

AG Mortgage Investment Trust, Inc.
Form 10-Q
November 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-35151

AG MORTGAGE INVESTMENT TRUST, INC.

Maryland	27-5254382
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
245 Park Avenue, 26th Floor	10167
New York, New York	
(Address of Principal Executive Offices)	(Zip Code)

(212) 692-2000

(Registrant's Telephone Number, Including Area Code)

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

As of October 23, 2018, there were 28,743,527 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

AG MORTGAGE INVESTMENT TRUST, INC.
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PART I

ITEM 1. FINANCIAL STATEMENTS

AG Mortgage Investment Trust, Inc. and Subsidiaries
 Consolidated Balance Sheets (Unaudited)
 (in thousands, except per share data)

	September 30, 2018	December 31, 2017
Assets		
Real estate securities, at fair value:		
Agency - \$1,728,405 and \$2,126,135 pledged as collateral, respectively	\$2,031,715	\$2,247,161
Non-Agency - \$693,696 and \$976,072 pledged as collateral, respectively	714,855	1,004,256
ABS - \$24,383 and \$30,833 pledged as collateral, respectively	37,544	40,958
CMBS - \$272,907 and \$211,180 pledged as collateral, respectively	286,049	220,169
Residential mortgage loans, at fair value	87,600	18,890
Commercial loans, at fair value	94,618	57,521
Single-family rental properties, net	140,059	—
Investments in debt and equity of affiliates	79,698	99,696
Excess mortgage servicing rights, at fair value	28,625	5,084
Cash and cash equivalents	30,341	15,200
Restricted cash	45,921	37,615
Interest receivable	12,823	12,607
Receivable on unsettled trades - \$274,677 and \$0 pledged as collateral, respectively	285,041	—
Receivable under reverse repurchase agreements	5,750	24,671
Derivative assets, at fair value	4,887	2,127
Other assets	4,737	2,490
Due from broker	4,526	850
Total Assets	\$3,894,789	\$3,789,295
Liabilities		
Financing arrangements, net	\$2,913,381	\$3,004,407
Securitized debt, at fair value	11,481	16,478
Obligation to return securities borrowed under reverse repurchase agreements, at fair value	5,730	24,379
Payable on unsettled trades	212,839	2,419
Interest payable	5,294	5,226
Derivative liabilities, at fair value	1,030	450
Dividend payable	14,369	13,392
Due to affiliates	4,073	4,258
Accrued expenses	5,457	790
Taxes payable	1,299	1,545
Due to broker	7,964	1,692
Total Liabilities	3,182,917	3,075,036
Commitments and Contingencies (Note 14)		
Stockholders' Equity		
Preferred stock - \$0.01 par value; 50,000 shares authorized:		
8.25% Series A Cumulative Redeemable Preferred Stock, 2,070 shares issued and outstanding (\$51,750 aggregate liquidation preference)	49,921	49,921
8.00% Series B Cumulative Redeemable Preferred Stock, 4,600 shares issued and outstanding (\$115,000 aggregate liquidation preference)	111,293	111,293

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Common stock, par value \$0.01 per share; 450,000 shares of common stock authorized and 28,738 and 28,193 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	287	282
Additional paid-in capital	595,310	585,530
Retained earnings/(deficit)	(44,939)	(32,767)
Total Stockholders' Equity	711,872	714,259
Total Liabilities & Stockholders' Equity	\$3,894,789	\$3,789,295

The accompanying notes are an integral part of these consolidated financial statements.

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AG Mortgage Investment Trust, Inc. and Subsidiaries
 Consolidated Statements of Operations (Unaudited)
 (in thousands, except per share data)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net Interest Income				
Interest income	\$ 39,703	\$ 33,592	\$ 115,072	\$ 92,773
Interest expense	18,692	11,959	50,289	30,322
Total Net Interest Income	21,011	21,633	64,783	62,451
Other Income/(Loss)				
Net realized gain/(loss)	(14,204)	22	(37,103)	(12,527)
Net interest component of interest rate swaps	1,816	(2,147)	1,607	(5,615)
Unrealized gain/(loss) on real estate securities and loans, net	700	14,893	(36,032)	53,190
Unrealized gain/(loss) on derivative and other instruments, net	6,589	2,423	48,460	4,224
Rental income	794	—	794	—
Other income	1	2	21	34
Total Other Income/(Loss)	(4,304)	15,193	(22,253)	39,306
Expenses				
Management fee to affiliate	2,384	2,454	7,210	7,374
Other operating expenses	3,503	2,603	10,168	8,247
Equity based compensation to affiliate	66	61	211	226
Excise tax	375	375	1,125	1,125
Servicing fees	148	23	232	185
Property depreciation and amortization	494	—	494	—
Property operating and maintenance expenses	232	—	232	—
Property management fee	88	—	88	—
Total Expenses	7,290	5,516	19,760	17,157
Income/(loss) before equity in earnings/(loss) from affiliates	9,417	31,310	22,770	84,600
Equity in earnings/(loss) from affiliates	13,960	4,701	17,023	9,700
Net Income/(Loss)	23,377	36,011	39,793	94,300
Dividends on preferred stock	3,367	3,367	10,102	10,102
Net Income/(Loss) Available to Common Stockholders	\$ 20,010	\$ 32,644	\$ 29,691	\$ 84,198
Earnings/(Loss) Per Share of Common Stock				
Basic	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03
Diluted	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	28,422	27,841	28,274	27,756
Diluted	28,438	27,857	28,282	27,770

The accompanying notes are an integral part of these consolidated financial statements.

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AG Mortgage Investment Trust, Inc. and Subsidiaries
 Consolidated Statements of Stockholders' Equity (Unaudited)
 (in thousands)

	Common Stock		8.25 % Series A Redeemable Preferred Stock	8.00 % Series B Cumulative Redeemable Preferred Stock	Additional Paid-in Capital	Retained Earnings/(Deficit)	Total
	Shares	Amount					
Balance at January 1, 2017	27,700	\$ 277	\$ 49,921	\$ 111,293	\$ 576,276	\$ (81,891)	\$ 655,876
Net proceeds from issuance of common stock	461	5	—	—	8,714	—	8,719
Grant of restricted stock and amortization of equity based compensation	28	—	—	—	406	—	406
Common dividends declared	—	—	—	—	—	(42,573)	(42,573)
Preferred Series A dividends declared	—	—	—	—	—	(3,202)	(3,202)
Preferred Series B dividends declared	—	—	—	—	—	(6,900)	(6,900)
Net Income/(Loss)	—	—	—	—	—	94,300	94,300
Balance at September 30, 2017	28,189	\$ 282	\$ 49,921	\$ 111,293	\$ 585,396	\$ (40,266)	\$ 706,626
Balance at January 1, 2018	28,193	\$ 282	\$ 49,921	\$ 111,293	\$ 585,530	\$ (32,767)	\$ 714,259
Net proceeds from issuance of common stock	512	5	—	—	9,277	—	9,282
Grant of restricted stock and amortization of equity based compensation	33	—	—	—	503	—	503
Common dividends declared	—	—	—	—	—	(41,863)	(41,863)
Preferred Series A dividends declared	—	—	—	—	—	(3,202)	(3,202)
Preferred Series B dividends declared	—	—	—	—	—	(6,900)	(6,900)
Net Income/(Loss)	—	—	—	—	—	39,793	39,793
Balance at September 30, 2018	28,738	\$ 287	\$ 49,921	\$ 111,293	\$ 595,310	\$ (44,939)	\$ 711,872

The accompanying notes are an integral part of these consolidated financial statements.

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AG Mortgage Investment Trust, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows (Unaudited)
 (in thousands)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash Flows from Operating Activities		
Net income/(loss)	\$ 39,793	\$ 94,300
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Net amortization of premium	(1,644)	(3,528)
Net realized (gain)/loss	37,103	12,527
Unrealized (gains)/losses on real estate securities and loans, net	36,032	(53,190)
Unrealized (gains)/losses on derivative and other instruments, net	(48,460)	(4,224)
Property depreciation and amortization	494	—
Equity based compensation to affiliate	211	226
Equity based compensation expense	292	180
(Income)/loss from investments in debt and equity of affiliates in excess of distributions received	(10,542)	(6,781)
Change in operating assets/liabilities:		
Interest receivable	(597)	(3,230)
Other assets	(147)	70
Due from broker	(3,963)	(6)
Interest payable	4,350	7,730
Due to affiliates	(185)	410
Accrued expenses	4,642	(257)
Taxes payable	(247)	(541)
Net cash provided by (used in) operating activities	57,132	43,686
Cash Flows from Investing Activities		
Purchase of real estate securities	(1,568,919)	(1,572,650)
Purchase of residential mortgage loans	(105,450)	—
Purchase of commercial loans	(51,401)	(10,271)
Purchase of U.S. Treasury securities	(249,659)	—
Purchase of single-family rental properties	(140,553)	—
Purchase of excess mortgage servicing rights	(25,162)	(2,436)
Investments in debt and equity of affiliates	(54,718)	(14,861)
Proceeds from sales of real estate securities	1,516,411	467,286
Proceeds from sales of residential mortgage loans	33,527	13,761
Proceeds from sales of U.S. treasury securities	249,227	—
Principal repayments/return of basis on real estate securities and excess mortgage servicing rights	361,767	328,931
Principal repayments on commercial loans	14,522	13,478
Principal repayments on residential mortgage loans	3,030	5,872
Distribution received in excess of income from investments in debt and equity of affiliates	22,577	4,845
Net proceeds from/(payments made) on reverse repurchase agreements	18,952	22,681
Net proceeds from/(payments made) on sales of securities borrowed under reverse repurchase agreements	(18,266)	(22,413)

Net settlement of interest rate swaps and other instruments 24,273 (10,746

On September 15, 2006, the Board of Directors held a meeting with members of management, Paragon and Simpson Thacher & Bartlett LLP, INVESTools legal advisors, to discuss the status of negotiations of the proposed transaction. Members of INVESTools senior management and INVESTools financial and legal advisors reviewed the history of the negotiations and the terms and conditions of the Merger Agreement that had been negotiated. Udata reviewed with the Board of Directors its financial analysis of the transaction and informed the Board of Directors that, in its opinion, the proposed merger consideration was fair, from a financial point of view, to holders of INVESTools common stock. Complete drafts of the Merger Agreement and related agreements, which had been distributed to each director prior to the meeting, were reviewed. Udata's written opinion was subsequently delivered to the Board of Directors on September 18, 2006 when the Merger Agreement was executed. The Board of Directors and legal and financial advisors engaged in extensive discussion relating to, and consideration of, the proposed transaction, the potential alternatives to the transaction and the benefits and risks of entering into the Merger Agreement, including the possible effect on INVESTools existing business, compared to continuing as a stand alone entity.

After full deliberation, the Board of Directors resolved (i) that it was advisable and fair to and in the best interests of INVESTools and INVESTools stockholders, for INVESTools to enter into the Merger Agreement with thinkorswim, (ii) to approve and adopt the Merger Agreement and the transactions contemplated by the Merger Agreement, (iii) to approve and adopt the ancillary agreements, and (iv) to recommend that INVESTools stockholders approve and adopt the Issuance Proposal and the Charter Amendment.

On the evening of September 18, 2006, INVESTools and thinkorswim signed the Merger Agreement and related agreements. Thereafter, INVESTools issued a press release announcing the transaction.

INVESTools Reasons for the Merger

In reaching its decision to pursue a combination of INVESTools and thinkorswim, the Board of Directors consulted with senior management and the Company's financial and legal advisors and considered a number of factors, including those set forth below.

