margins. Such transactions are based on assumptions about prepayments which, if not realized, will cause transaction results to differ from expectations. We do not designate our activities as cash flow hedges, and as such, we recognize changes in the fair value of these transactions through earnings (See Note 2). For the three and six months ended June 30, 2010, we recognized non-cash losses of \$1.5 million and \$2.1 million, respectively. Our derivative instruments are carried on our consolidated balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

As of June 30, 2010 and December 31, 2009, we had entered into \$165.0 million and \$21.0 million (notional amount), respectively, of Eurodollar Future swap equivalents traded in 1,990 and 292 individual contract transactions, respectively. Our Futures Contracts are traded on the Chicago Mercantile Exchange (CME) and have limited counterparty risk because of the daily mark-to-market collateral requirements and the substantial credit support provided by the CME.

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. We believe we are in compliance with all margin requirements under our Futures Contracts as of June 30, 2010 and December 31, 2009. We had \$3.9 million and \$0.3 million of restricted cash related to margin posted for Futures Contracts as of June 30, 2010 and December 31, 2009, respectively.

The following table presents information about Eurodollar Futures Contracts as of June 30, 2010:

	Notional Amount	Value as of June 30, 2010	Weighted Average Rate	
Eurodollar futures strips maturing 9/17/2012	\$ 34,000,000	\$ (255,837)	1.1	%
Eurodollar futures strips maturing 9/16/2013	72,000,000	(687,087)	1.5	
Eurodollar futures strips maturing 9/15/2014	49,000,000	(1,037,912)	2.1	
Eurodollar futures strips maturing 9/14/2015	10,000,000	(22,250)	2.1	
Totals	\$ 165,000,000	\$ (2,003,086)	1.6	%

The following table presents information about Eurodollar Futures Contracts as of December 31, 2009:

	Notional Amount	Value as of December 31, 2009	Weighted Average Rate	
Eurodollar futures strips maturing 3/18/2012	\$ 3,000,000	\$ 3,875	1.4	%
Eurodollar futures strips maturing 3/18/2013	5,000,000	6,625	2.0	

Eurodollar futures strips maturing 3/18/2014	13,000,000		39,863	2.5	
Totals	\$ 21,000,000	\$	50,363	2.2	%

Note 6 Repurchase Agreements

At June 30, 2010 and December 31, 2009, we had repurchase agreements in place in the amount of \$334.7 million and \$46.4 million, respectively, to finance Agency Security purchases. For the period ended June 30, 2010 and the year ended December 31, 2009, the weighted average interest rate or cost of funds was 0.30% and 0.26%, respectively. At June 30, 2010 and December 31, 2009 we had repurchase agreements outstanding with seven and three counterparties, respectively, with a weighted average maturity of 25 days and 2 months, respectively. The following tables represent the contractual repricing information regarding our repurchase agreements:

June 30, 2010	Balance	Weighted Average Contractual Rate	Contractual Interest Payments	Total Contractual Obligation
Within 30 days	\$270,867,323	0.30 %	\$ 66,407	\$ 270,933,730
30 days to 60 days	63,836,000	0.30	29,008	63,865,008
Total	\$334,703,323	0.30 %	\$ 95,415	\$ 334,798,738

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

December 31, 2009	Balance	Weighted Average Contractual Rate	Contractual Interest Payments	Total Contractual Obligation
Within 30 days	\$ 14,696,602	0.27 %	\$ 2,898	\$ 14,699,500
30 days to 90 days	31,692,000	0.25	2,201	31,694,201
Total	\$ 46,388,602	0.26 %	\$ 5,099	\$ 46,393,701

At June 30, 2010, our repurchase agreements had the following counterparties, amount at risk and weighted average remaining maturities:

Repurchase Agreement Counterparties	Amount Outstanding	Amount at Risk ⁽¹⁾	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
MF Global	\$ 83,392,000	\$ 4,154,532	36	25.0%
Goldman Sachs	81,359,000	4,302,930	19	24.3
South Street Securities	52,908,360	2,760,596	17	15.8
Cantor Fitzgerald	35,879,000	2,386,207	29	10.7
RBS Securities Inc.	34,572,000	1,797,820	23	10.3
Nomura	26,816,963	1,593,840	26	8.0
Jefferies	19,776,000	1,043,725	22	5.9
Total	\$ 334,703,323	\$ 18,039,650		100.0%

(1) Equal to the fair value of securities sold, minus the sum of repurchase agreement liabilities plus accrued interest expense.

At December 31, 2009, our repurchase agreements had the following counterparties, amount at risk and weighted average remaining maturities:

Repurchase Agreement Counterparties	Amount Outstanding	Amount at Risk ⁽¹⁾	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
Goldman Sachs	\$ 31,692,000	\$ 1,683,203	81	68.3%
MF Global	10,730,188	385,340	22	23.1
South Street Securities	3,966,414	131,489	25	8.6
Total	\$ 46,388,602	\$ 2,200,032		100.0%

(1) Equal to the fair value of securities sold minus the sum of repurchase agreement liabilities plus accrued interest expense.

As of June 30, 2010 and December 31, 2009, the weighted average margin requirement, or the percentage amount by which the collateral value must exceed the loan amount, which we also refer to as the haircut, under all our repurchase agreements was approximately 5.2% and 5.4%, respectively.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

Note 7 - Commitments and Contingencies

Management Agreement with ARRM

As discussed in Note 13 *Related Party Transactions*, we are party to a management agreement with ARRM. Pursuant to the management agreement, as amended, ARRM is entitled to receive a monthly management fee equal to 1/12th of 1% of gross equity raised (including initial gross merger equity as well as any future gross equity raised) until gross equity raised is \$50 million, inclusive of gross merger equity. Thereafter, the management fee shall be 1/12th of (a) 1.5% of gross equity raised up to \$1 billion and (b) 0.75% of gross equity raised in excess of \$1 billion, with a monthly minimum based on 1/12th of \$900,000.

Operating Leases

We are not party to any agreement for the rental of real property and office space, or any significant leases for office, computer and other equipment or office furnishings.

Litigation

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

Note 8 Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes changes in unrealized gains or losses, net of tax, on securities available for sale during the year and is reported in our consolidated statements of stockholder's equity.

	Three months Ended	Three months Ended	Six months Ended	Six months Ended
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net loss	\$ (700,343)	\$ (491,756)	(394,933)	\$ (474,194)
Net change in unrealized gain on investment on available for sale securities	2,398,653	-	2,941,071	-

Comprehensive income	1,698,310	(491,756)	2,546,138	(474,194)
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Note 9 Share-Based Compensation

2009 Stock Incentive Plan

In connection with the Merger Agreement with Enterprise, we adopted the 2009 Stock Incentive Plan (the "Plan") to attract, retain and reward directors, officers and other employees of ours, and other persons who provide services to us in the course of operations (collectively "Eligible Individuals").

The Plan provides for grants of 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), and will be subject to a ceiling amount of shares available for issuance under the plan. On May 12, 2010, the Board allocated up to 250,000 shares to be available under the Plan. In considering such allocation, the Board considered the size of the Plan relative to our capital base and our current and potential future performance and capitalization.

The Plan allows for the Board to expand the types of awards available under the Plan and determine the maximum number of shares that may underlie these awards in any one year to any Eligible Individual. If an award granted under the Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010

(Unaudited)

Awards Under the Plan

There have been no awards made under this plan.

