Armour Residential REIT, Inc.
Form 10-Q
May 13, 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 March 31, 2010

OR

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

For the transition period from __________ to

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**001-33736**	**26-1908763**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)(zip code)

(772) 617-4340

(Registrant s telephone number, including area code)

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

Title of Class	Name of Exchange on which registered
Common Stock, $0.0001 par value	OTC Bulletin Board
Warrants to Purchase Common Stock	OTC Bulletin Board

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

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO ¨

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

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

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

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

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

The number of outstanding shares of the Registrant s common stock as of May 5, 2010 was 2,304,054.

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ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Balance Sheets

PART I. Financial Information

Item 1. Financial Statements

	(Unaudited)	
Assets	**March 31, 2010**	**December 31, 2009**
Cash	$ 2,781,756	$ 6,653,331
Due from broker	1,216,464	299,280
Agency securities available for sale, at fair value (including pledged assets of $178,228,702 and $48,886,278)	164,583,811	118,648,724
Receivable for unsettled securities (including $15,780,558 at fair value)	15,927,169	-
Principal payments receivable	5,588,925	73,705
Accrued interest receivable	962,168	412,114
Interest rate contracts, at fair value	-	50,363
Prepaid and other assets	186,662	162,366
Refundable income taxes	393,725	393,725
Total Assets	$ 191,640,680	$ 126,693,608
Liabilities and Stockholders Equity		
Liabilities:		
Repurchase agreements	$ 168,525,093	$ 46,388,602
Payable for unsettled securities	-	58,559,479
Interest rate contracts, at fair value	546,562	-
Accounts payable and accrued expenses	122,187	76,493
Dividends payable	1,029,113	177,938
Total Liabilities	170,222,995	105,202,512
Stockholders Equity:		
Preferred stock, $0.0001 par value, 25,000,000 shares authorized, none outstanding at March 31, 2010 and December 31, 2009	-	-
Common stock, $0.0001 par value, 250,000,000 shares authorized, 2,304,054 shares issued and outstanding at March 31, 2010 and December 31, 2009	230	230
Additional paid-in capital	22,647,201	22,647,201
Accumulated deficit	(1,812,963)	(1,197,174)
Accumulated other comprehensive income	583,257	40,839
Total Stockholders Equity	21,417,725	21,491,096
Total Liabilities and Stockholders Equity	$ 191,640,680	$ 126,693,608

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Revenues:		
Interest income, net of amortization of premium	$ 1,108,138	$ 145,396
Interest expense	(120,646)	-
Net interest income	987,492	145,396
Change in fair value of interest rate contracts	(603,579)	-
Net interest income after change in fair value adjustments	383,913	-
Gain on sale of agency securities	208,199	-
Total net revenues	592,112	145,396
Expenses:		
Professional fees	146,030	-
Insurance	51,912	-
Management fee	57,598	-
Formation and operating costs	-	241,834
Other	28,339	-
Total expenses	283,879	241,834
Net income (loss) before taxes	308,233	(96,438)
Income tax (expense) benefit	(2,400)	114,000
Net Income	305,833	17,562
Less: Interest attributable to common stock subject to possible conversion (net of income taxes of $0 and $31,364)	-	(27,209)
Net income (loss) attributable to common stock not subject to possible conversion	$ 305,833	$ (9,647)
Maximum number of shares subject to possible conversion:		
Weighted average shares outstanding subject to possible conversion	-	7,499,999
Income per share amount (basic and diluted)	$ -	$ -
Weighted average shares outstanding not subject to conversion:		
Basic and diluted	2,304,054	23,750,001
Pro forma diluted	2,304,054	23,750,001
Net income per share		
Basic and diluted	$ 0.13	$ -
Pro forma diluted	$ 0.13	$ -

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock				**Accumulated**		
			Additional		**Other**		
			Paid-In	**Accumulated**	**Comprehensive**	**Comprehensive**	
	Shares	**Amount**	**Capital**	**Deficit**	**Income**	**Income**	**Total**
Balance, December 31, 2009	2,304,054	$ 230	$ 22,647,201	$ (1,197,174)	$ 40,839		$ 21,491,096
Dividends declared	-	-	-	(921,622)	-	-	(921,622)
Net income	-	-	-	305,833	-	$ 305,833	305,833
Net unrealized gain on investment in available for sale securities	-	-	-	-	542,418	542,418	542,418
Comprehensive income	-	-	-	-	-	$ 848,251	-
Balance, March 31, 2010	2,304,054	$ 230	$ 22,647,201	$ (1,812,963)	$ 583,257		$ 21,417,725

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

		Three months ended March 31, 2010		Three months ended March 31, 2009
Cash Flows From Operating Activities:				
Net income	$	305,833	$	17,562
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of premium on Agency Securities		610,659		-
Unrealized loss on interest rate contracts		596,925		-
Gain on sale of Agency Securities		(208,199)		-
Changes in operating assets and liabilities:				
Increase in accrued interest receivable		(550,054)		-
Increase in prepaid income taxes and other assets		(24,296)		(105,390)
Increase in accrued interest payable and accrued expenses		32,265		-
Increase in accounts payable and accrued expenses		13,429		107,386
Net cash provided by operating activities		776,562		19,558
Cash Flows From Investing Activities:				
Purchases of Agency Securities		(147,963,888)		-
Principal repayments of Agency Securities		6,562,794		-
Proceeds from sales of Agency Securities		31,531,266		-
Unsettled security sales		(15,927,169)		-
Margin advances to broker		(1,325,000)		-
Margin return from broker		407,816		-
Investment income in trust account, net of expenses and taxes		-		38,354
Net cash (used in) provided by investing activities		(126,714,181)		38,354
Cash Flows From Financing Activities:				
Increase in restricted cash		(367,720)		-
Proceeds from repurchase agreements		306,657,050		-
Principal repayments on repurchase agreements		(184,520,559)		-
Dividends paid		(70,447)		-
Net cash provided by financing activities		122,066,044		-
(Decrease) Increase in Cash		(3,871,575)		57,912
Cash Beginning		6,653,331		2,086
Cash End	$	2,781,756	$	59,998
Supplemental Disclosure:				
Cash paid during the period for interest	$	88,381		-
Non-Cash Financing Activities				
Dividends declared, to be paid in subsequent period	$	921,622		-

