

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

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

FORM 10-Q

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

For Fiscal Quarter Ended September 30, 2010

OR

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

For the transition period from _____ to

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland

001-33736
(Commission File Number)

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

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(State or other jurisdiction of incorporation or organization)

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

(Address of principal executive offices)(zip code)

(772) 617-4340

(Registrant's telephone number, including area code)

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

Title of Class	Name of Exchange on which registered
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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 November 9, 2010 was 12,014,054.

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

Assets	(Unaudited)	
	September 30, 2010	December 31, 2009
Cash	\$ 11,964,520	\$ 6,653,331
Restricted cash	6,862,088	299,280
Agency Securities, available for sale, at fair value (including pledged assets of \$518,185,596 and \$48,886,278)	540,070,197	118,648,724
Principal payments receivable	2,739,224	73,705
Accrued interest receivable	2,176,568	412,114
Interest rate contracts, at fair value	-	50,363
Prepaid and other assets	178,391	162,366
Refundable income taxes	393,725	393,725
Total Assets	\$ 564,384,713	\$ 126,693,608

Liabilities and Stockholders Equity

Liabilities:

Repurchase agreements	\$ 490,727,022	\$ 46,388,602
Payable for unsettled securities	11,130,519	58,559,479
Interest rate contracts, at fair value	5,394,674	-
Accounts payable and accrued expenses	320,398	76,493
Dividends payable	2,776,550	177,938
Total Liabilities	510,349,163	105,202,512

Stockholders Equity:

Preferred stock, \$0.001 par value, 25,000,000 shares	-	-
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authorized, none outstanding at September 30, 2010 and December 31, 2009

Common stock, \$0.001 par value, 250,000,000 shares authorized, 7,414,054 and 2,304,054 shares issued and outstanding at September 30, 2010 and December 31, 2009	7,414	2,304
Additional paid-in capital	54,702,873	22,645,127
Accumulated deficit	(6,562,624)	(1,197,174)
Accumulated other comprehensive income	5,887,887	40,839
Total Stockholders Equity	54,035,550	21,491,096
Total Liabilities and Stockholders Equity	\$ 564,384,713	\$ 126,693,608

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations****(Unaudited)**

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

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

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders Equity
(Unaudited)

	Common Stock		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	-	-	-	(4,512,303)	-	-	(4,512,303)
Sale of 5,110,000 shares, net of underwriters discount and offering expenses	5,110,000	5,110	32,057,746	-	-	-	32,062,856
Net loss	-	-	-	(853,147)	-	-\$ (853,147)	(853,147)
Net change in unrealized gain on investment in available for sale securities	-	-	-	-	5,847,048	5,847,048	5,847,048
Comprehensive income	-	-	-	-	-\$	4,993,901	-
Balance, September 30, 2010	7,414,054	\$ 7,414	\$ 54,702,873	\$ (6,562,624)	\$ 5,887,887	-	\$ 54,035,550

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

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries**Condensed Consolidated Statements of Cash Flows****(Unaudited)**

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

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

See notes to condensed consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Note 1 Organization and Nature of Business Operations

Business

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

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

We intend to qualify and have elected to be taxed as a REIT for the taxable year ended December 31, 2009 and thereafter upon filing our federal income tax return for that year. Our qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code (the Code) relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and our manner of operations enables us to meet the requirements for taxation as a REIT for federal income tax purposes.

As a REIT, we will generally not be subject to federal income tax on the REIT taxable income that we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax at regular corporate rates. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to some federal, state and local taxes on our income.

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

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

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Merger Transaction

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

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

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

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

.