Note 10 Shareholders Equity

On June 21, 2010, we completed an underwritten secondary public offering of 5,110,000 shares of common stock. An additional 766,500 shares of common stock could have been issued pursuant to the underwriters' over-allotment option at \$6.75 per share. This option expired on July 31, 2010. Net proceeds were \$31.9 million, net of issuance costs of approximately \$2.6 million.

On April 29, 2010, we paid a first quarter 2010 cash dividend of \$0.40 per common share, or \$0.9 million in the aggregate, to holders of record on March 15, 2010.

On July 29, 2010, we paid a second quarter 2010 cash dividend of \$0.40 per common share, or \$0.9 million in the aggregate, to holders of record on June 3, 2010.

Note 11 Fair Value of Financial Instruments

We have established and documented processes for determining fair values. The fair values of Agency Securities are generally determined by management 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 valuations from up to three dealers. At June 30, 2010 and December 31, 2009, all of our Agency Security values were based solely on third-party sources.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for our Agency Securities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

a. Agency Securities Available for Sale - Fair value for the Agency Securities in our portfolio is based on information provided by 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 valuations from up to three dealers who make markets in similar financial instruments. The dealers will incorporate common market pricing methods, including a spread measurement to the Treasury curve or interest rate swap curve as well as underlying characteristics of the particular security including coupon, periodic and life caps, collateral type, rate reset period and seasoning or age of the security. Values obtained from the independent pricing service or from dealers for similar instruments are classified as Level 2 securities. If quoted prices for a security are not reasonably available from a dealer, the security will be re-classified as a Level 3 security and, as a result, management will determine the fair value based on characteristics of the security that we receive from the issuer and based on available market information. Management reviews all prices used in determining valuation to ensure they represent current market conditions. This review includes surveying similar market transactions, comparisons to interest pricing models as well as offerings of like securities by dealers. At June 30, 2010, all of our Agency Securities were valued using the independent pricing service.

b. Derivative Transactions - The fair value of our derivative transactions, Eurodollar Futures Contracts, is based on closing prices on the CME. Our Futures Contracts are classified as Level 1 fair values.

ARMOUR Residential REIT, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2010****(Unaudited)**

The following table presents our financial instruments measured at fair value as of June 30, 2010.

	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Agency Securities available for sale	\$ -	\$ 477,579,500	\$ -	\$ 477,579,500
Liabilities carried at fair value:				
Interest rate contracts	(2,003,086)	-	-	(2,003,086)

The following table presents our financial instruments measured at fair value as of December 31, 2009.

	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Agency Securities available for sale	\$ -	\$ 118,648,724	\$ -	\$ 118,648,724
Interest rate contracts	50,363	-	-	50,363
Total	\$ 50,363	\$ 118,648,724	\$ -	\$ 118,699,087

Note 12 Income Taxes

We plan to elect to be taxed as a REIT as of the taxable year ended December 31, 2009 and thereafter upon filing our federal income tax return for that year and intend to comply with the provisions of the Code regarding U.S. federal income taxes with respect thereto in future periods. We will not generally be subjected to federal or state income tax as long as all taxable income and gain and certain asset, income and stock ownership tests are met. Our income tax provision for 2010 reflects our plan to elect REIT status. Income tax expense for the six months ended June 30, 2010 consists of income taxes incurred because of undistributed REIT taxable income for the year ending December 31, 2009.

We also plan to elect to treat Enterprise as a Taxable REIT Subsidiary, which is a tax paying entity for income tax purposes and it is taxed separately from ARMOUR. We have recognized refundable income taxes of \$0.4 million as of June 30, 2010 and December 31, 2009 related to the carry back of net operating losses incurred by Enterprise in

2009 to prior years in which Enterprise reported taxable income.

Prior to the merger, our provision for income taxes consisted of:

	Three Months Ended		Six Months Ended	
	June 30, 2009		June 30, 2009	
Current:				
Federal	\$	(132,700)	\$	(246,700)
State		-		-
Total current		(132,700)		(246,700)
Deferred		-		-
Benefit for income taxes	\$	(132,700)	\$	(246,700)

The difference between the actual income tax expense and that computed by applying the statutory income tax rate of 35% to pre-tax income from operations is summarized below:

	Three Months		Six Months Ended	
	Ended		June 30, 2009	
	June 30, 2009		June 30, 2009	
Computed expected tax rate	35.0	%	35.0	%
State income tax, net of federal benefit	3.6		3.6	
Change in valuation allowance	(17.4)		(4.4)	
Effective tax rate	21.2	%	34.2	%

At June 30, 2009, we recorded a deferred income tax asset of \$1.3 million for the cumulative tax effect of temporary differences resulting from the capitalization of substantially all of our operating expenses for income tax purposes.

However, due to uncertainty related to the ultimate realization of this deferred tax asset, a fully offsetting valuation allowance was established since it was not more likely than not that the benefit would be realized. During the six months ended June 30, 2009, costs of approximately \$1.7 million related to an acquisition became deductible for tax purposes because the transaction to which such costs relate was terminated.

Note 13 Related Party Transactions

Post consummation of the Merger Agreement

On November 5, 2009, in connection with the consummation of the Merger Agreement, we entered into the Management Agreement (see Note 7 *Commitments and Contingencies* for additional discussion) with ARRM to manage our business affairs in conformity with certain restrictions contained in the management agreement, including any material operating policies adopted by us. Pursuant to the terms of the management agreement, ARRM will be responsible for the following primary roles:

·
Advising us with respect to, arrange for, and manage 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, arranging for various types of financing and hedging strategies, and provide administrative and managerial services in connection with our day-to-day operations, and

·
Provide executive personnel along with administrative personnel, office space, and other appropriate services required in rendering management services to us.

In return for these services, we paid \$0.09 million and \$0.14 million of management fees to ARRM, respectively, for the three and six months ended June 30, 2010. We did not reimburse any expenses incurred by ARRM on our behalf for the three and six months ended June 30, 2010.

Pre consummation of the Merger Agreement

Enterprise agreed to pay \$7,500 per month for office space and general and administrative services. The office space was leased from Bell & Staton, Inc., an affiliate of our officers and directors. For the three and six months ended June 30, 2009 Enterprise paid \$22,500 and \$45,000 respectively, of expense related to this agreement.

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 financial statements and related notes included elsewhere in this report.

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 described below.

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, 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;

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our anticipated results of operations;

.

statements about future dividends;

.

our ability to obtain financing arrangements;

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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 common stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

(1)

the factors referenced in this report, including those set forth under the sections captioned "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations";

(2)

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 federal reserve system;

(3)

mortgage loan modification programs and future legislative action;

(4)

availability, terms and deployment of capital;

(5)

changes in economic conditions generally;

(6)

changes in interest rates, interest rate spreads, and the yield curve or prepayment rates;

(7)

general volatility of the financial markets, including markets for mortgage securities;

(8)

inflation or deflation;

(9)

availability of suitable investment opportunities;

(10)

the degree and nature of our competition, including competition for Agency Securities from the U.S. Treasury;

(11)

changes in our business and investment strategy;

(12)

our limited operating history;

(13)

our dependence on our manager and ability to find a suitable replacement if our manager were to terminate their management relationship with us;

(14)

the existence of conflicts of interest in our relationship with our manager, certain of our directors and our officers, which could result in decisions that are not in the best interest of our stockholders;

(15)

changes in personnel at our manager or the availability of qualified personnel at our manager;

(16)

limitations imposed on our business by our status as a REIT;

(17)

changes in accounting principles generally accepted in the United States, including interpretations thereof; and

(18)

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.