The Company believes that a combination of INVESTools and thinkorswim represents a compelling opportunity to improve value for stockholders by creating a market leader in the investor education and online brokerage industries and establishing a foundation for long-term growth. The Company believes that there are a number of potential benefits of the proposed Merger with thinkorswim, including, among others:

The combination of INVESTools education capabilities with thinkorswim's best-in-class trading platform creates a unique business model with the ability to offer differentiated product offerings for the retail investor;

INVESTools continuing education offerings, which represent more than 80% of its sales, are principally based on options, complementing thinkorswim's award-winning options-oriented trading platform;

The combination of two leading technology-based companies will create operating leverage in product innovation resulting in increased lifetime value and recurring revenue from each student;

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Significant incremental revenues and profitability are expected from INVESTools students utilizing thinkorswim's trading platform rather than other third-party brokerage platforms

The Board of Directors also considered potential adverse consequences and negative factors, primarily consisting of the following:

The significant amount of debt INVESTools will incur in connection with completing the Merger;

The significant degree of difficulty and management distraction that is inherent in the process of integrating INVESTools and thinkorswim, and the risk that operational synergies sought in the proposed Merger might not be fully achieved or that achieving these benefits may take longer than expected;

The risk that the Merger might not be consummated despite INVESTools' efforts, even if the issuance of shares of Common Stock in connection with the Merger is approved by INVESTools' stockholders; and

Other risks described in thinkorswim's thinkorswim Qualitative and Quantitative Disclosure About Market Risk and in INVESTools' Annual Report on Form 10-K for the year ended December 31, 2005.

The Board of Directors concluded, however, that these risks are outweighed by the substantial benefits of the Merger with thinkorswim.

thinkorswim's Reasons for the Merger

In reaching its decision to approve the Merger of thinkorswim and a wholly-owned subsidiary of INVESTools, the Board of Directors of thinkorswim, most of whom represent major stockholders of thinkorswim, analyzed a number of factors, including the merger consideration in the Merger, the synergies between the businesses of thinkorswim and INVESTools, and the growth prospects for both businesses. The Board of Directors of thinkorswim determined the following:

The businesses of the two companies are complementary and their customer bases are similar;

The business combination of a brokerage firm specializing in options with a customer base consisting primarily of self-directed active traders, and an investor education company that focuses on active investors will strengthen both companies;

The companies have the same goal of enabling the individual investors to better understand and participate in the investment world through education and the use of analytical tools created through the creative application of technology;

INVESTools, with its reputation as a premier investor education company, and thinkorswim with its reputation as a top-rated online options brokerage firm, should enable both companies to achieve economies of scale in their efforts to attract additional customers; and

The strategic alliance of INVESTools and thinkorswim will permit both companies to more fully develop investor education programs, financial technology and trade facilitation processes.

Opinion of INVESTools' Financial Advisor

Udata focuses on providing merger and acquisition and strategic advisory services to information technology companies including software, consulting, financial technology and other information technology companies. In this capacity, Udata is continually engaged in valuing technology businesses. INVESTools engaged Udata to act as its financial advisor in connection with the Merger. On September 15, 2006, Udata delivered to the Board of Directors its oral and written opinions that, as of that date, and subject to the assumptions, limitations and qualifications set forth in such opinion, the consideration to be paid to the thinkorswim stockholders in connection with the Merger was fair, from a financial point of view, to INVESTools.

THE FULL TEXT OF THE OPINION DELIVERED BY UPDATA TO THE BOARD OF DIRECTORS, DATED SEPTEMBER 15, 2006, WHICH SETS FORTH THE ASSUMPTIONS MADE, GENERAL PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITATIONS ON THE SCOPE OF REVIEW UNDERTAKEN BY UPDATA IN RENDERING ITS OPINION, IS ATTACHED AS ANNEX A TO THIS

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PROXY STATEMENT AND IS INCORPORATED HEREIN BY REFERENCE. UPDATA HAS CONSENTED IN WRITING TO THE INCLUSION OF THE OPINION IN THIS PROXY STATEMENT. THE OPINION SPEAKS ONLY AS OF THE DAY UPDATA DELIVERED ITS OPINION. UPDATA DELIVERED THE OPINION SOLELY FOR THE INFORMATION OF THE BOARD OF DIRECTORS IN CONNECTION WITH ITS CONSIDERATION OF THE TRANSACTION AND IT DOES NOT CONSTITUTE A RECOMMENDATION TO ANY INVESTTOOLS STOCKHOLDER AS TO WHETHER OR HOW TO VOTE ITS, HIS OR HER SHARES OF COMMON STOCK. THE SUMMARY OF THE UPDATA OPINION SET FORTH BELOW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF SUCH OPINION ATTACHED TO THIS PROXY STATEMENT AS ANNEX A. INVESTTOOLS SHAREHOLDERS ARE ENCOURAGED TO READ THE OPINION CAREFULLY IN ITS ENTIRETY.

In rendering its opinion, Updata, among other things:

reviewed a draft of the Merger Agreement dated September 13, 2006 and related documents, and based its opinion on the understanding that the terms and conditions of the Merger Agreement would not materially change;

reviewed certain publicly-available financial statements and other business and financial information of INVESTools and thinkorswim;

reviewed certain internal financial statements and other financial and operating data concerning INVESTools and thinkorswim prepared by the managements of INVESTools and thinkorswim, respectively;

reviewed certain financial projections prepared by the managements of INVESTools and thinkorswim;

discussed the past and current operations and financial condition and the prospects of INVESTools and thinkorswim with senior executives of INVESTools and thinkorswim, respectively;

reviewed the pro forma impact of the Merger on various INVESTools financial metrics;

reviewed information relating to certain strategic, financial and operational benefits (the Projected Benefits) anticipated from the Merger prepared by the managements of INVESTools and thinkorswim, with senior executives of INVESTools and thinkorswim, respectively;

discussed the strategic rationale for the Merger with senior executives of INVESTools and thinkorswim;

reviewed the reported prices and trading activity for the Common Stock;

compared the financial performance of INVESTools and the prices and trading activity of the Common Stock with that of certain other comparable publicly-traded companies and their securities;

analyzed available information concerning certain other mergers and acquisitions believed to be comparable in whole or in part to the Merger; and

conducted other financial studies, analyses and investigations as deemed appropriate for purposes of this opinion.

Updata relied on, without independent verification of, the accuracy and completeness of all the financial and other information (including, without limitation, the representations and warranties contained in the Merger Agreement) that

was publicly available or furnished to Udata by INVESTools or thinkorswim. Udata did not assume responsibility to verify, and did not independently verify, the accuracy or completeness of such information. Udata further relied upon the assurances of management of INVESTools that they were unaware of any facts that would make the information provided incomplete or misleading in any respect. With respect to the financial projections examined by Udata, it assumed that such financial projections were reasonably prepared and reflect the best available estimates and good faith judgments of INVESTools and thinkorswim, and did not assume any responsibility for or express any view as to the financial forecasts or the assumptions on which they were based. Udata has assumed that the amount and timing of the Projected Benefits are reasonable and that the Projected Benefits will be realized substantially in accordance with such estimates. The forecasts and projections, including the Projected Benefits, were based on numerous variables and assumptions that are inherently uncertain, including, without limitations, facts related to general economic and market conditions. Accordingly, actual results could vary

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significantly from those set forth in such forecasts and projections. Updata has neither made nor obtained an independent appraisal or valuation of any of the assets of INVESTools or thinkorswim, nor has it conducted an inspection of the respective properties and facilities of INVESTools or thinkorswim.

Updata did not opine on, nor did its opinion consider:

the tax consequences of the Merger, including tax consequences to any holder of INVESTools common stock;

the relative merits of the Merger as compared to any alternative business strategies that might exist for INVESTools;

the effect of any other transaction in which INVESTools might engage;

the form or terms of the Merger Agreement; or

the prices at which INVESTools common stock may trade following the date of its opinion or following the consummation of the Merger.

Updata's opinion is necessarily based upon market, economic, financial and other conditions as they existed and could be evaluated as of the date of the opinion, and any subsequent change in such conditions would require a reevaluation of such opinion. Although subsequent developments may affect its opinion, Updata has assumed no obligation to update, revise or reaffirm it.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to summary description. The summary of Updata's analyses set forth below summarizes the material analyses presented to the Board of Directors, but is not a complete description of the presentation by Updata to the Board of Directors or the analysis performed by Updata in connection with preparing its opinion. In arriving at its opinion, Updata did not attribute any particular weight to any analyses or factors considered by it, but rather made subjective, qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Updata believes that its analyses and the summary set forth below must be considered as a whole and that selecting portions of its analyses, without considering all analyses, or of the following summary, without considering all factors and analyses, could create an incomplete view of the processes underlying the analyses set forth in the Updata presentation to the Board of Directors and Updata's opinion.

The terms of the proposed Merger, including the type and amount of merger consideration, were determined through negotiations between INVESTools and thinkorswim and were approved by the Board of Directors. The decision to enter into the Merger was solely that of the Board of Directors. As described above, the opinion of Updata as to the fairness of the merger consideration from a financial point of view was only one of a number of factors taken into consideration by the Board of Directors in making its determination to approve the proposed Merger.

The following is a brief summary of the material financial analyses performed by Updata in connection with providing its opinion to the Board of Directors on September 15, 2006.

Analysis of Implied Multiples of the Merger Consideration

Updata analyzed certain transaction multiples implied by the merger consideration. Specifically, Updata calculated the following implied transaction multiples using the equity value and enterprise value of the transaction derived from the merger consideration:

Implied Transaction Multiple

Enterprise Value / 2006 thinkorswim forecasted revenue	5.0x
Enterprise Value / 2006 thinkorswim forecasted EBITDA	11.4x
Equity Value / 2006 thinkorswim forecasted Net Income	20.8x
Equity Value / 2007 thinkorswim forecasted Net Income	16.6x

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These implied transaction multiples were then compared to the corresponding multiples observed in its analysis of (i) publicly traded companies deemed to be comparable to thinkorswim, and (ii) select precedent acquisitions deemed to be comparable to thinkorswim.

Analysis of Publicly Traded Companies Comparable to thinkorswim

This analysis reviews a business' operating performance and outlook relative to a group of peer companies and then compares the Implied Transaction Multiples to the trading multiples of the peer group. Updata chose firms that it believed to be comparable to thinkorswim in terms of online brokerage focus and business models, including optionsXpress, Charles Schwab Corp., TD Ameritrade Holding Corp., E*Trade Financial Corp., and TradeStation Group Inc. Using published Wall Street estimates for the peer group, Updata analyzed revenue, EBITDA, and P/E multiples when making its comparisons, because valuations based on these multiples are generally accepted in the analysis of online brokerage firms. Revenue and EBITDA multiples were based on enterprise value, and P/E multiples were based on market value of equity. Enterprise value represents a company's current stock price multiplied by its fully diluted common shares, plus debt and preferred stock, minus cash and cash equivalents on the most recent publicly available balance sheet. EBITDA means a company's earnings before interest, taxes, depreciation and amortization, and it excludes all one-time charges and expenses. Updata used closing per share prices of the peer group companies as of September 13, 2006 in its calculations.

The following table lists the low, median and high data for a selected group of the comparable companies compared to the Implied Transaction Multiples. Based on the comparison to the peer group, Updata noted that the Implied Transaction Multiples were within the range of trading multiples.

	Range of Multiples			Implied thinkorswim Transaction Multiples
	Low	Median	High	
Online Broker Dealers				
Enterprise Value / 2006 Revenue	4.0x	4.7x	6.1x	5.0x
Enterprise Value / 2006 EBITDA	9.2x	11.4x	16.7x	11.4x
Market Cap / 2006 Net Income	16.0x	20.6x	23.2x	20.8x
Market Cap / 2007 Net Income	13.6x	16.3x	19.8x	16.6x

Analysis of Selected Transactions

This analysis provides a valuation range based on financial information of selected public and privately held companies which have been acquired and are in similar industries as the business being evaluated. Using publicly available historical financial data of the acquisition targets and publicly available transaction values for these acquisitions, Updata compared the Merger with 17 selected mergers and acquisitions transactions involving online brokerage firms. These transactions included (target/acquirer):

TD Waterhouse / Ameritrade Holding Corp

Harrisdirect LLC / E*Trade Financial Corp.