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 nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in our annual report on Form 10-K for the 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Restricted Cash

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

Agency Securities, at Fair Value

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

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

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

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

Fair Value of Financial Instruments

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

Repurchase Agreements

We finance the acquisition of elements of our investment portfolio through the use of repurchase agreements. Our repurchase agreements are secured by our Agency Securities and bear interest rates that have historically moved in close relationship to the London Interbank Offered Rate (LIBOR). Under these agreements, we sell securities to a lender and agree to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sales price that we receive and the repurchase price that we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as financing under which we pledge our securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged 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 our condensed consolidated balance sheet. We do not designate our interest rate risk mitigation activities as cash flow hedges, which, among other factors, would require us to match the pricing dates of both hedging transactions and repurchase agreements. Operational issues and credit market volatility make such matching impractical for us. Since we will not qualify for hedge accounting treatment as prescribed by GAAP, our operating results may reflect greater volatility than otherwise would be the case, because gains or losses on the interest rate risk mitigation instruments may not be offset by changes in the fair value or cash flows of the transaction within the same accounting period, or ever. Consequently, any declines in our interest rate contracts would result in a charge to earnings. We will continue to designate interest rate risk mitigation activities as hedges for tax purposes and any unrealized gains or losses should not affect our distributable net income.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Preferred Stock

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

Common Stock and Warrants

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

Loss per Common Share

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

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

Comprehensive Income

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

Revenue Recognition

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

Income Taxes

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

Reclassification

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

Note 3 Recent Accounting Pronouncements

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

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

Note 4 Agency Securities, Available for Sale

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

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

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

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

	Amortized	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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010****(Unaudited)**

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

	September 30, 2010
Principal balance settled securities	\$ 501,236,488
Principal balance forward settle securities	10,667,379
Unamortized premium settled securities	21,838,407
Unamortized premium forward settle securities	440,036
Gross unrealized gains	6,271,342
Gross unrealized losses	(383,455)
Carrying value/estimated fair value	\$ 540,070,197

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 September 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 September 30, 2010, we had

approximately \$22.3 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. As of September 30, 2010, our investment portfolio of securities consisted of Agency Securities as follows. The table below includes \$11.1 million of current carrying value of forward settle security purchases.

Adjustable Rate Securities as of September 30, 2010

Months to Reset	Percentage of Portfolio	Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase		Weighted Average Market Price(5)		Current Market Value(6)
					Price(3)	Cost(4)	Price(5)	Value(6)	
0-18	8.9	% 5.86	\$ 46,082,838	3.41	% \$ 104.28	\$ 48,053,300	\$ 104.33	\$ 48,078,8	
19-36	3.8	29.64	19,601,939	4.17	103.68	20,322,976	104.56	20,496,3	
37-60	37.0	53.99	189,338,700	4.16	103.97	196,859,920	105.45	199,665,4	
61-80	27.2	80.39	139,809,345	3.97	103.83	145,170,262	105.05	146,866,	
Totals/Averages	76.9	% 56.51	\$ 394,832,822	4.01	% \$ 103.94	\$ 410,406,458	\$ 105.13	\$ 415,107,	

Fixed Rate Securities as of September 30, 2010

Weighted Average Months to Maturity	Percentage of Portfolio	Weighted Average Months to Maturity	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase		Weighted Average Market Price(5)		Current Market Value(6)
					Price(3)	Cost(4)	Price(5)	Value(6)	
0-90	0.2	% 65.05	\$ 1,244,275	6.16	% \$ 107.19	\$ 1,333,694	\$ 107.82	\$ 1,341,5	
91-180	22.9	167.05	115,826,770	4.74	105.71	122,442,157	106.73	123,621,1	
Totals/Averages	23.1	% 166.00	\$ 117,071,045	4.76	% \$ 105.73	\$ 123,775,851	\$ 106.74	\$ 124,962,7	

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

All Securities as of September 30, 2010

	Percentage		Current		Weighted		Weighted		Current	
	of		Face		Average		Average		Market	
	Portfolio		Value(1)		Coupon(2)		Price(3)		Amortized	
							Purchase		Market	
							Cost(4)		Price(5)	
							Amortized		Value(6)	
Totals/Averages	100.0	%	\$ 511,903,867		4.18	%	\$ 104.35	\$ 534,182,310	\$ 105.50	\$ 540,070,197

- (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.
- (6) Market value is the total market value for the security.

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

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 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 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.

(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 reset of eleven months and a maximum expected reset of 71 months.

Adjustable Rate Forward Settle Securities as of December 31, 2009

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

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

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

ARMOUR Residential REIT, Inc. and Subsidiaries**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 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 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 September 30, 2010.