Overview

We are an externally-managed Maryland corporation organized in 2008, managed by ARMOUR Residential Management LLC, a Delaware limited liability company, or 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), which we refer to collectively as 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, which we refer to as 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, or REIT.

We seek attractive long-term investment returns by investing our equity capital and borrowed funds in our targeted asset class. 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 intend to qualify and plan to elect to be taxed as a REIT under the Internal Revenue Code, or the Code. We generally will not be subject to federal income tax to the extent that we currently distribute our net income to our stockholders and qualify as a REIT. Our business plan is to 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 mitigate 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 our business plan requires us to address interest rate risk, maintain adequate liquidity and effectively mitigate interest rate risks. We execute our business plan in a manner consistent with our intention of qualifying as a REIT and avoiding regulation as an investment company.

Recent Developments

On June 21, 2010, we completed an underwritten follow-on public offering of 5,110,000 shares of common stock at \$6.75 per share. The net proceeds to us were \$32.1 million, net of approximately \$2.4 million in expenses. The underwriters had the option to purchase an additional 766,500 shares of common stock pursuant to an over-allotment option until July 30, 2010. This option expired unexercised.

We have actively worked to deploy the proceeds from our follow-on public offering. As of June 30, 2010:

We invested the net proceeds from our follow-on public offering as well as monies that we borrowed under repurchase agreements to increase our investment portfolio to \$477.6 million of Agency Securities.

We borrowed an aggregate \$334.7 million (an increase of \$288.3 million) under our master repurchase agreements a weighted average rate of 0.30% through an expanded group of seven investment banking firms and other lenders.

We entered into hedging transactions through Eurodollar futures for a notional amount of \$165.0 million, increasing our holdings to 1,990 individual futures contracts. The contracts are designed to mitigate the effects of increases in interest rates under a portion of our repurchase agreements.

Our Manager

We are managed by ARRM pursuant to a management agreement between ourselves and ARRM. As an externally-managed company, we depend on the diligence, experience and skill of ARRM for the selection, acquisition, structuring, hedging and monitoring of our Agency Securities and associated borrowings. Pursuant to the management agreement, ARRM is entitled to receive a monthly management fee that is based on the total of all gross equity (including initial gross merger equity as well as any future equity raised), as measured as of the date of determination, regardless of our performance. The management agreement became effective on November 6, 2009 and has an initial term of 5 years; following the initial term, the management agreement automatically renews for successive 1-year renewal terms unless we or ARRM give notice to the respective other of its intent not to renew the agreement 180 days prior to the expiration of the initial term or any renewal term, as applicable. On November 6, 2009, we entered into an amended and restated management agreement with ARRM for the sole purpose of reducing the monthly management fee to 1/12th of 1% of gross equity raised (including initial gross merger equity as well as any future gross equity raised) until gross equity raised is \$50.0 million or greater, inclusive of gross merger equity.

Enterprise Acquisition Corp. (prior to November 6, 2009)

Enterprise Acquisition Corp. was a Delaware blank check company incorporated on July 9, 2007 in order to serve as a vehicle for the acquisition of one or more operating businesses.

On July 29, 2009, Enterprise entered into an Agreement and Plan of Merger, with ARMOUR and ARMOUR Merger Sub Corp., a Delaware corporation and a wholly-owned subsidiary of ARMOUR, which we refer to as Merger Sub Corp. 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.

Business Combination with Enterprise Acquisition Corp.

On November 5, 2009, the stockholders of Enterprise Acquisition Corp. 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 Merger Agreement and approve the merger of Merger Sub Corp. with and into Enterprise, which we refer to as the Business Combination.

On November 6, 2009, Merger Sub Corp. merged with and into Enterprise pursuant to the Merger Agreement. In connection with the closing, the holders of Enterprise common stock and warrants became holders of the securities of ARMOUR after the Business Combination in the same proportion as their holdings in Enterprise immediately before the Business Combination, except as (i) increased by (A) the cancellation of shares of Enterprise common stock held by Enterprise's initial stockholders, (B) conversion of shares of Enterprise common stock by holders thereof who exercised the right to have their shares converted into funds held in the trust account at a value of \$9.98 per share and (C) the purchase of shares pursuant to forward contract arrangements that provided for Enterprise to purchase such shares after the closing of the Business Combination at a price of \$9.98 per share.

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 addition, in connection with the closing of the business combination, Enterprise and ARMOUR entered into a supplement and amendment to the agreement that governs the warrants, the terms of which, among other things, (i) increased the exercise price of the warrants from \$7.50 per share to \$11.00 per share, (ii) extended the expiration date of the warrants from November 7, 2012 to November 7, 2013 and (iii) limited a holder's ability to exercise warrants to ensure that such holder's Beneficial Ownership or Constructive Ownership (each term as defined in our charter) do not exceed the restrictions contained in the charter limiting the ownership of shares of our common stock.

ARMOUR and Enterprise were formed for two very different business purposes. ARMOUR was formed to invest in Agency Securities only and is a REIT which uses borrowings to fund its purchase of Agency Securities. Enterprise was formed solely for the purpose of merging with another business enterprise. Enterprise was a Special Purpose Acquisition Corporation, more commonly referred to as a SPAC. Prior to merging with ARMOUR, the management of Enterprise spent the majority of their efforts finding suitable candidates with which to merge. Enterprise invested in short-term U.S. government bonds. They did this to protect the value of the cash in the trust until a merger could be consummated. Enterprise did not use leverage. Because these two business models are quite different, the financial reports filed by Enterprise on Forms 10-K and Forms 10-Q, cannot be compared substantively with those filed by ARMOUR.

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As of June 30, 2010, our Agency Security portfolio, both trades that have settled and forward settling trades that we have committed to settle, consisted of approximately \$477.6 million, in market value, of Agency Securities with initial fixed-interest rate periods of three years, five years, seven years, ten years and 15 years.

The following table represents key data regarding our company since the beginning of operations on November 6, 2009:

						Book		Quarterly
						Value		Diluted
	Agency	Repurchase	Unsettled		Shares	Per		Earnings
As of	Securities	Agreements	Security	Equity	Outstanding	Share	Dividends	Per Share
			Purchases				Paid	
June 30, 2010	\$477,579,500	\$ 334,703,323	\$ 114,870,537	\$54,319,365	7,414,054	\$ 7.33	\$ 0.40	\$ (0.22)
March 31,								
2010	180,364,369	168,525,093	-	21,417,725	2,304,054	9.30	0.40	0.13
December 31,			58,559,479				-	
2009	118,648,724	46,388,602		21,491,096	2,304,054	9.33		(0.08)

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, and recent events, such as those discussed below, can affect our business in ways that are

difficult to predict, and 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 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.

We anticipate that, 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 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 shareholders.

Prepayments on Agency Securities and the underlying mortgage loans may be influenced by changes in market interest rates and a variety of economic, geographic, policy decisions by Fannie Mae, Freddie Mac and Ginnie Mae as well as other factors beyond our control. Consequently prepayment rates cannot be predicted with certainty. To the extent we have acquired Agency Securities 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 suffer. The recent climate of government intervention in the mortgage markets significantly increases the risk associated with prepayments.

While we intend to use strategies to mitigate some of our interest rate risk, we do not intend to mitigate all of our exposure to changes in interest rates and prepayment rates, as there are practical limitations on our ability to insulate our 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 portfolio.