BrownCo / E*Trade Financial Corp

JB Oxford & Co. / Ameritrade Holding Corp

Wit Capital Group, Inc. / Charles Schwab Corp

Tradescape.com / E*Trade Financial Corp

Datek Online Holding Corp. / Ameritrade Holding Corp

DLJ Direct / Toronto Dominion Bank,

CSFB Direct / Bank of Montreal,

CSFB Direct / Credit Suisse Group,

TradeCast Ltd. / Ameritrade Holding Corp

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CyBerCorp Inc. / Charles Schwab Corp.,

VERSUS Technologies / E*Trade Financial Corp

Electronic Share Info / E*Trade Financial Corp

TIR Holdings Ltd. / E*Trade Financial Corp.,

Onlinetradinginc.com Corp. / TradeStation Group, Inc.,

TeleBanc Financial Corp. / E*Trade Financial Corp

For each selected acquisition, Udata calculated multiples based on the enterprise value to the target company's LTM revenue and EBITDA wherever such information was publicly available. The following chart lists the low, median and high data for the selected transactions and the Implied Transaction Multiples. Udata noted that the Implied Transaction Multiples were within the range of the selected acquisitions.

	Range of Multiples			Implied thinkorswim Transaction Multiples
	Low	Median	High	
Enterprise Value / LTM Revenue	0.9x	2.6x	19.7x	5.0x
Enterprise Value / LTM EBITDA	4.6x	8.1x	12.3x	11.4x

Udata also observed that no company or transaction used in the above analyses is identical to thinkorswim or the Merger, and the reasons for and circumstances surrounding each of the analyzed transactions are inherently different. Accordingly, an analysis of the results of the foregoing is not mathematical; rather it involves complex, qualitative considerations and judgments, reflected in Udata's opinion, concerning differences in the financial and operating characteristics of the compared companies, the characteristics of the selected transactions and other factors that could affect the public trading values (or other valuation) of the comparable companies, INVESTools and thinkorswim.

Discounted Cash Flow Analysis

Udata calculated a range of theoretical values for thinkorswim based upon projected discounted cash flows from 2007-2011, and a terminal value based upon a range of multiples of 2011 EBITDA. Results were based on financial estimates, approved by thinkorswim's management through 2011, Udata's analysis of after-tax, unlevered free cash flows, and discount rates between 13% and 17%. Changes in these estimated ranges, or in management's estimates of business performance, would change the implied theoretical values. The discounted cash flow analysis produced a range of theoretical values, depending on the assumptions utilized, from an enterprise value of \$444 million to \$527 million. See the following table for details. Udata noted that this range of derived enterprise values was greater than the enterprise value implied by the merger consideration.

Weighed Average Cost of Capital	Enterprise Value Multiple of 2011 EBITDA				
	7.5x	8.0x	8.5x	9.0x	9.5x

13.0%	\$ 476	\$ 500	\$ 525	\$ 549	\$ 573
14.0%	458	481	504	527	550
15.0%	440	462	484	506	528
16.0%	423	444	465	486	507
17.0%	407	427	447	467	487

Pro Forma Accretion/Dilution Analysis

Updata analyzed the financial impact of the Merger on INVESTools financial results as compared to INVESTools standalone projected financial results. Accretion/dilution was calculated for INVESTools projected free cash flow per share and projected Adjusted EBITDA (defined as earnings before interest, taxes, depreciation and amortization and adjusted to add back 90% of the change in deferred revenue and other non-cash charges for the relevant period) per share for the projected fiscal years ended December 31, 2007 and December 31, 2008. The effect on free cash flow per share and Adjusted EBITDA per share was calculated using various assumptions,

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including but not limited to the following: (i) the transaction closes on December 31, 2006, (ii) consideration paid to thinkorswim shareholders consisted of \$170 million in cash (of which \$125 million was new borrowings and \$45 million was from available cash on INVESTools balance sheet) and 19.1 million shares of newly issues IEDU common stock, and (iii) the financial projections and Projected Benefits used in the analysis for thinkorswim and INVESTools were provided by and/or approved by the respective companies, subject to certain assumptions made by Udata.

Based on Udata's analysis, the Merger, on a Free Cash Flow per Share basis, is dilutive in 2007 and accretive in 2008. On the basis of Adjusted EBITDA per Share, the Merger is accretive in 2007 and 2008. The following table sets forth the results of this analysis.

	2007E	2008E
	Accretion/(Dilution)	Accretion/(Dilution)
Free Cash Flow per Share	(4.3)%	7.9%
Adjusted EBITDA per Share	8.6%	17.2%

Udata, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, strategic transactions, corporate restructurings, and other investment banking activity. Udata may in the future provide investment banking or other financial advisory services to INVESTools or thinkorswim or their affiliates and may receive fees for the rendering of such services.

Pursuant to an engagement letter dated August 17, 2006, INVESTools had agreed to pay Udata, upon delivery of the opinion, a customary fee of \$425,000. The letter also provides that INVESTools will reimburse Udata for its out-of-pocket expenses (regardless of whether or not the opinion was delivered) and will indemnify Udata and certain related persons against certain liabilities arising out of its engagement. In addition, Udata's engagement letter stipulates that Udata will bring down the fairness opinion to the closing of the Merger if requested by the Board of Directors.

The Merger Agreement

On September 18, 2006, INVESTools entered into the Merger Agreement with thinkorswim. The following description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the complete text of the Merger Agreement, a copy of which has been filed as Exhibit 2.1 to INVESTools' Current Report on Form 8-K filed on September 20, 2006. See [Where You Can Find Additional Information](#).

Under the terms of the Merger Agreement, which was approved unanimously by the Boards of Directors of INVESTools and thinkorswim, thinkorswim will become a wholly-owned subsidiary of INVESTools following the Merger and thinkorswim stockholders will receive half of the merger consideration in cash and half in stock, representing approximately \$170 million in cash and 19.1 million shares of Common Stock.

Following the Merger, current thinkorswim securityholders will generally not be allowed to transfer the Common Stock to be received in the Merger until six months following the Merger, and Mr. Sosnoff and Mr. Sheridan are subject to a longer restrictive period while employed by the Company. After the expiration of such periods, the Company will provide a shelf registration statement to effectuate sales of Common Stock held by current thinkorswim securityholders or their permitted transferees. In addition, up to 728,608 additional shares of Common Stock may be issued to current thinkorswim securityholders on the date such periods expire if, at such time, the Common Stock is trading for less than \$8.75 per share (with an \$8.00 floor on such price for purposes of the calculation of this

additional consideration).

The parties to the Merger Agreement have made customary representations, warranties and covenants therein. INVESTools has also agreed to call a meeting of INVESTools stockholders to consider approval of the Issuance Proposal and the Charter Amendment. The Merger Agreement also provides for customary covenants providing for the parties to use their commercially reasonable efforts to take actions necessary for the closing of the Merger.

Consummation of the Merger is subject to various customary conditions, including, among others:

Approval by the INVESTools stockholders of the Issuance Proposal and the Charter Amendment;

Adoption of the Merger Agreement by the thinkorswim stockholders;

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The expiration or termination of the waiting period under the Hart-Scott-Rodino Act (the waiting period was terminated on October 23, 2006);

The approval of the NASD;

No temporary restraining order, preliminary or permanent injunction or other order shall be in effect prohibiting the Merger;

There shall not be any pending or threatened proceeding asserted by a governmental authority challenging or seeking to enjoin the Merger;

The receipt by INVESTools of the debt financing necessary to consummate the Merger;

There shall not have occurred a Material Adverse Effect (as defined in the Merger Agreement) in respect of INVESTools or thinkorswim; and

The Company and DevExperts LLC and its affiliates shall have entered into an arrangement for the provision of ongoing consulting services. DevExperts LLC is a software development company based in St. Petersburg, Russia, that developed and maintains the thinkorswim platform.

Under the Merger Agreement, thinkorswim has agreed not to, directly or indirectly, solicit, facilitate, initiate, entertain or encourage any inquiries or communications regarding, or the making of any proposal or offer that constitutes or may constitute, an Acquisition Proposal (as defined in the Merger Agreement).

thinkorswim and its subsidiaries have agreed to conduct their business in all material respects in the ordinary course of business and in a manner consistent with past practice and in compliance with all applicable laws and to use their commercially reasonable efforts to (i) preserve intact their business organization and their assets, rights and properties, (ii) operate according to plans and budgets provided to INVESTools, (iii) retain the services of their present officers, key employees and software development consultants, (iv) maintain in effect their material contracts and (v) preserve their present relationships with customers and other persons with whom they have business relations.

The Merger Agreement contains certain termination rights for both INVESTools and thinkorswim. In the event of a termination by either INVESTools or thinkorswim, substantially all of the provisions of the Merger Agreement will cease to have any effect.

The Merger Agreement is subject to and governed by the laws of the State of Delaware.

The Marketing Agreement

INVESTools and thinkorswim, Inc., a wholly-owned subsidiary of thinkorswim, entered into a Marketing Agreement on September 18, 2006 pursuant to which INVESTools has agreed to display the thinkorswim logo prominently in its Investors Toolbox and thinkorswim, Inc. has agreed to give INVESTools students a preferred rate for thinkorswim's services. INVESTools and thinkorswim, Inc. will work together to develop an interface to allow INVESTools students to access thinkorswim, Inc.'s brokerage platform. thinkorswim, Inc. has agreed to pay INVESTools a monthly fee of \$175,000, with a semi-annual review of the pricing. The Marketing Agreement expires on December 31, 2007 unless renewed by mutual agreement. INVESTools has agreed to only enter into similar marketing arrangements with one other brokerage firm during the term of the Marketing Agreement.

INVESTools Board of Directors and Management after the Merger

Subject to the satisfaction or waiver of all conditions precedent to the Merger, the Company has agreed, effective immediately following the Merger, that current thinkorswim directors Messrs. Sosnoff and Sheridan shall become members of the Board of Directors and that they, or their designees, will be nominated at each annual meeting of the Company's stockholders held within the next three years following the closing of the Merger. The size of the Board of Directors shall concurrently be increased to eight members, to allow for the addition of the two nominees set forth above.

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The management of INVESTools will not change as a result of the Merger. Mr. Sosnoff shall be the President of thinkorswim, Mr. Sheridan shall be the Executive Vice President of thinkorswim and Kristine Ross shall be the Chief Financial Officer of thinkorswim.

Employment Agreements for Messrs. Sosnoff and Sheridan

The Company will enter into substantially identical employment agreements, each having three-year terms, with Messrs. Sosnoff and Sheridan (the Executives) effective upon the closing of the Merger. Pursuant to these agreements, Messrs. Sosnoff and Sheridan will serve as President and Executive Vice President of thinkorswim, respectively, and will each be entitled to a base salary of \$120,000 per year and eligible to earn an annual bonus award in an amount determined in the sole discretion of the compensation committee of the Board of Directors, but in no event less than \$225,000 (which will be considered earned ratably on a monthly basis throughout the applicable fiscal year). The employment agreements will also provide for grants of non-qualified stock options, one-half of which will have an exercise price per share equal to the fair market value of the Common Stock on the date of grant and one-half of which will have an exercise price per share equal to 150% of the fair market value of the Common Stock on the date of grant. These options will become vested and exercisable as to 25% of the shares subject thereto on each of the first, second, third, and fourth anniversaries of their grant date, subject to the Executive s continued service with the Company. Additionally, if a change in control of the Company occurs during the employment term, the options will become 100% vested and exercisable on an accelerated basis immediately prior to a change in control of the Company. In the event of a termination of the Executive s employment due to the Executive s death or disability, the Executive will be entitled to payment of earned and unpaid salary and bonus and continued payment of base salary for three months following termination of employment. In the event of a termination of an Executive s employment by the Company without cause or by the Executive due to a resignation for constructive termination (which would include diminution in status, titles or duties), the Executive will be entitled to payment of earned and unpaid salary and bonus and continued payment of base salary for the longer of (i) twelve months or (ii) the scheduled expiration of the term of his employment agreement. The employment agreements also contain non-competition and non-solicitation covenants that apply during the employment term and following termination of employment for any reason until the later of the scheduled expiration of the employment term or the one-year anniversary of such termination of employment.

If the Executive s employment is terminated by the Company without cause or by the Executive due to resignation for constructive termination, and at the time of such termination the Company is actively engaged in substantive negotiations with respect to a transaction that, if consummated, would result in a change in control of the Company, then the Executive agrees to continue to serve the Company and its subsidiaries and affiliates as a consultant for a period of up to 12 months following such termination of employment. Executive s stock options will continue to vest during such consulting period in accordance with their normal vesting schedule (and will be vested on an accelerated basis if the change in control occurs during such consulting period), and Executive will be paid a per diem amount for his consulting services.