Agency Securities	September 30, 2010	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 322,846,409	59.8 %
Freddie Mac Certificates	149,572,080	27.7
Ginnie Mae Certificates	56,447,344	10.5

Forward Settle Securities

Fannie Mae Certificates		10,456,062	1.9	
Freddie Mac Certificates		-	-	
Ginnie Mae Certificates		748,302	0.1	
Total Securities	\$	540,070,197	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 Certificates		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 Certificates		15,150,000	12.8	
Total Securities	\$	118,648,724	100.0	%

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

As of September 30, 2010 and December 31, 2009, the adjustable and hybrid adjustable rate mortgage loans underlying our Agency Securities have fixed interest rates for an average period of approximately 56 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 (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 nine months ended September 30, 2010, we recognized non-cash losses of \$3.4 million and \$5.4 million, respectively. Our derivative instruments are carried on our condensed consolidated balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative.

As of September 30, 2010 and December 31, 2009, we had entered into \$195.0 million and \$21.0 million (notional amount), respectively, of Eurodollar Future swap equivalents traded in 2,480 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 September 30, 2010 and December 31, 2009. We had \$7.3 million and \$0.3 million of restricted cash related to margin posted for Futures Contracts as of September 30, 2010 and December 31, 2009, respectively.

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

	Notional Amount	Value as of September 30, 2010	Weighted Average Rate	%
Eurodollar futures strips maturing 09/17/2012	\$ 44,000,000	\$ (549,825)	1.1	%
Eurodollar futures strips maturing 12/16/2013	87,000,000	(1,982,175)	1.4	
Eurodollar futures strips maturing 09/15/2014	49,000,000	(2,301,863)	2.1	
Eurodollar futures strips maturing 09/14/2015	15,000,000	(560,811)	2.1	
Totals	\$ 195,000,000	\$ (5,394,674)	1.6	%

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

	Notional Amount	Value as of December 31, 2009	Weighted Average Rate	%
Eurodollar futures strips maturing 03/18/2012	\$ 3,000,000	\$ 3,875	1.4	%
Eurodollar futures strips maturing 03/18/2013	5,000,000	6,625	2.0	
Eurodollar futures strips maturing 03/18/2014	13,000,000	39,863	2.5	
Totals	\$ 21,000,000	\$ 50,363	2.2	%

ARMOUR Residential REIT, Inc. and Subsidiaries**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010****(Unaudited)****Note 6 Repurchase Agreements**

At September 30, 2010 and December 31, 2009, we had repurchase agreements in place in the amount of \$490.7 million and \$46.4 million, respectively, to finance Agency Security purchases. For the period ended September 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 September 30, 2010 and December 31, 2009, we had repurchase agreements outstanding with eight and three counterparties, respectively, with a weighted average maturity of 39 days and 2 months, respectively.

The following tables represent the contractual repricing information regarding our repurchase agreements:

September 30, 2010	Balance	Weighted Average Contractual Rate	Contractual Interest Payments	Total Contractual Obligation
Within 30 days	\$ 282,138,022	0.30 %	\$ 25,554	\$ 282,163,576
30 days to 90 days	183,821,000	0.31	37,247	183,858,247
Greater than 90 days	24,768,000	0.32	1,541	24,769,541
Total	\$ 490,727,022	0.30 %	\$ 64,342	\$ 490,791,364

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 September 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
Goldman, Sachs & Co.	\$ 87,338,000	\$ 5,010,545	18	17.9 %
MF Global Inc.	77,286,000	2,793,484	68	15.7
Nomura Securities International	71,969,000	3,864,161	74	14.7
Guggenheim Liquidity Services, LLC	70,784,000	3,822,739	45	14.4
Cantor Fitzgerald & Co. Inc.	65,353,000	5,016,538	22	13.3
South Street Securities LLC	54,940,022	2,642,841	18	11.2
RBS Securities Inc.	53,069,000	2,836,192	22	10.8
Jefferies & Company, Inc.	9,988,000	551,690	20	2.0
Total	\$ 490,727,022	\$ 26,538,190		100.0 %

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

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

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 & Co.	\$ 31,692,000	\$ 1,683,203	81	68.3 %
MF Global Inc.	10,730,188	385,340	22	23.1
South Street Securities LLC	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 September 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 5.3% and 5.4%, respectively.