See notes to consolidated financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 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 ARMOUR Residential Management LLC. We invest primarily in hybrid adjustable rate, adjustable rate and fixed rate residential mortgage backed securities issued or guaranteed by a U.S. Government-chartered entity, such as the Federal National Mortgage Association (more commonly known as Fannie Mae) and the Federal Home Loan Mortgage Corporation (more commonly known as Freddie Mac), or guaranteed by the Government National Mortgage Administration, a U.S. Government corporation (more commonly known as Ginnie Mae) (collectively, "Agency Securities"). From time to time, a portion of our portfolio may be invested in unsecured notes and bonds issued by U.S. Government-chartered entities (collectively, Agency Debt), U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a real estate investment trust (REIT).

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

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

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

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

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

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 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.

The principal equity capitalization and financing transactions occurred in connection with consummation of the Merger Agreement are as follows:

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

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

o

The cancellation immediately prior to the record date for a distribution to the holders of Enterprise common stock of 6,150,000 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 three months ended March 31, 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. The company 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.

Due From Broker

Due from Broker at March 31, 2010, includes approximately $1.2 million held by counterparties as collateral for interest rate contracts.

Agency Securities, at Fair Value

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

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

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

Fair Value of Financial Instruments

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

Repurchase Agreements

We finance the acquisition of elements of our investment portfolio through the use of repurchase agreements. Our repurchase agreements are secured by our Agency Securities and bear interest rates that have historically moved in close relationship to the London Interbank Offered Rate (LIBOR). Under these agreements, we sell securities to a lender and agree to repurchase the same securities in the future for a price that is higher than the original sales price.

The difference between the sales price that we receive and the repurchase price that we pay represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which we pledge our securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then prevailing financing rate. The repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

Derivatives

We recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. 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 hedged transaction within the same accounting period, or ever. Consequently, any declines in the hedged interest rates would result in a charge to earnings. We will continue to designate interest rate risk mitigation activities as hedges for tax purposes and any unrealized gains or losses should not affect our distributable net income.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 2010

(Unaudited)

Preferred Stock

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

Common Stock and Warrants

We have 2,304,054 shares of common stock issued and outstanding, and have authorized 250,000,000 shares of common stock, par value $0.0001. At March 31, 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.

Income per Common Share

Basic income 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 by the Company in the offering and sponsor warrants were contingently exercisable upon consummation of a business combination. Hence these are presented in the pro forma diluted income per share for the quarter ended March 31, 2009. The pro forma diluted loss per common share for the quarter ended March 31, 2009 does not include 32,500,000 warrants as the effect of including such warrants would be anti-dilutive. Pro forma diluted income per share reflects 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.

The Company s statement of operations for the three months ended March 31, 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 ($27,209 for the three months ended March 31, 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 from unrealized gains or losses generated from changes in market values of our Agency Securities held as available for sale.

Revenue Recognition

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

Income Taxes

We plan to elect to be taxed as a REIT as of the taxable year ending December 31, 2009 and thereafter upon filing our federal income tax return for that year. We will generally not be subject to Federal income tax to the extent that we distribute 90% of our taxable income to our shareholders, and as long as we satisfy the ongoing REIT requirements including meeting certain asset, income and stock ownership tests. Although as of March 31, 2010, we would not meet the stock ownership tests if they applied in the first half of the year, we plan on taking the actions necessary to comply with the ownership tests; however there is no assurance that we can do so.

Note 3 Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board or FASB issued authoritative guidance related to investments in debt and equity securities. The objective of the new guidance is to make impairment guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments (OTTI) of debt and equity securities in financial statements. The guidance revises the OTTI evaluation methodology. Under the guidance, the security is analyzed for credit loss, (the difference between the present value of cash flows expected to be collected and the amortized cost basis). The credit loss, if any, will then be recognized in the statement of earnings, while the balance of impairment related to other factors will be recognized in other comprehensive income. This guidance was effective for all interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Company s financial statements.

ARMOUR Residential REIT, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS March 31, 2010

(Unaudited)

In June 2009, the FASB issued new authoritative literature on the transfer and servicing of assets which improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. The adoption of this literature did not have a material impact on our financial statements.

In August 2009, the FASB issued new authoritative literature which provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

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A valuation technique that uses:

o

The quoted price of the identical liability when traded as an asset, or

o

Quoted prices for similar liabilities or similar liabilities when traded as assets, or

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Another valuation technique that is consistent with the principles of the authoritative literature.

The adoption of this authoritative guidance did not have a material impact on our financial statements.

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

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. 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 quotes from up to three dealers. At March 31, 2010 and December 31, 2009, all of our Agency Security values were based solely on third-party sources.

As of March 31, 2010, we had the following securities in an unrealized loss and/or a gain position as presented below. The table below includes $15.8 million of current carrying value of forward settle security sales. The table below includes $15.8 million of current carrying value of Freddie Mac forward settle security sales.

	Amortized Cost	Fair Market Value