Regulatory Matters

Under the Hart-Scott-Rodino Act, and the rules promulgated thereunder by the FTC, the Merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the DOJ, and the applicable waiting period has expired or been terminated. INVESTools and thinkorswim filed notification and report forms under the HSR Act with the FTC and the Antitrust Division on October 13, 2006, and received early termination of the waiting period on October 23, 2006.

Additionally, prior to the completion of the Merger, thinkorswim, as a U.S.-registered broker-dealer, is required under the rules of the NASD to make certain filings in respect of the change in control of thinkorswim.

Except as noted above with respect to the required filings under the Hart-Scott-Rodino Act, the filings with the NASD and the filing of a Certificate of Merger in Delaware at or before the effective date of the Merger, the Company is unaware of any material federal, state or foreign regulatory requirements or approvals required for the completion of the Merger.

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Interests of Certain Persons in the Merger

To the knowledge of the Board of Directors, none of the directors or executive officers of the Company will receive benefits as a result of the Merger that will be in addition to or different from the benefits received by the Company's stockholders generally.

Accounting Treatment

The Merger with thinkorswim will be accounted for under the purchase method of accounting under U.S. GAAP, which means that thinkorswim's results of operations will effectively be included with ours from the effective time of the Merger and its consolidated identifiable assets (both tangible and intangible) and liabilities will be recorded at their fair values at the same time with the excess, if any, allocated to goodwill.

Material U.S. Federal Income Tax Consequences

There are no material U.S. federal income tax consequences to the Company's current stockholders that will result from the issuance of additional shares of Common Stock in the Merger.

Indebtedness and the Financing of the Merger

In connection with the Merger, the Company will issue approximately 19.1 million shares of Common Stock and pay approximately \$170 million in cash to thinkorswim's securityholders. An additional \$15.2 in cash will be used to pay customary fees and expenses in connection with the Merger, the financing arrangements and the related transactions. The cash payments are expected to be funded by a combination of the following:

new senior secured credit facilities in the amount of \$150 million, consisting of a \$125 million senior secured term loan facility and a \$25 million senior secured revolving credit facility. The revolving credit facility is not expected to be utilized at the closing; and

cash and marketable securities on hand in an amount of approximately \$60.2 million.

Senior Secured Credit Facilities

Commitment Letter

The Company has received a fully executed debt commitment letter, dated as of September 18, 2006, from JPMorgan Chase Bank, N.A. (JPMCB) and J.P. Morgan Securities Inc. (JPMorgan). Pursuant to the debt commitment letter, subject to the conditions set forth therein, JPMCB has committed to provide the Company up to \$150 million of senior secured credit facilities in the form of a \$125 million senior secured term loan facility and a \$25 million senior secured revolving credit facility. The proceeds of the senior secured term loan facility will be used to finance in part the Merger. The proceeds of the senior secured revolving credit facility will be used for general corporate purposes, including permitted acquisitions.

The debt commitments expire on January 31, 2007. The documentation governing the senior secured credit facilities has not been finalized and, accordingly, the actual terms of such facilities may differ slightly from those described in this Proxy Statement.

Conditions Precedent

The availability of the senior secured credit facilities is subject to, among other things, there not having occurred since December 31, 2005 any change or condition that would constitute a Company Material Adverse Effect or Parent Material Adverse Effect, as each term defined in the Merger Agreement, the accuracy in all material respects at the closing date of specified representations of the Company in the Merger Agreement, consummation of the Merger in accordance with the Merger Agreement (and no provision thereof being waived or amended in a manner materially adverse to the lenders without the consent of JPMorgan) and the negotiation, execution and delivery of definitive documentation.

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General Provisions

The senior secured credit facilities will consist of a \$125 million senior secured term loan facility and a \$25 million senior secured revolving credit facility, both with terms of five years. The revolving credit facility will include provisions for the issuance of letters of credit and swingline loans. The senior secured credit facilities will permit the borrower to increase the amount of the revolving facility up to an aggregate of \$50 million. No alternative financing arrangements or alternative financing plans have been made in the event that the senior secured credit facilities are not available as anticipated.

Interest Rate and Fees

Loans under the senior secured credit facilities are expected to bear interest, at the borrower's option, initially, at (1) a rate equal to the London interbank offered rate (with adjustments for statutory reserve requirements), or LIBOR, plus an applicable margin, or (2) a rate equal to the higher of (a) the prime rate of JPMCB and (b) the federal funds effective rate plus 0.50%, plus an applicable margin. After delivery of the borrower's financial statements for the second full fiscal quarter completed after the closing date, the applicable margins for borrowings under the term loan facility and the revolving credit facility may be reduced subject to a leverage-based pricing grid.

In addition, the borrower will pay to the lenders customary commitment fees under the revolving credit facility in respect of the unutilized commitments thereunder and a ticking fee on the aggregate amount of the revolving and term facilities from November 1, 2006 to the closing date.

Prepayments and Amortization

The borrower will be permitted to make voluntary prepayments at any time, without premium or penalty (other than LIBOR breakage costs, if applicable), and will be required to make mandatory prepayments of term loans with (1) net cash proceeds of non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (2) issuances of debt (other than permitted debt) and (3) 50% of the surviving corporation's excess cash flow (to be defined) subject to a leverage-ratio test. The term loan will amortize in equal quarterly installments in aggregate annual amounts equal to 5% of the original principal amount of the term loan, with the balance payable at the final maturity date.

Guarantors

All obligations under the new senior secured credit facilities will be unconditionally guaranteed by each existing and future direct or indirect wholly-owned material domestic subsidiary.

Collateral

The obligations of the borrower under the senior secured credit facilities will be secured on a first priority basis, subject to permitted liens and other agreed-upon exceptions, by (i) a first-priority pledge of all the capital stock of each wholly-owned restricted subsidiary of the Company and (ii) by security interests in, and mortgages on, substantially all tangible and intangible assets of the Company and each subsidiary.

Other Terms

The senior secured credit facilities will contain customary representations, warranties and covenants, including, among other things, restrictions on indebtedness, liens, fundamental changes, investments and acquisitions, sales of assets, sale leasebacks, mergers and consolidations, dividends and other distributions, redemptions, prepayments of certain subordinated indebtedness and certain existing indebtedness, and a maximum total leverage ratio. The senior

secured credit facilities will also include customary events of default, including a change of control (to be defined).

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Recommendation of the Board of Directors

The Board of Directors has unanimously approved the Merger, the issuance of shares of Common Stock in connection with the Merger, the amendment to the Company's 2001 Stock Option Plan, and the amendment to INVESTools Certificate of Incorporation.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK IN CONNECTION WITH THE COMPANY'S PROPOSED MERGER OF ITS WHOLLY-OWNED SUBSIDIARY WITH THINKORSWIM, AND GRANTS TO THE EMPLOYEES OF THINKORSWIM OF OPTIONS TO PURCHASE COMMON STOCK.

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**AMENDMENT OF INVESTTOOLS CERTIFICATE OF INCORPORATION
(CHARTER AMENDMENT)**

General

The Board of Directors has approved the amendment and restatement of INVESTools Certificate of Incorporation to authorize additional shares of Common Stock to permit the issuance of Common Stock to the stockholders of thinkorswim in connection with the Merger and the grants to employees of thinkorswim of options to purchase shares of Common Stock. See Issuance of Common Stock in Connection with the Proposed Merger Background of the Merger, INVESTools Reasons for the Merger and thinkorswim s Reasons for the Merger for a discussion of the background and reasons for the amendment of INVESTools Certificate of Incorporation.

The amendment to INVESTools Certificate of Incorporation will increase the number of authorized shares of capital stock of the Company from 61,000,000 to 101,000,000, and will increase the number of authorized shares of Common Stock from 60,000,000 to 100,000,000.

Under Delaware law and the provisions of INVESTools current Certificate of Incorporation, the adoption of the proposed amendment to the Certificate of Incorporation requires the affirmative vote of the holders of at least a majority of the issued and outstanding shares of Common Stock.

If the Company s stockholders approve the amendment to INVESTools Certificate of Incorporation and the issuances of Common Stock to thinkorswim stockholders in connection with the Merger and the grants to the employees of thinkorswim of options to purchase Common Stock, the Company intends to file the amended Certificate of Incorporation with the Delaware Secretary of State immediately prior to the consummation of the proposed Merger. The amended Certificate of Incorporation will become effective on the date the filing is accepted by the Delaware Secretary of State. Please note, however, that the proposed amendment of INVESTools Certificate of Incorporation may be abandoned by the Board of Directors, without further action by the Company s stockholders, at any time before or after the Special Meeting if for any reason the Board of Directors deems it advisable.

The adoption of this Proposal is conditioned on the approval of the Issuance Proposal by the Company s stockholders. The adoption of this Proposal is not conditioned on the approval of the Option Plan Amendment by the Company s stockholders.

Material U.S. Federal Income Tax Consequences

There are no material U.S. federal income tax consequences to the Company s current stockholders that will result from the amendment to INVESTools Certificate of Incorporation.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the Merger, the issuance of shares of Common Stock in connection with the Merger, the amendment to the Company s 2001 Stock Option Plan, and the amendment to INVESTools Certificate of Incorporation.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO INVESTTOOLS CERTIFICATE OF INCORPORATION.

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**AMENDMENT OF THE 2001 STOCK OPTION PLAN
(OPTION PLAN AMENDMENT)**

General

On October 31, 2006, the Compensation Committee recommended to the Board of Directors that the stockholders approve an amendment to the Company's 2001 Stock Option Plan (the Plan) to increase the number of shares of Common Stock available for issuance thereunder from 8 million to 12 million shares. Attached to this Proxy Statement as Annex B is a copy of the Plan, as amended and approved by the Board of Directors, and as submitted to the stockholders for their approval.

Approval of the Option Plan Amendment requires the affirmative vote of a majority of the shares of Common Stock present or represented by proxy and entitled to a vote at the Special Meeting.

The Board of Directors believes that approval of the Option Plan Amendment will allow the Company to continue to provide key employees and directors with a proprietary interest in the growth and performance of the Company while aligning the interests of management with those of the Company's stockholders. Approval of the Option Plan Amendment will also allow the Company to continue to have flexibility in structuring compensation arrangements to attract and retain key employees and directors for the Company.

The Board of Directors believes that the growth of the Company depends significantly upon the efforts of its key employees and directors and that such individuals are best motivated to put forth maximum effort on behalf of the Company if they own an equity interest in the Company. In accordance with this philosophy, in December 2001, the Board of Directors adopted, and the stockholders approved, the Plan. The purpose of the Plan is to further the interests of the Company, its subsidiaries and its stockholders by providing incentives in the form of stock options to key employees and directors who contribute to the success and profitability of the Company and its subsidiaries.

The Plan provides for the grant to employees and directors of the Company (or its subsidiaries) of options to purchase shares of Common Stock. The Plan is administered by the Compensation Committee of the Board of Directors (the Compensation Committee), which has complete discretion to select the optionees and to establish the terms and condition of each option, subject to the provision of the Plan. Options granted under the Plan may be incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or nonstatutory stock options.

The adoption of this Proposal is conditioned on the approval of the Issuance Proposal and the Charter Amendment by the Company's stockholders.

Shares Subject to the Plan

As of November 2, 2006, the Company has reserved a total of 12 million shares of Common Stock (including the 4 million additional shares subject to stockholder approval at the Special Meeting) for issuance under the Plan. If any option granted under the Plan expires or terminates for any reason without having been exercised in full, then the unpurchased shares subject to that option will once again be available for additional option grants. As of November 2, 2006, options to acquire 5,570,868 shares of Common Stock had been granted under the Plan at exercise prices ranging from \$0.18 to \$11.01 per share, or a weighted average per share exercise price of \$1.80 per share.