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 on securities available for sale during the period and is reported in our condensed consolidated statements of stockholder s equity.

	Three months Ended	Three months Ended	Nine months Ended	Nine months Ended
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net loss	\$ (458,094)	\$ (892,965)	(853,147)	\$ (1,367,159)
Net change in unrealized gain on investment in available for sale securities	2,905,977	-	5,847,048	-
Comprehensive income (loss)	\$ 2,447,883	\$ (892,965)	\$ 4,993,901	\$ (1,367,159)

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

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, our Board of Directors (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.

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 \$32.1 million, net of issuance costs of approximately \$2.4 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.

On September 14, 2010, we declared a third quarter 2010 cash dividend of \$0.36 per common share, or \$2.7 million in the aggregate, to holders of record on September 23, 2010. The dividend was paid on October 29, 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 September 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.

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

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.

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 the pricing methods used are consistent with the Level 2 definition. 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 September 30, 2010, all of our Agency Securities were valued using the independent pricing service.

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.

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

	Level 1	Level 2	Level 3	Total
Assets carried at fair value:				
Agency Securities, available for sale	\$ -	\$ 540,070,197	\$ -	\$ 540,070,197
Liabilities carried at fair value:				

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Interest rate contracts	(5,394,674)	-	-	(5,394,674)
Total	\$ (5,394,674)	\$ 540,070,197	\$ -	\$ 534,675,523

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 intend to qualify and have elected 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 the fact that we have elected REIT status. Income tax expense for the nine months ended September 30, 2010 consists of income taxes incurred because of undistributed REIT taxable income for the year ending December 31, 2009.

We have elected 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 September 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.

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009		September 30, 2009	
Current:				
Federal	\$	(147,000)	\$	(393,700)
State		(490)		(490)
Total current		(147,490)		(394,190)
Deferred		-		-
Benefit for income taxes	\$	(147,490)	\$	(394,190)

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		Nine Months Ended	
	Ended		September 30, 2009	
	September 30, 2009		September 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	(24.4)		(16.2)	
Effective tax rate	14.2	%	22.4	%

At September 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 nine months ended September 30, 2009, costs of approximately \$1.7 million related to an acquisition became deductible for tax purposes because the transaction to which such costs related 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 providing administrative and managerial services in connection with our day-to-day operations and

.

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2010

(Unaudited)

In return for these services, we paid \$0.2 million and \$0.4 million of management fees to ARRM, respectively, for the three and nine months ended September 30, 2010. We did not reimburse any expenses incurred by ARRM on our behalf for the three and nine months ended September 30, 2010. In the second quarter of 2010, we recorded a charge to operations for a payment to a related party related to a contingent obligation of the merger agreement that came due as the result of the subsequent equity capital raise.

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 nine months ended September 30, 2009 Enterprise paid \$22,500 and \$67,500 respectively, of expense related to this agreement.

Note 14 Subsequent Event

On November 9, 2010, we completed an underwritten secondary public offering of 4,600,000 shares of common stock at \$7.25 per share, including 600,000 shares of common stock issued pursuant to the full exercise of the underwriters' over-allotment option. Proceeds were \$31.3 million, net of issuance costs of approximately \$2.0 million.

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:

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our business and investment strategy;

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our anticipated results of operations;

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statements about future dividends;

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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 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 have elected 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.

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. (Enterprise) 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 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.

As of September 30, 2010, our Agency Security portfolio, both trades that have settled and forward settling trades that we have committed to settle, consisted of approximately \$540.1 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
						Per		Earnings
	Agency	Repurchase	Unsettled		Shares	Share	Dividends	(Loss)
As of	Securities	Agreements	Purchases	Equity	Outstanding		Declared	Per Share
September 30, 2010	540,070,197	\$ 490,727,022	\$ 11,130,519	\$ 54,035,550	7,414,054	\$ 7.29	\$ 0.36	\$ (0.06)

\$

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, 2009	118,648,724	46,388,602	58,559,479	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 and geographic factors beyond our control, as well as, policy decisions by Fannie Mae, Freddie Mac and Ginnie Mae. 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 use of derivatives to mitigate interest rate risk; and