In addition, 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;

.

our hedging activities; and

the REIT requirements, the requirements to qualify for an exemption under the Investment Company Act and other regulatory and accounting policies related to our business.

ARRM, our manager, is entitled to receive a management fee that is based on our equity (as defined in our management agreement), regardless of the performance of our portfolio. Accordingly, the payment of our management fee may not decline in the event of a decline in our profitability and may cause us to incur losses.

For a discussion of additional risks relating to our business see **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2009.

Market and Interest Rate Trends and the Effect on our Portfolio

Credit Market Disruption

During the past three years, the residential housing and mortgage markets in the United States have experienced a variety of difficulties and changed economic conditions including loan defaults, credit losses and decreased liquidity. These conditions have resulted in volatility in the value of the Agency Securities we purchase and an increase in the average collateral requirements under our repurchase agreements. Liquidating sales by several large institutions have increased the volatility of many financial assets, including Agency Securities and other high-quality Residential Mortgage Backed Securities (RMBS). As a result, values for RMBS, including some Agency Securities, have been negatively impacted. Further increased volatility and deterioration in the broader RMBS markets may adversely affect the performance and market value of the Agency Securities in which we invest. In addition, we rely on the availability of financing to acquire Agency Securities on a leveraged basis. As values for certain types of Agency Securities declined many lenders in the Agency Securities market tightened their lending standards, and in some cases, withdrew financing of residential mortgage assets and Agency Securities. Our lenders may have owned or financed RMBS that have declined in value and caused them to incur losses. If these market conditions become more difficult, our lenders may be forced to exit the repurchase market, become insolvent or further tighten lending standards or increase the amount of equity capital or haircut required to obtain financing, any of which could make it more difficult or costly for us to obtain financing.

Developments at Fannie Mae and Freddie Mac

Payments on the Agency Securities in which we invest are guaranteed by Fannie Mae and Freddie Mac. Because of the guarantee and the underwriting standards associated with mortgages underlying Agency Securities, Agency Securities historically have had high stability in value and been considered to present low credit risk. In 2008, Fannie Mae and Freddie Mac were placed under the conservatorship of the U.S. government due to the significant weakness of their financial condition. The turmoil in the residential mortgage sector and concern over the future role of Fannie Mae and Freddie Mac have generally increased credit spreads and decreased price stability of Agency Securities. It is unclear how and when Fannie Mae and Freddie Mac may be restructured by the Federal Government and the impact that may have on our existing portfolio and continuing investment strategy.

In response to the credit market disruption and the deteriorating financial condition of Fannie Mae and Freddie Mac, Congress and the U.S. Treasury undertook a series of actions in 2008 aimed at stabilizing the financial markets in general, and the mortgage market in particular. These actions include the large-scale buying of mortgage backed securities, significant equity infusions into banks and aggressive monetary policy.

In addition, the U.S. Federal Reserve initiated a program in 2008 to purchase \$200.0 billion in direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks and \$1.3 trillion in Agency Securities issued and guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The U.S. Federal Reserve stated that its actions were intended to reduce the cost and increase the availability of credit for the purchase of houses, which in turn was expected to support housing markets and foster improved conditions in financial markets more generally.

The purchase program was completed on March 31, 2010. It is unclear the degree to which the completion of this program and withdrawal of substantial demand for Agency Securities by the Federal Reserve will affect the price and liquidity of Agency Securities. We are unable to predict whether or when the US Treasury or the Federal Reserve will liquidate their holdings or make further interventions in the Agency Securities markets, or what impact, if any; such action could have on the Agency Securities market, the Agency Securities we hold, our business, results of operations and financial condition. It is unclear the timing or manner in which the Federal Reserve might dispose of the Agency Securities it has acquired and, consequently, any impact on the Agency Securities market and the Agency Securities we hold.

In February of 2010, Fannie Mae and Freddie Mac announced that they would execute wholesale repurchases of loans which they considered seriously delinquent from existing mortgage pools. This action temporarily decreased the value of these securities until complete details of the programs and the timing were announced, and reduced our yield in the months of repayment. Freddie Mac implemented its purchase program in February 2010 with actual purchases beginning in March 2010. Fannie Mae began their process in March 2010 and announced it would implement the initial purchases over a period of three months, beginning in April 2010. Further, both agencies announced that on an ongoing basis they would purchase loans from the pools of mortgage loans underlying their mortgage pass-through certificates that became 120 days delinquent.

Interest Rates

The overall credit market deterioration since August 2007 has also affected prevailing interest rates. For example, interest rates have been unusually volatile since the third quarter of 2007. Since September 18, 2007, the U.S. Federal Reserve has lowered the target for the Federal Funds Rate nine times from 4.75% to 1.0% in October 2008. In December 2008, the Federal Reserve stated that it was adopting a policy of quantitative easing and would target keeping the Federal Funds Rate between 0 and 0.25%. To date, the Federal Reserve has maintained that target range.

Our funding costs, which traditionally have tracked the 30 day London Interbank Offered Rate (LIBOR) have generally benefited by this easing of monetary policy, although to a somewhat lesser extent. Because of continued uncertainty in the credit markets and U.S. 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. Our borrowings in the repurchase market have also historically closely tracked LIBOR. So traditionally, a lower Federal Funds rate has indicated a time of increased net interest margin and higher asset values. However, since July 2007 (prior to our commencement of operations) LIBOR and repurchase market rates have varied greatly, and often have been significantly higher than the target Federal Funds Rate. The difference between 30-day LIBOR and the Federal Funds rate has also been quite volatile, with the spread alternately returning to more normal levels and then widening out again. The volatility in these rates and divergence from the historical relationship among these rates could negatively impact our ability to manage our portfolio. If this were to occur, our net interest margin and the value of our portfolio might suffer as a result. The following table shows 30-day LIBOR as compared to the Federal Funds rate at each period end:

	30-Day	Federal
	LIBOR	Funds
June 30, 2010	0.35%	0.09 %
March 31, 2010	0.25	0.09
December 31, 2009	0.23	0.05

Principal Repayment Rate

Our net 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 assets at a premium to par, the main item that can affect the yield on our assets 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 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 portfolio, and our hedging strategy. We expect that prepayment rates will be elevated due to repurchases of loans that reach 120 day or more delinquency by Freddie Mac and Fannie Mae on a continuing basis. The following table shows the average principal repayment rate for those securities which have settled for each quarter since our commencement of operations (as our operations commenced in November 2009, there is only one month of prepayment data for 2009 for our portfolio of settled Agency Securities):

Average	
Quarterly Principal	
Quarter ended	Repayment Rate
June 30, 2010	15.4%
March 31, 2010	14.5
December 31, 2009	8.6

Book Value per Share

As of June 30, 2010, our book value per share of common stock (total shareholders' equity divided by shares of common stock outstanding) was \$7.33, a decrease of \$2.00 from \$9.33 at December 31, 2009. This decline was primarily attributable to shareholder dilution from our issuance of 5,110,000 shares at a price of \$6.75 on June 21, 2010. U.S. Government actions, particularly the large-scale purchasing of Agency Securities, the availability of historically low funding rates to fund asset purchases and decreasing turmoil in the financial markets increased values on our securities modestly between December 31, 2009 and June 30, 2010. Our interest rate contracts, which consist of using Eurodollar futures to replicate a pay fixed and receive floating swap format, act to fix the borrowing cost on a portion of our financing and generally help to mitigate some of the change in our book value. Generally, the value of our interest rate contracts move in the opposite direction of the value of our Agency Securities. For the six months ending June 30, 2010, our Eurodollar futures positions declined by \$2.1 million, and our Agency Securities increased by \$2.9 million in value.