Proportionate adjustments may be made to the number, class and/or kind of shares for which options are authorized to be granted under the Plan, the number, class or kind of shares then subject to options previously granted under the Plan, the price per share payable upon exercise of each option outstanding under the Plan and/or any other affected term of an option, in the discretion of the Board of Directors, in the event of any reclassification, recapitalization, stock dividend, stock split, combination or exchange of shares, rights offering, or other similar transaction or event. To the extent deemed equitable and appropriate by the Board of Directors, and subject to any required stockholder action, any option granted under the Plan will pertain to the securities and other property to which a holder of the number of shares of stock covered by the option would have been entitled to receive in connection with such event.

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Stock Option Terms

Options granted under the Plan may not be exercised more than 10 years after the date of grant and the Compensation Committee may set a shorter option period. Options may be granted under the Plan only until December 3, 2011.

If an optionee ceases continuous service for the Company for cause, all options held by the optionee shall lapse immediately following the last day that the optionee is employed by the Company or the effective date of the termination of his services to the Company. If an optionee ceases continuous service for the Company for any reason other than cause, death, disability, or retirement on or after the age of 65 of the optionee, all options held by the optionee will lapse at the earlier of the end of the option period or ten days following the last day that the optionee is employed by the Company or the effective date of the termination of his services to the Company; provided, however, the options may be exercised only as to those shares that have vested as of the termination date. In the case of death of the optionee, the beneficiaries designated by the optionee shall have one year from the optionee's demise or to the end of the option period, whichever is earlier, to exercise the option; provided, however, the option may be exercised only as to those shares that have vested at the time the optionee died. If the optionee retires on or after attaining age 65, the option shall lapse at the earlier of the end of the option period or three months after the date of retirement; provided, however, the option may be exercised only as to those shares that have vested on the retirement date. In the event of termination of continuous service due to total and permanent disability (within the meaning of Section 422 of the Code), the option shall lapse at the earlier of the end of the option period or twelve months after the date of such termination; provided, however, the option may be exercised only as to those shares that have vested at the time the optionee became disabled. Notwithstanding the foregoing, with respect to option grants to thinkorswim employees in connection with the Merger, in the event that the optionee's employment is terminated by the Company without cause during the 12 month period following the occurrence of a change of control (as defined in the Plan), then such optionee's then outstanding unvested options will become fully vested upon such termination of employment.

The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock as of the date of grant (110% of the fair market value if the grant is to an employee who owns more than 10% of the total combined voting power of all classes of capital stock of the Company). The Code currently limits to \$100,000 the aggregate value of Common Stock for which incentive stock options may first become exercisable in any calendar year under the Plan or any other option plan adopted by the Company. Nonstatutory stock options may be granted under the Plan at an exercise price of not less than the par value of the Common Stock on the date of grant. The maximum number of shares with respect to which options (incentive or nonstatutory) may be granted each calendar year to an optionee is 2 million. On November 2, 2006, the closing price for the Common Stock on NASDAQ was \$11.52 per share.

Unless otherwise provided by the Compensation Committee, an option granted under the Plan vests as to 1/4 of the total number of shares covered by the option during each 12-month period commencing 12 months after the date of grant of the option. The Board of Directors may, in its discretion and subject to applicable law, provide for the exercise of options either as to an increased percentage of shares per year or as to all remaining shares.

Transferability

An option granted under the Plan is not transferable otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder, and may be exercised during the lifetime of an optionee only by him. The Compensation Committee may grant options that are transferable, without payment of consideration, to immediate family members of an optionee or to trusts or partnerships for such family members. The Compensation

Committee may also amend outstanding options to provide for such transferability.

Amendment of the Plan

The Compensation Committee may amend the Plan or condition or modify options awarded under the Plan in response to changes in securities or other laws or rules, regulations or regulatory interpretations applicable to the Plan or to comply with stock exchange rules or requirements without approval of the stockholders. The

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Compensation Committee may, from time to time, terminate or modify the Plan in any respect; *provided, however*, that, any amendment, whether with or without the approval of the stockholders, that alters the terms or provisions of an option granted before the amendment (unless the alteration is expressly permitted under the Plan) will be effective only with the consent of the optionee to whom the option was granted.

Awards to be Granted

As of November 2, 2006, approximately 500 employees were eligible to be considered for the grant of options under the Plan. Following the consummating of the Merger, the Company expects that approximately 590 employees will be eligible to be considered for the grant of options under the Plan. The grant of options to key employees and directors under the Plan is entirely in the discretion of the Compensation Committee. The Compensation Committee has no outstanding grants of options to purchase Common Stock and no grants are under consideration at the present time.

Federal Income Tax Consequences

Under existing federal income tax provisions, a participant who receives stock options that are subject to restrictions that create a substantial risk of forfeiture (within the meaning of Section 83 of the Code) will not normally realize any income, nor will the Company normally receive any deduction for federal income tax purposes, in the year such option is granted.

When a nonstatutory stock option granted pursuant to the Plan is exercised, the optionee will realize ordinary income measured by the difference between the aggregate fair market value of the shares of Common Stock on the exercise date and the aggregate purchase price of the shares of Common Stock as to which the option is exercised, and, subject to Section 162(m) of the Code, the Company will be entitled to a deduction in the year the option is exercised equal to the amount the optionee is required to treat as ordinary income.

An optionee generally will not recognize any income upon the exercise of any incentive stock option, but the excess of the fair market value of the shares at the time of exercise over the option price will be an item of adjustment, which may, depending on particular factors relating to the optionee, subject the optionee to the alternative minimum tax imposed by Section 55 of the Code. An optionee will recognize capital gain or loss in the amount of the difference between the exercise price and the sale price on the sale or exchange of stock acquired pursuant to the exercise of an incentive stock option, provided the optionee does not dispose of such stock within either two years from the date of grant or one year from the date of exercise of the incentive stock option (the required holding periods). An optionee disposing of such shares before the expiration of the required holding period will recognize ordinary income generally equal to the difference between the option price and the fair market value of the stock on the date of exercise. The remaining gain, if any, will be capital gain. The Company will not be entitled to a federal income tax deduction in connection with the exercise of an incentive stock option, except where the optionee disposes of the Common Stock received upon exercise before the expiration of the required holding periods.

The foregoing does not purport to be a complete summary of the federal income tax considerations that may be relevant to holders of options or to the Company. It also does not reflect provisions of the income tax laws of any municipality, state or foreign country in which an optionee may reside, nor does it reflect the tax consequences of an optionee's death.

Recommendation of the Board of Directors

The Board of Directors has unanimously approved the Merger, the issuance of shares of Common Stock in connection with the Merger, the amendment to the Company's 2001 Stock Option Plan and the amendment to INVESTools Certificate of Incorporation.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY S 2001 STOCK OPTION PLAN.

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THINKORSWIM

Business Description

Overview

Founded in 1999, thinkorswim is a leading online brokerage and technology company focused on providing services to self-directed options traders with more than 16,000 self-directed retail customers and several hundred institutional users. thinkorswim offers customers a broad range of products including equities, exchange traded options, futures, mutual funds, and bonds. thinkorswim provides a unique front end trading platform that allows its customers to trade electronically at national securities exchanges and provides sophisticated trading tools and analytics, including tools for implementing complex, multi-leg options strategies. The thinkorswim platform pioneered single click trading functionality for complex option spreads.

thinkorswim Group, Inc. (collectively with its subsidiaries, thinkorswim) was founded in 2002 as a holding company for thinkorswim, Inc., an NASD member broker-dealer, and thinkorswim Advisors, Inc. (Advisors), an SEC-registered investment adviser. thinkorswim s additional operating subsidiaries are thinkorswim Technologies, Inc. (Technologies), which owns the institutional equity order management technology thinklink, and tos Services, Inc. (tos Services), which owns the thinkpipes technology used by thinkorswim s institutional customers.

Brokerage Platforms

thinkorswim has developed highly-interactive, feature rich, user-friendly platforms that benefit all traders, from the novice to the expert. The vast array of analytical tools available for order management, trade monitoring, and position analysis, in addition to the efficient and powerful order execution system provided, distinguish the thinkorswim brokerage platform from its competitors. The platform utilizes extensive real-time data streaming that allows a customer to use the tools with the most up-to-date information available. The thinkorswim platform s capabilities include:

Spread hacker™, an advanced and innovative way to find defined-risk option trades quickly and efficiently. Displaying six different strategies grouped by symbol, price, implied volatility, and probability of success, Spread Hacker™ allows the customers to find trades that meet their criteria with a simple click.

Conditional and contingent order management, which permits customers to enter orders with their specified parameters. Customers do not, therefore, have to constantly monitor the market to execute these orders.

Papermoney, a paper trading, or virtual trading, function, allows customers to access two virtual accounts each funded with \$100,000 of notional money . The customer may use the same features as the live platform, except that the trades are not real and the customer can start over anytime he or she likes. PaperMoney lets customers trade stocks, options and futures 24/7 with all of the best tools thinkorswim offers.

An automated trading service, offered to subscribers of participating advisory firms, by which customers may authorize thinkorswim to execute trades in his or her account, based on the strategy and allocation chosen from the selected advisory newsletter. Advisors, under the name Red Option, publishes a number of newsletters, each with a different strategy, all of which are available for thinkorswim s autotrade service.

thinkorswim's platform ranked best for options traders in 2006 in Barron's 11th Annual Survey of Best Online Brokerage Firms. It was the only brokerage firm to finish #1 and #2 in software and web-based ratings, respectively.

Overall, the thinkorswim platform is a state-of-the-art system for monitoring, analyzing and trading equities and option derivatives that is efficient, feature-packed and powerful. As part of thinkorswim's strategic vision, the firm continues to evolve by developing additional cutting edge retail and institutional software products for hedging, speculating and enhancing returns, in order to benefit customers at all trading levels.

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In November 2004, thinkorswim launched thinkpipes, a powerful and flexible trading and risk management software platform designed to create greater market efficiencies for the professional trader. thinkorswim has also created mobile technology software, thinkanywhere and thinkmobile, which permit customers to trade from pocket PC's and mini-browsers.

In addition to thinkorswim's in-house software developers, thinkorswim uses a third party technology development firm to assist it in the development, testing and support of its various software and browser-based platforms. thinkorswim is in preliminary discussions with this firm to enter into a longer-term arrangement than the current software development agreement, although no assurance can be made that such an arrangement will be entered into before or after the Merger.

Customer Service

thinkorswim does not generally utilize the traditional commissioned representative model where a customer has a dedicated relationship with a broker at the firm. All thinkorswim customers have access to the entire thinkorswim service desk, which is staffed with experienced traders and other trading experts who are able to field all levels of questions via telephone or email. The service desk gives customers the ability to interact with, and have their questions answered by the experienced thinkorswim salaried staff, rather than limiting contact to a single commissioned broker or salesperson. Customers also have access to user-friendly libraries, FAQs, and online chats.

In addition to service desk and online support, thinkorswim provides extensive support for its customers through its options trading classes and seminars. To strengthen thinkorswim's focus on education, the firm created Option Planet, a separate division of Advisors that offers approximately 200 free seminars and moderately-priced option education all over the world.

Operations and Regulation

thinkorswim's customers are generally self-directed. They enter their own orders and utilize the array of analytical tools available as part of thinkorswim's software, and can at any time seek personal support from the service desk. thinkorswim customer accounts are cleared on a fully-disclosed basis by a clearing broker-dealer. thinkorswim is responsible for all customer contact, including opening customer accounts, responding to customer inquiries and placing customer orders with the executing and clearing brokers. The clearing agents provide back office functions such as the possession, control and safeguarding of funds and securities in client accounts, extending credit in a margin account to the customer, settling and administering securities transactions, settling commissions and clearing fees, and preparing client trade confirmations and statements.

thinkorswim's eligible customers can obtain margin credit and leverage with its clearing firm. Because thinkorswim is the introducing broker, and does not hold customer funds and securities, it is not subject to the segregation requirements of the customer protection rule. Margin credit and leverage requirements are regulated by the SEC and self-regulating organizations (SROs), such as the NASD. thinkorswim monitors customer accounts and their margin positions to identify customer accounts that may need additional collateral.