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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. Although market conditions have returned to more normal circumstances, if they were to worsen again, 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 U.S. 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 0.00% 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
September 30, 2010	0.26 %	0.15 %
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
September 30, 2010	11.1 %
June 30, 2010	15.4
March 31, 2010	14.5
December 31, 2009	8.6

Book Value per Share

As of September 30, 2010, our book value per share of common stock (total shareholders' equity divided by shares of common stock outstanding) was \$7.29, a decrease of \$2.04 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 September 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. In an environment of very low interest rates, further interest rate reductions may cause the value of our Eurodollar futures positions to decline more than the absolute and pro rata increase in the value of our Agency Securities. For the nine months ending September 30, 2010, our Eurodollar futures positions declined by \$5.4 million, and our Agency Securities increased by \$5.8 million in value.

Investments

Agency Securities

As of September 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 September 30, 2010 we had approximately \$22.3 million of unamortized premium included in the cost basis of our investments, inclusive of both settled and forward settle securities. As of September 30, 2010, our investment portfolio of securities as follows. The table below includes \$11.1 million of current carrying value of forward settle security purchases.

Adjustable Rate Securities as of September 30, 2010

Months to Reset	Percentage of Portfolio		Weighted Average Months to Reset	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)		Weighted Average Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
0-18	8.9	%	5.86	\$ 46,082,838	3.41	%	\$ 104.28	\$ 48,053,300	\$ 104.33	\$ 48,078,8
19-36	3.8		29.64	19,601,939	4.17		103.68	20,322,976	104.56	20,496,3
37-60	37.0		53.99	189,338,700	4.16		103.97	196,859,920	105.45	199,665,4
61-84	27.2		80.39	139,809,345	3.97		103.83	145,170,262	105.05	146,866,8
Totals/Averages	76.9	%	56.51	\$ 394,832,822	4.01	%	\$ 103.94	\$ 410,406,458	\$ 105.13	\$ 415,107,4

Fixed Rate Securities as of September 30, 2010

Weighted Average Months to Maturity	Percentage of Portfolio		Weighted Average Months to Maturity	Current Face Value(1)	Weighted Average Coupon(2)	Weighted Average Amortized Purchase Price(3)		Weighted Average Amortized Cost(4)	Weighted Average Market Price(5)	Current Market Value(6)
0-90	0.2	%	65.05	\$ 1,244,275	6.16	%	\$ 107.19	\$ 1,333,694	\$ 107.82	\$ 1,341,57
91-180	22.9		167.05	115,826,770	4.74		105.71	122,442,157	106.73	123,621,1
Totals/Averages	23.1	%	166.00	\$ 117,071,045	4.76	%	\$ 105.73	\$ 123,775,851	\$ 106.74	\$ 124,962,7

All Securities as of September 30, 2010

	Percentage		Current		Weighted		Amortized		Weighted		Current			
	of		Face		Average		Purchase		Market		Market			
	Portfolio		Value(1)		Coupon(2)		Price(3)		Cost(4)		Price(5)		Value(6)	
Totals/Averages	100.0	%	\$ 511,903,867		4.18	%	\$ 104.35	\$ 534,182,310	\$	105.50	\$	\$ 540,070,197		

- (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.
- (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 Average	Weighted		Weighted Average	Current Market	
			Months to Reset	Current Face Value(1)		Amortized Purchase Price(3)	Amortized Cost(4)			
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 Average Months to Maturity	Portfolio	Percentage of	Weighted		Weighted Average	Weighted		Weighted Average	Current Market	
			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	Current Face	Weighted Average	Weighted Average	Amortized Cost(4)	Weighted Average	Current Market
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Portfolio	Value(1)	Coupon(2)	Amortized Purchase Price(3)	Market Price(5)	Value(6)
Totals/Averages	100.0 %	\$ 57,218,423	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 reset of eleven months and a maximum expected 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

	Percentage of Forward Settle Portfolio		Weighted Average Months to Maturity	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	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		Weighted						
	of		Average		Weighted				
Forward			Amortized	Expected	Average	Current			
Settle	Current	Weighted	Purchase	Amortized	Market	Market			
Portfolio	Face	Average	Price(3)	Cost(4)	Price(5)	Value(6)			
	Value(1)	Coupon(2)							
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		Weighted						
	of Settled and		Average		Weighted				
Forward			Amortized	Expected	Average	Current			
Settle	Current	Weighted	Purchase	Amortized	Market	Market			
Portfolio	Face	Average	Price(3)	Cost(4)	Price(5)	Value(6)			
	Value(1)	Coupon(2)							
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.
- (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 September 30, 2010.