Investments

Agency Securities

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As of June 30, 2010, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settle securities, of 104.35%, due to the average interest rates on these securities being higher than prevailing market rates. As of June 30, 2010 we had approximately \$19.8 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. As of June 30, 2010, our investment portfolio of settled securities as follows.

Adjustable Rate Settled Securities as of June 30, 2010

	Percentage of Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Price(3)	Amortized Purchase Cost(4)	Weighted Average Price(5)	Current Market Value(6)
Months to Reset								
0-18	9.3 %	5.65	\$ 32,383,725	3.89%	\$ 104.39	\$ 33,805,567	\$ 104.23	\$ 33,753,488
19-36	5.6	31.47	19,547,327	4.17	103.53	20,237,684	104.49	20,425,023
37-60	40.0	54.86	138,320,444	4.66	103.75	143,508,986	104.82	144,982,995
61-84	23.7	79.55	82,141,055	4.16	104.11	85,516,973	104.50	85,837,056
Totals/Averages	78.6 %	54.78	\$272,392,551	4.39%	\$ 103.92	\$283,069,210	104.63	\$284,998,562

Fixed Rate Settled Securities as of June 30, 2010

	Percentage of Portfolio	Weighted Average Months to Maturity	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Price(3)	Amortized Purchase Cost(4)	Weighted Average Price(5)	Current Market Value(6)
to Maturity								
0-90	0.4 %	66.68	\$ 1,358,806	6.17%	\$ 107.16	\$ 1,456,121	\$ 108.18	\$ 1,470,016
91-180	21.00	167.61	71,591,394	4.90	105.20	75,317,179	106.52	76,261,798
Totals/Averages	21.42 %	165.70	\$72,950,200	4.92%	\$ 105.24	\$76,773,300	106.55	\$77,731,814

All Settled Securities as of June 30, 2010

	Percentage		Current		Weighted		Weighted	
	Of Settled		Face		Average		Average	
	Portfolio		Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Value(6)
Totals/Averages	100.0	%	\$345,342,751	4.50 %	\$ 104.20	\$359,842,510	\$ 105.03	\$362,730,376

- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the security.

As of June 30, 2010, we had committed to purchase securities for settlements in July. The information below is current as of June 30, 2010, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon.

Adjustable Rate Forward Settle Securities as of June 30, 2010

Percentage	Weighted	Current	Weighted	Weighted	Expected	Weighted	Current
of	Average	Face	Average	Average	Amortized	Average	Market

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	Forward	Months	Value(1)	Coupon(2)	Amortized	Cost(4)	Market	Value(6)
	Settle	to			Purchase		Price(5)	
	Portfolio	Reset			Price(3)			
Totals/Averages	68.1	%	55.60	\$75,030,015	4.39%	\$ 104.00	\$ 78,030,975	\$ 104.24 \$78,209,689

Fixed Rate Forward Settled Securities as of June 30, 2010

	Percentage	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted
	of	Average	Current	Average	Average	Expected	Average	Current
	Forward	Months	Face	Average	Purchase	Amortized	Market	Market
	Settle	to	Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Value(6)
	Portfolio	Maturity						
Totals/Averages	31.9	%	173.7	\$34,441,196	4.87%	\$ 106.63	\$ 36,725,200	\$ 106.38 \$36,639,435

All Forward Settle Securities as of June 30, 2010

	Percentage	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted
	of	Average	Current	Average	Average	Expected	Average
	Forward	Current	Face	Average	Purchase	Amortized	Market
	Settle	Face	Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)
	Portfolio	Value(1)					
Totals/Averages	100.0	%	\$109,471,211	4.54%	\$ 104.83	\$ 114,756,175	\$ 104.91 \$114,849,124

All Settled and Forward Settle Securities as of June 30, 2010

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

Settle

Price(3)

Portfolio

Totals/Averages	100.0	%	\$454,813,962	4.51%	\$	104.35	\$474,598,685	\$	105.01	\$477,579,500
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- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.

- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the security.

As of December 31, 2009, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settle securities, of 104.07%, due to the average interest rates on these securities being higher than prevailing market rates. As of December 31, 2009 we had approximately \$4.6 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. All unsettled purchases of securities as of December 31, 2009 were settled in January and February 2010. As of December 31, 2009, our investment portfolio of settled securities consisted of Agency Securities as follows:

Adjustable Rate Settled Securities as of December 31, 2009

Months to Reset	Portfolio	Percentage of	Weighted		Weighted		Weighted	Current
			Average	Current	Average	Amortized		
Reset	Months to	Reset	Value(1)	Coupon(2)	Price(3)	Cost(4)	Price(5)	Value(6)
0-18	9.5 %	1.6	\$ 5,568,961	2.79%	\$ 102.03	\$ 5,681,963	102.34	\$ 5,699,059
19-36	2.7	30.4	1,512,149	5.38	102.60	1,551,508	105.27	1,591,791
37-60	39.1	54.5	22,268,269	5.50	105.18	23,421,507	105.64	23,523,759
61-80	17.9	66.4	10,214,641	5.43	105.61	10,787,220	105.64	10,790,323
Totals/Averages	69.2 %	49.4	\$39,564,020	5.11%	\$ 104.76	\$ 41,442,198	105.17	\$41,604,932

Fixed Rate Settled Securities as of December 31, 2009

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Weighted Average Months to Maturity	Percentage of Portfolio	Weighted		Weighted Average Coupon(2)	Weighted		Weighted Average Market Price(5)	Current Market Value(6)
		Average Months to Maturity	Current Face Value(1)		Amortized Purchase Price(3)	Amortized Cost(4)		
0-90	2.9%	73.3	\$ 1,628,086	6.18%	107.11	\$ 1,743,902	106.87	\$ 1,739,867
91-180	27.9	167.2	16,026,317	4.97	106.18	17,016,808	104.72	16,782,673
Totals/Averages	30.8%	158.4	\$17,654,403	5.08%	106.27	\$18,760,710	104.92	\$18,522,540

All Settled Securities as of December 31, 2009

Percentage Of Settled Portfolio	Current Face Value(1)	Weighted Average Coupon(2)	Weighted		Weighted Average Market Price(5)	Current Market Value(6)
			Amortized Purchase Price(3)	Amortized Cost(4)		
Totals/Averages	100.0 %	5.10%	105.23	\$60,202,908	105.10	\$60,127,472

As of December 31, 2009, we had committed to purchase securities for settlements in January and February of 2010. The information below was current as of December 31, 2009, but subject to change due to amortization prior to settlement. In addition, some forward trades of new issue securities are subject to modest changes in delivery size and coupon. All, but one, of the forward settling Agency Securities was adjustable rate with a minimum expected months to reset of eleven months and a maximum expected months to reset of 71 months.