The securities industry is subject to extensive regulation under federal and state law. In general, broker-dealers are required to register with the SEC and to be members of NASD or the New York Stock Exchange. As a member of the NASD, thinkorswim is subject to the requirements of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder relating to broker-dealers and to the Conduct Rules of the NASD. These regulations establish, among other things, minimum net capital requirements. These laws, rules and regulations affect all facets of thinkorswim's securities business, including trading practices, safekeeping of funds, marketing activities and record-keeping practices. thinkorswim is also subject to regulation under various state laws, including registration

requirements.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

thinkorswim currently has over 16,000 customer funded brokerage accounts. The majority of thinkorswim's revenue consists of commissions from customer transactions in options, stock, futures, mutual funds and fixed-income products, net interest income, and payment for order flow. For the six-month periods ended June 30, 2006 and 2005, option trading commission revenue represented over 80 percent of total commissions revenue.

Critical Accounting Policies

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon thinkorswim's Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires thinkorswim to make judgments, assumptions and estimates that may have a significant impact upon its financial results. thinkorswim believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of its Consolidated Financial Statements.

Software and Website Development. Costs associated with software and website development provided or acquired from third parties are capitalized and are stated at cost, net of accumulated amortization. These assets are amortized on a straight-line basis over a three-year useful life.

Goodwill and Other Intangible Assets. Intangible assets relate to a customer list acquired in 2004, and customer relationships acquired during 2005. The customer list and customer relationships are being amortized on a straight-line basis over their expected useful lives of three and eight years, respectively. Goodwill results from allocating the excess acquisition cost over the estimated fair values of tangible and intangible net assets acquired, and is tested at least annually to determine if any impairment should be recognized. In thinkorswim management's opinion, no impairment exists as of June 30, 2006 or December 31, 2005.

Income Taxes. thinkorswim files a consolidated U.S. federal income tax return. thinkorswim uses the asset and liability method required by Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* to provide income taxes on all transactions recorded in the consolidated financial statements. This requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based on the tax rates thinkorswim expects to be in effect when the underlying items of income and expense are realized. thinkorswim's expense for income taxes includes the current and deferred portions of that expense.

Stock Options. Effective January 1, 2006, thinkorswim accounts for stock-based compensation in accordance with the fair value method prescribed by SFAS No. 123(R), *Share-Based Payment* (SFAS 123R), a revision to SFAS No. 123, *Accounting for Stock Based Compensation* (SFAS 123). Under this method, compensation expense is recognized over the relevant service period based on the fair value of stock options. thinkorswim uses the Black-Scholes valuation model to estimate the fair value of stock options at the time of each grant. Stock options are recorded as expense with an offsetting credit to stockholders' equity in accordance with SFAS No. 123R over the corresponding service period.

Results of Operations

thinkorswim's results of operations are significantly impacted by activity in the U.S. equity markets, particularly market volatility. Generally, increased market volatility results in a greater level of customer activity, and decreased market volatility results in a reduced level of customer activity. If customer trading activity were to increase, thinkorswim expects that would result in a positive impact on its results of operations. If customer trading activity were to decline, thinkorswim expects that it would have a negative impact on its results of operations. Changes in interest rates, customer margin balances, and customer cash balances also impact thinkorswim's results of operations. thinkorswim's interest and dividend income includes its portion of the income generated by charges to customers on margin balances and customer cash held and invested by its clearing firms, offset by interest paid to customers on their credit balances. Accordingly, results of operations are sensitive to interest rate fluctuations. As

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an introducing broker, all of thinkorswim's customer balances are held by its clearing firms on a fully disclosed basis. thinkorswim started accepting payment for order flow at the end of 2005 from some of the execution firms to which customers' orders are routed. Most of these are oral arrangements and can be changed or eliminated at any time. thinkorswim includes payment for order flow in Other Brokerage Related Revenue.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Revenue. Revenue increased by \$19 million or 207 percent during the six months ended June 30, 2006, as compared to the same period in 2005 principally as a result of the following four changes:

thinkorswim's volume of trades increased significantly, attributable to an ongoing focus on active trading customers. This increase accounted for revenue included in Commissions and Other Brokerage Related Revenue of \$8.1 million during the first half of 2006, as compared to \$0.2 million during the same period in the prior year.

Customer assets held at thinkorswim's clearing broker-dealer increased, as did net interest income earned by thinkorswim, in part due to the rising interest rate environment. As a result, interest income generated by charges to customers on margin balances and customer cash held and invested by thinkorswim's clearing firms, offset by interest paid to customers on their credit balances, increased by \$3 million, or 366 percent for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005.

At the end of 2005, thinkorswim started accepting payment for order flow, which accounted for an additional \$1.7 million of revenue during the six months ended June 30, 2006, and which is included in Other Brokerage Related Revenue.

In addition, at the end of 2005, thinkorswim purchased the assets of Arrowhead Solutions, Inc. (Arrowhead), which resulted in additional revenue of \$1.4 million for the six months ended June 30, 2006.

Clearing and Brokerage Fees. Clearing and brokerage fees increased \$6 million, or 455 percent during the six months ended June 30, 2006, as compared to the same period of the previous year. The difference was due to the increase in brokerage volume.

Employee Compensation and Benefits. Compensation and benefits increased \$1.9 million, or 65 percent, during the first half of 2006 in comparison to the first half of 2005, primarily due to a 61 percent increase in the number of employees. Included in the new employees were those hired as a result of the Arrowhead acquisition which occurred at the end of 2005.

Technology, Communication, Market Data. Technology, Communication, Market Data expenses increased \$1.6 million, or 271 percent, during the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. The increase primarily resulted from the increase in users of thinkorswim's trading systems, as well as from additional enhancements to its capacity and communication lines. The increase was also due to additional trading systems and tools for active traders that thinkorswim brought online after June 30, 2005, as well as connectivity associated with the asset acquisition of Arrowhead at the end of 2005.

Occupancy. Occupancy increased by \$0.3 million, or 242 percent, during the first half of 2006 as compared to the same period in 2005 primarily due to leasing new office space.

Other. Other expenses include general and administrative costs which increased by \$0.8 million, or 105 percent, during the first six months of 2006 compared to the same period in 2005, primarily due to the increase in operations

attributable to the asset acquisition of Arrowhead at the end of 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenue. Revenue increased \$9.3 million, or 55 percent, during 2005 as compared to 2004 as a result of two changes. Trade volume increased significantly, attributable to additional active trading customers. This increased activity accounted for an additional \$4.8 million. There were also increases in customer asset balances, interest rates, and interest revenue as a result of renegotiating thinkorswim's clearing agreement with its clearing broker-

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dealer. As a result of these changes, interest revenue increased to approximately 12 percent of total revenue for 2005, while interest revenue was less than 4 percent of total revenue for the year ended December 31, 2004.

Clearing and Brokerage Fees. The largest variable expense item is Brokerage, Clearing and other related expenses, which primarily include executing and clearing customer trade costs. These expenses increased \$2.4 million, or 74 percent during 2005 as compared to 2004, primarily due to the increase in brokerage volume.

Employee Compensation and Benefits. Compensation and benefits increased 15 percent during the year ended December 31, 2005 as compared to the previous year, primarily due to a 62 percent increase in the number of employees. Additional employee benefit programs were also added during fiscal year 2005.

Professional Fees and Provision for Legal Settlements. Professional Legal Fees and Provision for Legal Settlements increased by \$2.9 million, or 257 percent, during 2005 as compared to 2004. A portion of the increase was attributable to a settlement reached during 2005 in connection with litigation involving a third party vendor. In addition, thinkorswim incurred \$2.1 million in expense related to an unfunded customer debit balance arising from trading activity, for which thinkorswim is vigorously pursuing reimbursement.

Technology, Communication, Market Data. Technology, Communication, and Market Data expenses increased 126 percent during the year ended December 31, 2005 compared to the prior year due to the increase in trading system users, along with increased capacity and communication lines needed for data and functionality. The increase was also due to new trading systems and tools for active traders brought online during 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenue. Revenue increased 30 percent during the year ended December 31, 2004, as compared to the year ended December 31, 2003. The increase resulted from two factors. thinkorswim acquired additional customer accounts through marketing efforts with a third party vendor. This resulted in a 19 percent increase in commission revenue during 2004 compared with 2003, along with a 114 percent increase in interest income earned on customer accounts. thinkorswim also earned Software and Maintenance Fees of \$0.8 million during 2004 as a result of thinkorswim's institutional trading platform which was launched in November 2004.

Employee Compensation and Benefits. Compensation and benefits increased 56 percent during 2004 compared to 2003 as a result of a 44 percent increase in the number of employees, from 27 to 39.

Professional Fees and Provision for Legal Settlements. Professional Legal Fees and Provision for Legal Settlements increased by \$1 million, or 752 percent, during 2004 as compared to 2003 as a result of legal expenses and a \$0.4 million settlement provision incurred in connection with ongoing litigation with a third party vendor. The matter was settled during 2005.

Liquidity and Capital Resources

thinkorswim has historically financed its capital needs primarily through the use of funds generated from operations, and plans to rely on operating earnings for capital needs in the future. Operations during the six months ended June 30, 2006 were financed primarily through profitable operations, and during the year ended December 31, 2005 by cash on hand. In 2004, thinkorswim received an investment of \$22.5 million from a venture capital firm.

thinkorswim is subject to the Securities and Exchange Commission (SEC) Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934, administered by the SEC and the NASD, which requires the maintenance of minimum net capital. thinkorswim is required to maintain net capital of the greater of 62/3% of aggregate

indebtedness, or \$250,000. At June 30, 2006 and December 31, 2005, thinkorswim's net capital requirement was \$364,396 and \$250,000, respectively. At June 30, 2006, thinkorswim had net capital of approximately \$11.7 million, and at December 31, 2005 had net capital of approximately \$8.9 million. The ratio of aggregate indebtedness to net capital at June 30, 2006 and at December 31, 2005 was .47 to 1 and .32 to 1, respectively. thinkorswim is also subject to the Commodity Futures Trading Commission (CFTC) Regulation 1.17 (Reg 1.17) under the Commodity Exchange Act, administered by the CFTC and the National Futures Association, which also requires the maintenance of minimum net capital to be the greater of its net capital requirement under Rule 15c3-1 or \$30,000.

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Cash Flows

thinkorswim's net decrease in cash and cash equivalents for the six month period ended June 30, 2006 was \$0.7 million, from \$13.6 million to \$12.9 million. thinkorswim's primary source of cash was net income, which served to substantially offset the investment of \$5 million in fixed income debt instruments and \$2.2 million in new software and website development, computer equipment and leasehold improvements associated with new office space. The investment in fixed income debt securities was made to allow thinkorswim to earn a better yield when compared to cash and cash equivalents. The increases in software and website development and computer equipment were needed to accommodate ongoing growth in trade volume. thinkorswim's cash and cash equivalent activity for the six month period ended June 30, 2005 was a net decrease of \$9.6 million, from \$25.2 million to \$15.6 million. thinkorswim's primary source of cash was net income, which served to partially offset the investment of \$12 million in fixed income debt instruments and \$0.7 million in new software and website development and computer equipment.

thinkorswim's net decrease in cash and cash equivalents for the year ended December 31, 2005 was \$11.5 million, from \$25.2 million to \$13.7 million. thinkorswim's primary source of cash was net income, which served to partially offset the investment of \$10 million in fixed income debt instruments and \$2.9 million for software development and equipment, \$1.5 million for acquisition of intangibles including the Arrowhead asset acquisition and \$0.5 million for the repurchase of common stock. thinkorswim's net increase in cash and cash equivalents for the year ended December 31, 2004 was \$19 million, from \$6.2 million to \$25.2 million. thinkorswim's primary source of cash was net \$21.8 million received in equity capital from a venture capital firm, which was partially offset by the \$0.7 million paid primarily for software development and equipment and \$2 million invested in a certificate of deposit, which is included in securities owned. thinkorswim's net increase in cash and cash equivalents for the year ended December 31, 2003 was \$3.9 million, from \$2.3 million to \$6.2 million. thinkorswim's primary source of cash was net income, offset by \$1.1 million in equipment and furniture acquisitions, and software and website development activities, all attributable to increasing needs required to service customers' higher trading volume.