Agency Securities	September 30, 2010	
	Estimated Fair Value	Percentage of Total
Settled Securities		
Fannie Mae Certificates	\$ 322,846,409	59.8 %
Freddie Mac Certificates	149,572,080	27.7
Ginnie Mae Certificates	56,447,344	10.5
Forward Settle Securities		
Fannie Mae Certificates	10,456,062	1.9
Freddie Mac Certificates	-	-
Ginnie Mae Certificates	748,302	0.1
Total Securities	\$ 540,070,197	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 Certificates	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 Certificates	15,150,000	12.8
Total Securities	\$ 118,648,724	100.0 %

As of September 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 56 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, eight of which we had done repurchase trades with as of September 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 September 30, 2010 and December 31, 2009 of \$490.7 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 September 30, 2010 and December 31, 2009 we had entered into \$195.0 million and \$21.0 million (notional amount), respectively, of Eurodollar Futures contracts used as swap equivalents traded in 2,480 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 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 \$32.1 million, net of approximately \$2.4 million in expenses. Under our investment strategy, a period of time is required 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 Nine Months ended September 30, 2010 and September 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 nine months ended September 30, 2010 was \$(0.5) million and \$(0.9) million, or \$(0.06) and \$(0.20) per weighted average share, respectively. These results compare to a net loss of \$(0.9) million and \$(1.4) million or \$(0.04) and \$(0.06), respectively, per weighted average share for the three and nine months ended September 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 nine months ended September 30, 2010, was \$3.5 million and \$5.7 million, respectively, compared to \$0.06 million and \$0.3 million for the three and nine months ended September 30, 2009. As of September 30, 2010, our Agency Securities portfolio consisted of \$540.1 million of securities, including \$11.1 million of current carrying value of forward settle security sales. For the period ended September 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%.

For the Quarter Ended	Asset Yield	Cost of Funds	Net Interest Margin	Interest Expense on Repurchase Agreements
September 30, 2010	3.32 %	0.44 %	2.88 %	0.27 %
June 30, 2010	2.98 %	0.37 %	2.61 %	0.30 %
March 31, 2010	3.06 %	0.38 %	2.68 %	0.27 %
December 31, 2009	4.59 %	0.72 %	3.86 %	0.26 %

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 nine months ended September 30, 2010 was 11.1% and 13.7%, respectively, on a Constant Prepayment Basis (CPR). We did not own Agency Securities as of the three and nine months ended September 30, 2009. 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 September 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.

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 0.26% at September 30, 2010. During the three and nine months ended September 30, 2010, we realized an expense of \$187,783 and \$187,825, respectively, related to our interest rate contracts compared to zero income or expense for the three and nine months ended September 30, 2009. We increased our total Eurodollar future swap equivalent notional amount from zero during the period ended September 30, 2009 to \$195.0 million at September 30, 2010, with a weighted average swap equivalent average rate of 1.6% and weighted average term of 39 months.

Our total operating expenses for the three and nine months ended September 30, 2010 were \$0.4 million and \$1.2 million as compared to \$1.1 million and \$2.1 million for the three and nine months ended September 30, 2009. Operating expenses for the three and nine months ended September 30, 2010, related to the maintenance of our investment portfolio while operating expenses for the three and nine months ended September 30, 2009 related to Enterprise being a SPAC that was primarily engaged in efforts to find suitable candidates with which to merge.

We have negative retained earnings (titled Accumulated deficit in the stockholders equity section of the accompanying condensed consolidated financial statements) as of September 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 U.S. generally accepted accounting principles (GAAP) as reported in the accompanying condensed consolidated financial statements.