Adjustable Rate Forward Settle Securities as of December 31, 2009

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

Totals/Averages	91.0	%	59.0	\$51,636,165	4.29%	\$ 102.89	\$53,126,166	\$ 103.19	\$53,282,749
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Fixed Rate Forward Settled Securities as of December 31, 2009

Portfolio	Percentage of Forward Settle	Weighted Average Months to Maturity	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average		Current Market Value(6)		
					Amortized Purchase Price(3)	Expected Amortized Cost(4)			
					Price(5)	Price(5)			
Totals/Averages	9.0	%	163.0	\$5,132,846	4.50%	\$ 102.84	\$ 5,278,811	\$ 102.06	\$5,238,503

All Forward Settle Securities as of December 31, 2009

Portfolio	Percentage of Forward Settle	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average		Current Market Value(6)		
				Amortized Purchase Price(3)	Expected Amortized Cost(4)			
				Price(5)	Price(5)			
Totals/Averages	100.0	%	\$ 56,769,011	4.31%	\$ 102.89	\$ 58,404,977	\$ 103.09	\$58,521,252

All Settled and Forward Settle Securities as of December 31, 2009

Portfolio	Percentage Of Settled and Forward Settle	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average		Current Market Value(6)		
				Amortized Purchase Price(3)	Expected Amortized Cost(4)			
				Price(5)	Price(5)			
Totals/Averages	100.0	%	\$ 113,987,434	4.71%	\$ 104.07	\$ 118,607,885	\$ 104.10	\$ 118,648,724

- (1) The current face is the current monthly remaining dollar amount of principal of an Agency Security. We compute current face by multiplying the original face value of the security by the current principal balance factor. The current principal balance factor is a fraction, where the numerator is the current outstanding balance and the denominator is the original principal balance.
- (2) For a pass-through certificate, the coupon reflects the weighted average nominal rate of interest paid on the underlying mortgage loans, net of fees paid to the servicer and the agency. The coupon for a pass-through certificate may change as the underlying mortgage loans are prepaid.
- (3) Amortized purchase price is the dollar amount, per \$100 of current face, of our purchase price for the security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (4) Amortized cost is our total purchase price for the Agency Security, adjusted for amortization as a result of scheduled and unscheduled principal repayments.
- (5) Market price is the dollar amount of market value, per \$100 of nominal, or face value, of the Agency Security. We utilize a third party pricing service to determine pricing for our portfolio. In certain circumstances, we may disagree with the pricing service analysis and we will request a price from third party broker dealers who actively trade in the specific securities. We may seek one or more prices from broker dealers to assess fair market value. Generally, the securities we purchase can be fully analyzed using software available from Bloomberg L.P. This software is utilized by the counterparties with whom we trade.
- (6) Market value is the total market value for the security.

Our investment portfolio consisted of the following breakdown between Fannie Mae, Freddie Mac and Ginnie Mae at June 30, 2010.

Agency Securities	June 30, 2010	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 213,373,807	44.7 %
Freddie Mac Certificates	100,724,372	21.0
Ginnie Mae	48,632,197	10.2
Forward Settle Securities		
Fannie Mae Certificates	53,756,476	11.3
Freddie Mac Certificates	51,884,668	10.9
Ginnie Mae	9,207,980	1.9
Total Securities	\$ 477,579,500	100.0 %

Our investment portfolio consisted of the following breakdown between Fannie Mae, Freddie Mac and Ginnie Mae at December 31, 2009:

Agency Securities	December 31, 2009	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 32,500,935	27.3 %
Freddie Mac Certificates	27,372,349	23.1
Ginnie Mae	254,188	0.2
Forward Settle Securities		
Fannie Mae Certificates	8,378,168	7.1
Freddie Mac Certificates	34,993,084	29.5
Ginnie Mae	15,150,000	12.8
Total Securities	\$ 118,648,724	100.0 %

As of June 30, 2010 and December 31, 2009, the adjustable and hybrid adjustable rate mortgage loans underlying our Agency Securities had fixed interest rates for an average period of approximately 55 and 49 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, or CMT, 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. Most of our adjustable and hybrid adjustable Agency Securities, but not all, have an initial 5% adjustment cap after the fixed period ends. The average annual cap, after the initial adjustment cap, on increases (or decreases) to the interest rates on our Agency Securities is typically, but not always, 2% per year. The typical average lifetime cap on increases to the interest rates on our Agency Securities is 5% from the initial stated rate, although in some cases it may be 6%.

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 LIBOR. We have established borrowing relationships with several investment banking firms and other lenders, seven of which we had done repurchase trades with as of June 30, 2010 and three of which we had done repurchases trades with as of December 31, 2009. We had outstanding balances under our repurchase agreements at June 30, 2010 and December 31, 2009 of \$334.7 million and \$46.4 million, respectively.

Derivative Instruments

We generally intend to mitigate as much of our interest rate risk as our manager deems prudent in light of market conditions and the associated costs. No assurance can be given that our interest rate contracts will have the desired beneficial impact on our results of operations or financial condition. We do not qualify for, and have not elected hedge

accounting treatment under the authoritative guidance. Our policies do not contain specific requirements as to the percentages or amount of interest rate risk that our manager is required to mitigate.

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

.

available interest rate contracts may not correspond directly with the interest rate risk for which protection is sought;

.

the duration of the interest rate contracts may not match the duration of the related liability;

.

the party owing money on the interest rate contracts may default on its obligation to pay;

.

the credit quality of the party owing money on the interest rate contracts 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 interest rate contracts may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value. Downward adjustments, or mark-to-market losses, would reduce our net income.

As of June 30, 2010 and December 31, 2009 we had entered into \$165.0 million and \$21.0 million, respectively, of Eurodollar Futures contracts used as swap equivalents traded in 1,990 and 292 individual contract transactions, respectively, designed to lock in some funding costs for financing activities associated with our assets in such a way as to help assure the realization of attractive net interest margins. Such contracts are based on assumptions about prepayments which, if not realized, will cause results to differ from expectations. Eurodollar Futures are traded on the Chicago Mercantile Exchange (CME) and have limited counterparty risk because of daily mark-to-market and collateral requirements. In addition, substantial credit support for the futures contracts is provided by the CME.

Results of Operations

We commenced our operations in November 2009 upon completion of the merger with Enterprise Acquisition Corp. In addition, on June 21, 2010, we completed an underwritten follow-on public offering of 5,100,000 shares of common stock at \$6.75 per share. The net proceeds were \$31.9 million, net of approximately \$2.6 million in expenses. Under our investment strategy, it requires a period of time to deploy investment capital. Consequently, comparison of quarter over quarter data, especially of gross numbers, may not be meaningful, or useful in predicting future results.

Three and six Months ended June 30, 2010 and June 30, 2009

Our primary source of income is the interest income we earn on our investment portfolio. Our loss attributable to stockholders for the three and six months ended June 30, 2010 was \$(0.7) million and \$(0.4) million, or \$(0.22) and \$(0.14) per weighted average share, respectively. Compared to a net loss of \$(0.5) million and \$(0.5) million or \$(0.02) and \$(0.02), respectively per weighted average share for the three and six months ended June 30, 2009. The main drivers of the difference were the implementation of ARMOUR's investment strategy, unrealized losses from our hedging strategy and the expenses related to the merger of Enterprise and ARMOUR.