Capital Expenditures

The majority of capital expenditures is attributable to the acquisition of computer hardware, along with the development of software for internal use. Capital expenditures were \$2.2 million for the six months ended June 30, 2006, which also included leasehold improvements and furniture for the new office space. Capital expenditures were \$0.8 million for the six months ended June 30, 2005, primarily attributable to software development. During the year ended December 31, 2005, capital expenditures were \$4.4 million, which included a \$2 million acquisition of customers and software. During 2004, capital expenditures were \$0.7 million, which consisted of software development and computer equipment, and in 2003, thinkorswim's capital expenditures were \$1.1 million, which consisted of website development and computer equipment.

Acquisition of Arrowhead Solutions

In December 2005, thinkorswim acquired the assets of Arrowhead with a fixed purchase price of \$2 million, of which \$1.3 million was paid at closing and \$750,000 is payable in two equal installments due on each of the first and second anniversaries of the transaction. In addition, the agreement provides for additional consideration of \$1.3 million subject to certain performance goals being met. thinkorswim acquired Arrowhead to add sell-side equity order management and direct market access technology and institutional expertise to thinkorswim's option technology and retail expertise.

Off-Balance-Sheet Arrangements

In the ordinary course of business, there are certain customer-related loss contingencies that may not be reflected in the consolidated financial statements. For example, customer activities may expose thinkorswim to off-balance-sheet risk if a customer is unable to fulfill contractual obligations. The clearing broker makes margin loans to thinkorswim customers to purchase securities. The clearing broker is exposed to the risk that a market decline could reduce the value of a customer's collateral below the amount of the customer's indebtedness, resulting in

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possible losses to the clearing broker. thinkorswim's agreement with the clearing broker requires thinkorswim to reimburse the clearing broker for any losses the broker incurs related to customers introduced by thinkorswim. thinkorswim seeks to control the risk associated with customer activities by making credit inquiries when establishing customer relationships, carefully monitoring customer trading activity on a real time basis, and by monitoring customer margin calls.

Contractual Obligations

The following table sets forth contractual obligations at June 30, 2006:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Operating lease obligations	\$ 1,944	\$ 364	\$ 612	\$ 638	\$ 330
Purchase obligations for development and consulting services	1,066	1,066			
Other long-term liabilities reflected on the balance sheet	875	500	375		
Total	\$ 3,885	\$ 1,930	\$ 987	\$ 638	\$ 330

Operating lease obligations primarily consist of three leases for office facilities. Purchase obligations include ongoing arrangements with thinkorswim's third party developers for both development and consulting services. Other long-term liabilities reflected on the balance sheet include \$0.4 million related to thinkorswim's asset acquisition of Arrowhead in 2005, which is due December 1, 2007, and \$0.5 million related to a division of thinkorswim where the repayment is dependent on cash flows from that division. In the normal course of business, thinkorswim enters into contracts that contain indemnification provisions where thinkorswim may indemnify counterparties to the contracts for certain aspects of thinkorswim's past conduct if other parties fail to perform, or if certain events occur. These indemnification provisions vary based upon the contract. thinkorswim may, in turn, obtain indemnifications from other parties in certain contracts.

Contingent Contractual Obligations

On January 30, 2006, thinkorswim established a change in control bonus plan. Should a change in control (such as the Merger) occur on or before December 31, 2008, thinkorswim would recognize up to \$3 million in compensation expense to employees under the plan, and would owe \$8.3 million pursuant to a 2006 agreement with an independent contractor.

On March 27, 2006, thinkorswim also entered into a marketing agreement with another company whereby institutional services will be marketed to new customers. In connection with that agreement, the other company loaned \$0.5 million to thinkorswim to be used solely for the new operation. The loan is included in Other liabilities on the Balance Sheet, and repayment is limited to available cash flow from the operation.

Qualitative and Quantitative Disclosure About Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. thinkorswim has established policies, procedures and internal processes governing its management of market risks in the ordinary course of business operations. thinkorswim does not generally trade securities for its own account or maintain inventories of securities for sale, except when it is necessary to manage small to moderate positions in the ordinary course of business. As a result, thinkorswim may be subject to market risk from time to time. thinkorswim does hold corporate funds in government, municipal or other fixed income products, as well as commercial paper, overnight repurchase agreements, and money market funds. The interest rates applicable to those instruments may fluctuate.

thinkorswim seeks to control the risks associated with its customer activities by monitoring required margin levels daily and, pursuant to established guidelines, may require customers to deposit additional collateral or reduce positions when necessary.

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In the ordinary course of thinkorswim's brokerage business, customer assets are held at thinkorswim's clearing firm. thinkorswim earns interest revenue that is equal to a portion of the income resulting from amounts charged to its customers by its clearing broker-dealers on their margin balances, less amounts paid to its customers by its clearing broker-dealers on their credit balances and interest earned on customer cash invested and held by thinkorswim's clearing broker-dealers. Because thinkorswim establishes the rate paid on customer credit balances and the rate charged on customer margin balances, a portion of its interest rate risk is under its direct management.

thinkorswim has no borrowings outstanding under a credit arrangement with a financial institution. thinkorswim has received a \$0.5 million loan from a service provider who is engaged in marketing thinkorswim's services to institutional customers. The corresponding cash is restricted for use by a specific operating unit, and repayment terms of the loan are limited to available cash flow from the that operating unit.

Information Concerning Members of thinkorswim Management Who Will Serve as Directors of INVESTools

Tom Sosnoff, age 49, co-founded thinkorswim in 1999 with Scott Sheridan, and since such time Mr. Sosnoff has served as its Chief Executive Officer and a director. As Chief Executive Officer of thinkorswim, Mr. Sosnoff focuses on corporate strategy and is specifically dedicated to systems development and trading innovations. Mr. Sosnoff was a market maker for the Chicago Board of Options Exchange from 1980 through 2001, where he was one of the original market makers in the S&P 100 Index pit. Mr. Sosnoff earned his B.A. in Political Science from the State University of New York at Albany.

Scott Sheridan, age 43, co-founded thinkorswim in 1999 with Tom Sosnoff, and since such time Mr. Sheridan has served as its President, Secretary and a director. As President of thinkorswim, Mr. Sheridan focuses on the operational growth of thinkorswim and its subsidiaries and leads the thinkorswim trading/service desk. Mr. Sheridan began his career on the Chicago Board of Options Exchange in 1987, where he acted as a market maker until 2003. While there, he worked as a market maker in the S&P 100 Index pit for over 15 years. Mr. Sheridan received his B.A. in Finance and Economics from Miami University, Oxford, Ohio.

Table of Contents**OTHER MATTERS**

Management does not know of any business to be transacted at the Special Meeting other than as indicated herein. Should any such matter properly come before the Special Meeting for a vote, the persons designated as proxies will vote thereon in accordance with their best judgment.

You are urged to promptly sign, date and return the enclosed proxy card in the accompanying postage-paid envelope or authorize the individuals named on your proxy card to vote your interests by calling the toll-free telephone number or by using the Internet as described in the instructions included with your proxy card.

MARKET PRICE OF THE COMPANY'S STOCK

The Common Stock has been listed on NASDAQ under the symbol IEDU since it began trading on May 23, 2006. The following table sets forth the high and low sales prices, and dividends, per share of Common Stock on NASDAQ since May 23, 2006, and over-the-counter for the prior periods indicated.

	High Price	Low Price	Dividends
Fiscal Year Ended December 31, 2004			
1 st Quarter (ended March 31, 2004)	\$ 2.90	\$ 1.51	\$ 0.00
2 nd Quarter (ended June 30, 2004)	\$ 2.50	\$ 1.71	\$ 0.00
3 rd Quarter (ended September 30, 2004)	\$ 2.27	\$ 1.58	\$ 0.00
4 th Quarter (ended December 31, 2004)	\$ 3.50	\$ 2.10	\$ 0.00
Fiscal Year Ended December 31, 2005			
1 st Quarter (ended March 31, 2005)	\$ 5.36	\$ 3.35	\$ 0.00
2 nd Quarter (ended June 30, 2005)	\$ 5.74	\$ 3.30	\$ 0.00
3 rd Quarter (ended September 30, 2005)	\$ 4.65	\$ 3.25	\$ 0.00
4 th Quarter (ended December 31, 2005)	\$ 5.50	\$ 4.05	\$ 0.00
Fiscal Year Ended December 31, 2006			
1 st Quarter (ended March 31, 2006)	\$ 8.80	\$ 5.30	\$ 0.00
2 nd Quarter (ended June 30, 2006)	\$ 9.88	\$ 7.47	\$ 0.00
3 rd Quarter (ended September 30, 2006)	\$ 10.71	\$ 6.99	\$ 0.00
4 th Quarter (through November 2, 2006)	\$ 12.80	\$ 10.56	\$ 0.00

The closing price of Common Stock on NASDAQ on September 18, 2006, which was the last trading day before the Company announced the Merger, was \$9.46 per share. On November 2, 2006, the date of this Proxy Statement, the closing price for Common Stock on NASDAQ was \$11.52 per share. You are encouraged to obtain current market quotations for Common Stock in connection with voting your shares.

As of November 2, 2006, the date of this Proxy Statement, there were approximately 8,000 record holders of Common Stock.

The Company intends to make applications as necessary to list the shares of Common Stock issued as merger consideration in the Merger on NASDAQ.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information, as of November 2, 2006, with respect to the number of shares of Common Stock beneficially owned by (1) each director and/or the Company's Chief Executive Officer and the Company's four other most highly compensated executive officers individually, (2) all executives and directors of the Company as a group and (3) each stockholder known by the Company to be the beneficial owner of more than 5% of the Common Stock. Except as noted below, each stockholder has sole voting and investment power with respect to the shares shown.

Owners	Number of Shares Beneficially Owned(1)	Percent of Class Before Merger	After Merger(2)
Common Stock			
Lee K. Barba	3,111,156(3)	6.7%	4.7%
Ida K. Kane	63,000	*	*
Paul A. Helbling	473,361	1.0%	0.7%
Ainslie J. Simmonds	25,000	*	*
Dale C. Ainge	22,500	*	*
Douglas T. Tansill	152,375	*	*
Stephen C. Wood	58,254(4)	*	*
Hans von Meiss	291,153(5)	1.0%	*
Michael H. Goldsmith	66,042	*	*
F. Warren McFarlan	24,375	*	*
Tom Sosnoff(6)		*	6.9%
Scott D. Sheridan(6)		*	6.9%
All executive officers and directors as a group (12 persons)	4,287,216	9.1%	19.8%
Springhouse Capital, LP (7) 520 Madison Avenue, 35 th Floor New York, New York, 10022	4,260,266	9.4%	6.6%
Gilder, Gagnon, Howe & Co. LLC (8) 1775 Broadway, 26 th Floor, New York, New York 10019	2,266,001	5.0%	3.5%
TCV V, L.P. and TCV Member Fund, L.P. (6) 100 Field Drive, Suite 160, Lake Forest, IL 60045		*	6.8%
Momentum Media, Inc.(9) 69-12 Gutierrez Street Sunset Valley Mansion Angeles City 2009 Pampanga, Philippines	2,299,980	5.1%	3.6%

* Less than 1%

(1) Each of the share amounts for the directors and officers includes options to purchase additional shares, which are exercisable within the next 60 days, as follows: Lee K. Barba, 1,615,627; Paul A. Helbling, 229,627; Ida K. Kane, 55,000; Dale C. Ainge, 22,500; Michael H. Goldsmith, 29,375; Hans von Meiss, 29,375; Stephen C. Wood, 16,037; F. Warren McFarlan, 9,375, Douglas T. Tansill, 1,875, and Ainslie J. Simmonds, 25,000.

- (2) After the Merger, Mr. Sosnoff and Mr. Sheridan will each own 4,404,538 shares of Common Stock (6.9%), and TCV V, L.P. and TCV Member Fund, L.P., collectively, will own 4,349,954 shares of Common Stock (6.8%).
- (3) Includes 469,999 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members and 700,000 shares held in a Grantor Retained Annuity Trust.
- (4) Includes 111 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members.
- (5) Includes 226,333 shares, as to which beneficial ownership is disclaimed, held for the benefit of family members.
- (6) Currently a stockholder of thinkorswim.
- (7) Based on information submitted to the Company by Brian Gaines. Mr. Gaines is the Managing Member of Springhouse Asset Management, LLC, which is the General Partner of Springhouse Capital, LP.