For the three and nine months ended September 30, 2010, our estimated REIT taxable income was approximately \$2.9 million and \$4.8 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 September 30, 2010, we purchased, \$502.4 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 September 30, 2010, we received cash of \$49.6 million, from prepayments and scheduled amortization on our investment securities and we received \$32.1 million from the follow-on equity issuance. We had a net cash increase from our repurchase agreements of \$444.3 million for the period ended September 30, 2010. We made cash interest payments of approximately \$0.4 million and \$0.7 million, respectively on our borrowings for the three and nine months ended September 30, 2010. Part of funding our operations includes providing cash marg in to offset liability balances on our interest rate contracts. This required \$7.3 million of cash to be placed in a restricted account with our counterparty as of the period ended September 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 ten lending counterparties to finance the portfolio, subject to certain conditions, and have borrowings outstanding with eight 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.

On September 14, 2010, we declared a third quarter 2010 cash dividend of \$0.36 per common share, or \$2.7 million in the aggregate, to holders of record on September 23, 2010. The dividend was paid on October 29, 2010.

Our board of directors (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 Code rather than 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.

On November 9, 2010, we completed an underwritten secondary public offering of 4,600,000 shares of common stock at \$7.25 per share, including 600,000 shares of common stock issued pursuant to the full exercise of the underwriters' over-allotment option. Proceeds were \$31.3 million, net of issuance costs of approximately \$2.0 million.

Off-Balance Sheet Arrangements

As of September 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 September 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 September 30, 2010:

Repurchase Agreement Counterparties	Amount Outstanding	Amount at Risk(1)	Weighted Average Maturity of Repurchase Agreements in Days	Percent of Total Amount Outstanding
Goldman, Sachs & Co.	\$ 87,338,000	\$ 5,010,545	18	17.9 %
MF Global Inc.	77,286,000	2,793,484	68	15.7
Nomura Securities International	71,969,000	3,864,161	74	14.7
Guggenheim Liquidity Services, LLC	70,784,000	3,822,739	45	14.4
Cantor Fitzgerald & Co. Inc.	65,353,000	5,016,538	22	13.3
South Street Securities LLC	54,940,022	2,642,841	18	11.2
RBS Securities Inc.	53,069,000	2,836,192	22	10.8
Jefferies & Company, Inc.	9,988,000	551,690	20	2.0
Total	\$ 490,727,022	\$ 26,538,190		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 & Co.	\$ 31,692,000	\$ 1,683,203	81	68.3 %
MF Global Inc.	10,730,188	385,340	22	23.1
South Street Securities LLC	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 September 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 5.3% (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 principal repayments are announced monthly.

We experience margin calls in the ordinary course of our business, and under certain conditions, such as during a period of declining market value for Agency Securities, 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 September 30, 2010 and December 31, 2009, our total borrowings were approximately \$490.7 million and \$46.4 million (excluding accrued interest), respectively, which represented a leverage ratio of approximately 9.08:1 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 September 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 September 30, 2010

Change in Interest rates	Percentage Change in	Percentage Change in
-------------------------------------	---------------------------------	---------------------------------

		Projected Net Interest Income		Projected Portfolio Value Including Interest Rate Contracts	
1.00	%	(21.77)	%	0.28	%
0.50		(8.50)		0.16	
(0.50)		(1.81)		(0.19)	
(1.00)		(12.72)		(0.26)	

As of December 31, 2009

				Percentage Change in	
		Percentage Change in Projected Net Interest Income		Projected Portfolio Value Including Interest Rate Contracts	
Change in Interest rates					
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 September 30, 2010 and December 31, 2009, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to the presence of this floor, it is anticipated that any hypothetical interest rate decrease would have a limited positive impact on our funding costs beyond a certain level; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate decrease or otherwise) could result in an acceleration of our premium amortization and the reinvestment of such prepaid principal in lower yielding assets. As a result, the presence of this floor limits the positive impact of any interest rate decrease on our funding costs. Therefore, at some point, hypothetical interest rate decreases could cause the fair value of our financial instruments and our net interest income to decline.

Market Value Risk

All of our Agency Securities are classified as available for sale assets. As such, they are reflected at fair value (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 condensed consolidated 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 September 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: November 12, 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