Our net interest income for the three and six months ended June 30, 2010 was \$1.2 million and \$2.2 million compared to \$0.1 million and \$0.2 million for the three and six months ended June 30, 2009. As of June 30, 2010, our Agency Securities portfolio consisted of \$477.6 million of securities, including \$114.9 million of current carrying value of forward settle security sales. Our securities had an average yield of 2.98% and a cost of funds (including the effect of derivative instruments) of 0.37%. This resulted in a net interest margin (or spread) of 2.61% for the three months ended June 30, 2010. For the six months ended June 30, 2010, our securities had an average yield of 3.01% and a cost of funds (including the realized cost of derivative instruments) of 0.38%. This resulted in a net interest margin of 2.61%. The three and six month average yield of 2.98% and 3.01%, respectively and the net interest margin were significantly higher than the three and six months ended June 30, 2009 because we implemented our investment strategy in Agency Securities on a leveraged basis. The average cost of funds incorporates repurchase placement fees as well as realized costs on derivative instruments and expenses incurred during the three and six months ended June 30, 2010. The weighted average repurchase rate alone, excluding fees and interest rate risk mitigation was 30 and 34 basis points, respectively for the three and six months ended June 30, 2010. For the period ended June 30, 2009 our investments were short term government bonds and had a yield of 0.2%. We had no borrowings and no hedging costs. As a result, our net interest margin equaled our yield of 0.2%.

The yield on our assets is most significantly affected by the rate of repayments on our Agency Securities. Our rate of portfolio repayment for the three and six months ended June 30, 2010 was 15.4% and 15.0%, respectively, on a Constant Prepayment Basis (CPR). We did not own Agency Securities as of the three and six months ended June 30, 2009. Our prepayment rates were faster in the quarter ended June 30, 2010 principally due to Fannie Mae's completion of its repurchase of all 120 day or more delinquent loans from its pools. Over the longer term, prepayment rates will likely be higher than recent history due to repurchases of loans that reach 120 day or more delinquency by Freddie Mac and Fannie Mae on a continuing basis.

As of June 30, 2010, our Agency Securities portfolio was purchased at a net premium to par value with a weighted average amortized cost, including settled and forward settles securities, of 104.35%, due to the average interest rates on these securities being higher than prevailing market rates.

The main indicator of our borrowing costs is 30-day LIBOR, which generally closely parallels the rates we pay on our repurchase agreements. LIBOR was 0.35% at June 30, 2010. During the three months ended June 30, 2010, we realized income of \$6,611 related to our interest rate contracts and for the six months ended June 30, 2010, we realized expense of \$43 related to interest rate contracts compared to zero income or expense for the three and six months ended June 30, 2009. We increased our total Eurodollar future swap equivalent notional amount from zero during the period ended June 30, 2009 to \$165.0 million at June 30, 2010 with a weighted average swap equivalent average rate of 1.64% and weighted average term of 42 months.

Our total operating expenses for the three and six months ended June 30, 2010 were \$0.5 million and \$0.8 million as compared to \$0.7 million and \$1.0 million for the three and six months ended June 30, 2009.

We have negative retained earnings (titled "Accumulated deficit" in the stockholders' equity section of the accompanying consolidated financial statements) as of June 30, 2010, due to the consequences of our tax qualification as a REIT. Our dividends are based on our REIT taxable income, as determined for federal income tax purposes, and not our net income computed in accordance with GAAP as reported in the accompanying consolidated financial statements.

For the three and six months ended June 30, 2010 our estimated REIT taxable income was approximately \$0.9 million and \$1.9 million, respectively. The most significant difference was the unrealized loss on interest rate contracts which is reflected in GAAP earnings but does not reduce REIT taxable income.

Liquidity and Capital Resources

Our primary sources of funds are borrowings under repurchase arrangements, monthly principal and interest payments on our investments, 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 these borrowings can be adjusted on a daily basis, the level of cash and cash equivalents carried on the 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 borrowings and the payment of cash dividends as required for continued qualification as a REIT.

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 period ended June 30, 2010, we purchased, \$418.6 million current face amount of Agency Securities using proceeds from the merger transaction, the follow-on equity raise, repurchase agreements, principal repayments and cash. During the period ended June 30, 2010, we received cash of \$27.3 million, from prepayments and scheduled amortization on our investment securities and we received \$31.9 million from the follow-on equity issuance. We had a net cash increase from our repurchase agreements of \$288.3 million for the period ended June 30, 2010. We made cash interest payments of approximately \$0.1 million and \$0.2 million, respectively on our borrowings for the three and six months ended June 30, 2010. Part of funding our operations includes providing cash margin to offset liability balances on our interest rate contracts. This required \$3.9 million of cash to be placed in a restricted account with our counterparty as of ended June 30, 2010. If rates increase over time, we may recover some or all of this cash.

In response to the growth of our Agency Securities portfolio and to the relatively weak financing market, 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. Currently, we have Master Repurchase Agreements, which are uncommitted repurchase facilities with eight lending counterparties to finance the portfolio, subject to certain conditions, and have borrowings outstanding with seven of these counterparties.

On April 29, 2010, we paid a first quarter 2010 cash dividend of \$0.40 per common share, or \$0.9 million in the aggregate, to holders of record on March 15, 2010.

On July 29, 2010, we paid a second quarter 2010 cash dividend of \$0.40 per common share, or \$0.9 million in the aggregate, to holders of record on June 3, 2010.

Our board of directors (the Board) will continue to evaluate our dividend policy each quarter and will make adjustments as necessary, based on a variety of factors, including, among other things, the need to maintain our REIT status, our financial condition, liquidity, earnings projections and business prospects. Our dividend policy does not constitute an obligation to pay dividends, which only occurs when our Board declares a dividend.

We intend to make distributions to our stockholders to comply with the various requirements to maintain our REIT status and to minimize corporate income tax and the nondeductible excise tax. However, REIT taxable income is calculated according to the requirements of the Internal Revenue Code rather than generally accepted accounting principles (GAAP) which can cause differences between GAAP income reported by the Company and taxable income calculated to determine distribution requirements to stockholders. These differences are primarily due to non-taxable unrealized changes in the value of our interest rate contracts. These differences may be large and can be either positive or negative variances from GAAP income. In addition, differences in timing between the recognition of REIT taxable income and the actual receipt of cash could require us to sell assets or to borrow funds on a short-term basis to meet the REIT distribution requirements and to minimize corporate income tax and the nondeductible excise tax.

Off-Balance Sheet Arrangements

As of June 30, 2010 and December 31, 2009, we did not maintain 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. Further, as of June 30, 2010 and December 31, 2009, we had not guaranteed any obligations of any unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

Liquidity Sources Repurchase Facilities

The following table presents certain information regarding our risk exposure on our repurchase agreements as of June 30, 2010:

Repurchase Agreement Counterparties	Amount Outstanding	Amount at Risk(1)	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
MF Global	\$ 83,392,000	\$ 4,154,532	36	25.0%
Goldman Sachs	81,359,000	4,302,930	19	24.3
South Street Securities	52,908,360	2,760,596	17	15.8
Cantor Fitzgerald	35,879,000	2,386,207	29	10.7
RBS Securities Inc.	34,572,000	1,797,820	23	10.3
Nomura	26,816,963	1,593,840	26	8.0
Jefferies	19,776,000	1,043,725	22	5.9
Total	\$ 334,703,323	\$ 18,039,650		100.0%

(1) Equal to the fair value of securities sold, minus the sum of repurchase agreement liabilities plus accrued interest expense.

The following table presents certain information regarding our risk exposure on our repurchase agreements as of December 31, 2009:

Repurchase Agreement Counterparties	Amount Outstanding	Amount at Risk(1)	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
Goldman Sachs	\$ 31,692,000	\$ 1,683,203	81	68.3%
MF Global	10,730,188	385,340	22	23.1
South Street Securities	3,966,414	131,489	25	8.6
Total	\$ 46,388,602	\$ 2,200,032		100.0%

(1) Equal to the fair value of securities sold, minus the sum of repurchase agreement liabilities plus accrued interest expense.

As of June 30, 2010, the weighted average margin requirement, or the percentage amount by which the collateral value must exceed the loan amount, which we also refer to as the haircut, under all our repurchase agreements was approximately 5.2% (weighted by borrowing amount). As of December 31, 2009, the weighted average margin requirement, under all our repurchase agreements was approximately 5.4%. 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 master repurchase agreement would give our counterparty the option to terminate all repurchase transactions existing with us and require any amount due by us to the counterparty to be payable immediately.

As discussed above under Market and Interest Rate Trends and the Effect on our Portfolio, the residential mortgage market in the United States has recently experienced difficult economic conditions including:

·
increased volatility of many financial assets, including Agency Securities and other high-quality RMBS assets;

·
increased volatility and deterioration in the broader residential mortgage and RMBS markets; and

·
significant disruption in financing of RMBS.

If these conditions persist, our lenders may be forced to exit the repurchase market, become insolvent or further tighten lending standards or increase the amount of required equity capital or haircut, any of which could make it more difficult or costly for us to obtain financing.

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 loan 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 pay downs 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, we may experience margin calls monthly or more frequently. In seeking to manage effectively 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, we will experience margin calls, and we will use our liquidity to meet the 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. In addition, if we increase our borrowings, our liquidity will decrease by the amount of additional haircut on the increased level of indebtedness.

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 liquidate assets into unfavorable market conditions and harm our results of operations and financial condition.

Forward-Looking Statements Regarding Liquidity

Based on our current portfolio, leverage rate and available borrowing arrangements, we believe that our common equity, combined with cash flow from operations and available borrowing capacity, will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements such as to fund our investment activities, pay fees under our management agreement, fund our distributions to shareholders and general corporate expenses.

Our ability to meet our long-term (greater than one year) liquidity and capital resource requirements will be subject to obtaining additional debt financing and/or equity capital. We may increase our capital resources by obtaining long-term credit facilities or making public or private offerings of equity or debt securities, possibly including classes of preferred stock, common stock, and senior or subordinated notes. Such financing will depend on market conditions for capital raises and for the investment of any proceeds. If we are unable to renew, replace or expand our sources of financing on substantially similar terms, it may have an adverse effect on our business and results of operations.

We generally seek to borrow (on a recourse basis) between six and ten times the amount of our shareholders' equity, although we are not limited to that range. At June 30, 2010 and December 31, 2009, our total borrowings were approximately \$334.7 million and \$46.4 million (excluding accrued interest), respectively, which represented a leverage ratio of approximately 6.2:1 and 2.16:1, respectively.

Critical Accounting Policies

A summary of our critical accounting policies is included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes to those policies during 2010.

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.

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 shareholders 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

We invest in adjustable rate, hybrid and fixed rate Agency Securities. Hybrid mortgages are adjustable rate mortgages (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.

ARM-related assets are typically subject to periodic and lifetime interest rate caps that limit the amount an ARM-related asset's interest rate can change during any given period. ARM securities 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 problem would be magnified to the extent we acquire Agency Securities that are not fully indexed. Further, some ARM-related assets 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 ARM-related assets 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 common 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 ARM-related assets 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 does our earnings rate on the assets.

Further, our net income may vary somewhat as the spread between one-month interest rates, the typical term for our repurchase agreements and six- and twelve-month interest rates, the typical reset term of adjustable rate Agency Securities, 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. To date, all of our Agency Securities have been 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 hedging instruments.

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 show 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, 2010 and December 31, 2009, assuming a static portfolio. When evaluating the impact of changes in interest rates, prepayment assumptions and principal reinvestment rates are adjusted based on our manager's expectations. The analysis presented utilized assumptions, models and estimates of the manager based on the manager's judgment and experience.

As of June 30, 2010

Percentage Change in		
Change in Interest rates	Percentage Change in Projected Net Interest Income	Projected Portfolio Value Including Interest Rate Contracts
1.00%	3.58%	(0.86)%
0.50	2.76	(0.29)
(0.50)	(13.17)	0.03
(1.00)	(27.05)	0.00

As of December 31, 2009

Percentage Change in		
Change in Interest rates	Percentage Change in Projected Net Interest Income	Projected Portfolio Value Including Interest Rate Contracts
1.00%	(6.09)%	(1.12)%
0.50	(2.73)	(0.55)
(0.50)	(1.12)	0.78
(1.00)	(3.89)	0.99

While the table above reflects the estimated immediate impact of interest rate increases and decreases on a static portfolio, we rebalance our 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 table above. In addition, other factors impact the market value of and net interest income from our interest rate-sensitive investments and hedging 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 shareholders.

The above table quantifies the potential changes in net interest income and portfolio value, which includes the value of our interest rate contracts, should interest rates immediately change. Given the low level of interest rates at June 30, 2010 and December 31, 2009, we applied a floor of 0% for all anticipated interest rates included in our

assumptions. Due to 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 (i.e., market value) with the periodic adjustment to fair value (that is not considered to be an other than temporary impairment) reflected as part of Accumulated other comprehensive income that is included in the equity section of our balance sheet. The market value of our assets can fluctuate due to changes in interest rates and other factors.

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 adjustable rate Agency Securities. 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

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our chief executive officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our co-chief executive officers carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010. Based on their evaluation, they concluded that our disclosure controls and procedures were effective.

Our internal control over financial reporting is a process designed by, or under the supervision of, our co-chief executive officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with GAAP(United States). Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP (United States), and that our receipts and expenditures are being made only in accordance with the authorization of our board of directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives. Our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level.

PART II. Other Information

Item 1. Legal Proceedings

Our company and our manager are not currently subject to any legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K filed on March 29, 2010 with the SEC.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

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

Date: August 5, 2010

ARMOUR RESIDENTIAL REIT, INC.

/s/ Scott J. Ulm

Scott J. Ulm

Co-Chief Executive Officer, Chief Investment
Officer, Head of Risk Management and Co-Vice
Chairman

(Principal Executive Officer)

EXHIBIT INDEX

Exhibit

Number	Description
3.1	Amended and Restated Article of Incorporation.*
3.2	Amended Bylaws.**
4.1	Warrant Agreement between Continental Stock Transfer & Trust Company and Enterprise Acquisition Corp. (incorporated by reference to Enterprise Acquisition Corp.'s Current Report on Form 8-K filed with the SEC on July 29, 2009)
4.2	Amendment to Warrant Agreement dated November 5, 2009 (incorporated by reference to Exhibit 4.4 to ARMOUR's Current Report on Form 8-K filed with the SEC on November 12, 2009)
4.3	Specimen Common Stock Certificate of ARMOUR (incorporated by reference to Amendment No. 4 to Registration Statement on Form S-4 filed with the SEC on October 13, 2009)
4.4	Specimen Warrant Certificate of ARMOUR (incorporated by reference to Amendment No. 4 to Registration Statement on Form S-4 filed with the SEC on October 13, 2009)
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)***
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)***
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350***
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350***

* Incorporated by reference to Exhibit 3.4 to ARMOUR's Current Report on Form 8-K filed with the SEC on November 12, 2009.

** Incorporated by reference to Exhibit 3.5 to ARMOUR's Current Report on Form 8-K filed with the SEC on November 12, 2009.

*** Filed herewith