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- (8) Based on information submitted to the Company by Walter Weadock. Mr. Weadock is a Member of Gilder, Gagnon, Howe & Co. LLC.
- (9) Based on stockholder list dated April 17, 2006, provided by U.S. Stock Transfer Corporation, the Company's Transfer Agent.

MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS

In accordance with Rule 14a-3(e)(1) under the Securities Exchange Act of 1934, as amended, one proxy statement will be delivered to two or more stockholders who share an address, unless INVESTools has received contrary instructions from one or more of the stockholders. INVESTools will deliver promptly upon written or oral request a separate copy of the proxy statement to a stockholder at a shared address to which a single copy of the proxy statement was delivered. Requests for additional copies of the proxy statement, and requests that in the future separate proxy statements be sent to stockholders who share an address, should be directed to INVESTools' transfer agent, U.S. Stock Transfer Corporation, at 1745 Gardena Avenue, Second Floor, Glendale, CA 91204, or by calling Richard Brown at (818) 502-1404. In addition, stockholders who share a single address but receive multiple copies of the proxy statement may request that in the future they receive a single copy by contacting Richard Brown at the address and phone number set forth in the prior sentence.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements or other information that the Company files with the SEC at the following location of the SEC:

Public Reference Room
100 F Street, N.E.
Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. The Company's public filings are also available to the public from document retrieval services and the Internet website maintained by the SEC at www.sec.gov.

Any person, including any beneficial owner, to whom this Proxy Statement is delivered may request copies of reports, proxy statements or other information concerning us, without charge, by written or telephonic request directed to us at INVESTools Inc., 13947 South Minuteman Drive, Draper, Utah 84020, attention: Ida K. Kane, telephone: (801) 816-6918. If you would like to request documents, please do so by _____, in order to receive them before the Special Meeting.

The SEC allows us to incorporate by reference into this Proxy Statement documents the Company files with the SEC. This means that the Company can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this Proxy Statement. The Company incorporates by reference the documents listed below:

Company Filings

Periods

Annual Report on Form 10-K

Year ended December 31, 2005

Edgar Filing: AG Mortgage Investment Trust, Inc. - Form 10-Q

Quarterly Reports on Form 10-Q
Current Reports on Form 8-K

Quarters ended March 31, 2006 and June 30, 2006.
Filed March 1, 2006, May 10, 2006, May 11, 2006,
July 28, 2006 and September 20, 2006.

No persons have been authorized to give any information or to make any representations other than those contained in this Proxy Statement and, if given or made, such information or representations must not be relied upon as having been authorized by us or any other person. This Proxy Statement is dated _____, 2006. You should not assume that the information contained in this Proxy Statement is accurate as of any date other than that date, and the mailing of this Proxy Statement to stockholders shall not create any implication to the contrary.

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thinkorswim Group, Inc.

**Consolidated Financial Statements
December 31, 2005**

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thinkorswim Group, Inc.

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Report of Independent Auditors

To the Board of Directors and Stockholders of thinkorswim Group, Inc.:

In our opinion, the accompanying consolidated statement of financial condition and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of thinkorswim Group, Inc. and its subsidiaries (collectively, the Company) at December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
July 11, 2006

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Financial Condition
December 31, 2005****ASSETS**

Cash and cash equivalents	\$ 13,650,094
Receivable from clearing broker	3,623,496
Securities owned, at market value	12,226,118
Software and website development, at cost net of accumulated amortization of \$2,134,737	2,458,692
Furniture, equipment and leasehold improvements, at cost net of accumulated depreciation and amortization of \$985,778	1,008,260
Goodwill and other intangibles, at cost net of accumulated amortization of \$16,000	1,514,046
Income taxes receivable	53,483
Deferred tax asset	3,176,534
Accounts receivable	311,747
Prepaid expenses and other assets	1,399,234
 Total assets	 \$ 39,421,704

LIABILITIES AND STOCKHOLDERS EQUITY

Accrued compensation and related benefits	\$ 104,903
Securities sold, not yet purchased, at market value	207,168
Accounts payable and accrued expenses	1,691,261
Other liabilities	1,150,000
 Total liabilities	 3,153,332
Convertible preferred stock, \$0.001 par value, authorized 243,830 shares 238,068 issued and outstanding	238
Common stock, \$0.001 par value, authorized 1,397,821 shares, 749,914 issued and outstanding	749
Additional paid-in capital	32,363,128
Retained earnings	4,404,266
Treasury stock, at cost (11,585 shares at December 31, 2005)	(500,009)
 Total stockholders equity	 36,268,372
 Total liabilities and stockholders equity	 \$ 39,421,704

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Income
Year Ended December 31, 2005**

Revenues	
Commissions	\$ 19,528,732
Software and maintenance fees	1,314,302
Management and subscription fees	859,863
Interest and dividends	3,704,275
Other	951,920
 Total revenues	 26,359,092
Expenses	
Employee compensation and benefits	6,286,239
Clearing and brokerage fees	5,736,089
Professional fees and provision for legal settlements	4,064,838
Technology, communications and market data	2,444,925
Advertising and promotion	1,181,558
Depreciation and amortization	986,792
Occupancy	297,523
Other	1,115,825
 Total expenses	 22,113,789
 Income before provision for income taxes	 4,245,303
Provision for income taxes	(1,560,808)
 Net income	 \$ 2,684,495

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Changes in Stockholders' Equity
Year Ended December 31, 2005**

	Preferred		Capital Stock Common		Treasury		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2004	238,068	\$ 238	749,914	\$ 749		\$	\$ 32,395,343	\$ 1,719,771	\$ 34,116,101
Net income								2,684,495	2,684,495
Treasury stock purchase					11,585	(500,009)			(500,009)
Stock transactions (see Note 6)							(32,215)		(32,215)
Balance, December 31, 2005	238,068	\$ 238	749,914	\$ 749	11,585	\$ (500,009)	\$ 32,363,128	\$ 4,404,266	\$ 36,268,372

The accompanying notes are an integral part of these financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Cash Flows
Year Ended December 31, 2005****Cash flows from operating activities**

Net income	\$ 2,684,495
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	986,792
Stock option expense	(32,215)
Deferred income taxes	(823,770)
(Increase)/decrease in operating assets	
Receivable from clearing broker	(1,602,846)
Securities owned	(10,132,764)
Income taxes receivable	441,301
Accounts receivable, prepaid expenses and other assets	(15,304)
Increase/(decrease) in operating liabilities	
Accrued compensation and related benefits	(14,690)
Securities sold, not yet purchased	141,472
Accounts payable and accrued expenses	1,070,936
Other liabilities	707,200
Net cash used in operating activities	(6,589,393)

Cash flows from investing activities

Acquisition of intangibles	(1,530,046)
Purchase of furniture, equipment and leasehold improvements	(735,532)
Website development costs	(1,469,327)
Purchase of software	(679,393)
Net cash used in investing activities	(4,414,298)

Cash flows from financing activities

Purchase of treasury stock	(500,009)
Net cash used in financing activities	(500,009)

Net decrease in cash and cash equivalents	(11,503,700)
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Cash and cash equivalents

Beginning of year	25,153,794
End of year	\$ 13,650,094

Supplemental disclosure of cash flow information

Cash paid for interest	\$
Cash paid for income taxes	\$ 1,495,000

The accompanying notes are an integral part of these financial statements.

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements

December 31, 2005

1. Nature of Operations

Organization and Basis of Presentation

These consolidated financial statements include thinkorswim Group, Inc. and its wholly owned subsidiaries, thinkorswim, Inc. (Inc.), thinkorswim Technologies, Inc. (Tech), thinkorswim Advisors, Inc. (Advisors), TOS Services, Inc. and TOS Red, Inc. (collectively, the Company). Inc. is the primary operating subsidiary and is a registered broker-dealer subject to regulation by the Securities and Exchange Commission (SEC), National Association of Securities Dealers, Inc. and the National Futures Association. Inc. is in the business of providing brokerage services for index and equity options and the related equity securities to retail and institutional customers, primarily through online systems. In addition, Inc. provides its clients with news, quotes, charts and other tools. Pursuant to a clearing agreement between Inc. and its primary clearing broker, Penson Financial Services, all securities transactions are cleared on a fully disclosed basis. Advisors is registered with the SEC as an investment adviser and offers a wide variety of investment advisory services to individual and institutional clients. In addition, Tech developed and TOS Services maintains an electronic institutional trading platform which is utilized by Inc. and two other unaffiliated broker-dealers.

On December 1, 2005, the Company acquired certain fixed assets, software and customer relationships from Arrowhead Solutions Inc on behalf of Tech. The fixed purchase price was \$2,000,000, of which \$1,250,000 was paid and \$750,000 is included in other liabilities and is payable in two equal installments due on each of the first and second anniversaries of the transaction. In addition, the agreement provides for additional consideration of up to \$1,250,000, subject to certain conditions being met. The Company has recorded \$75,000, \$500,000 and \$1,425,000 related to fixed assets, software and customer relationships, respectively.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the Company s financial statements.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, money market funds and highly liquid securities with original maturities at the date of purchase of three months or less. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these investments. Included in cash and cash equivalents at December 31, 2005 are investments in an overnight repurchase agreement and commercial paper with balances of \$1,050,000 and \$1,458,481, respectively.

Receivable from Clearing Broker

Receivable from clearing broker consists of cash deposits and receivables from revenues earned, net of expenses incurred, from customer transactions conducted through the clearing broker.

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are carried at market value and recorded on a trade date basis. The Company does not actively trade securities for its own benefit. Equities and options included in

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

securities and securities sold, not yet purchased result from trade corrections, while certificates of deposit, municipal bonds and U.S. treasury securities are investments of the Company.

Estimated Fair Value of Financial Instruments

Market value of securities owned and securities sold, not yet purchased, is determined using market quotations. Management estimates the aggregate fair value of other financial instruments recognized on the consolidated statement of financial condition (including receivables, payables and accrued expenses) approximates their fair value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Software and Website Development

Costs associated with software and website development provided by third parties, or acquired, are capitalized and are stated at cost, net of accumulated amortization. These assets are being amortized on a straight-line basis over a three-year useful life.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are carried at cost and are depreciated on an accelerated basis over the estimated useful lives of the related assets ranging from five to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life of the improvement or the term of the lease.

Goodwill and Other Intangible Assets

Intangible assets relate to cash paid for a customer list acquired during 2004 for \$289,345 and customer relationships acquired during 2005 for \$1,425,000. The customer list and customer relationships are being amortized on a straight-line basis over their expected useful lives of three and 8.33 years, respectively. Total amortization expense related to intangible assets for the year ended December 31, 2005 was \$81,486. Goodwill consists of \$105,046 resultant from the acquisition of certain assets from Arrowhead, and is carried at cost adjusted for any other than temporary impairment. In management's opinion, no impairment exists as of December 31, 2005.

Income Taxes

The Company and its eligible subsidiaries file a consolidated U.S. federal income tax return. The Company uses the asset and liability method required by Statement of Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* to provide income taxes on all transactions recorded in the consolidated financial statements. This requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based on the tax rates the Company expects to be in effect when the underlying items of income and expense are to be realized. The Company's expense for income taxes includes the current and deferred portions of that expense.

Recognition of Revenues and Expenses

Commissions revenues and clearing and brokerage fees are recorded on a trade date basis. Management fees are typically asset based and are recorded when earned. Subscription fees and software fees are recognized ratably over the associated subscription period. Interest income is recorded when earned.

Development and Maintenance Fees

Development and maintenance fees consist of amounts earned by the Company related to software developed and maintained by the Company and licensed to third parties. Development revenue represents payments or

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

payment commitments received by the Company to fund its software development costs. Maintenance revenue is recognized over the life of the maintenance period.

Stock Options

The Company accounts for stock-based compensation in accordance with the fair value method prescribed by SFAS 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure. Under this method, compensation expense is recognized over the relevant service period based on the fair value of stock options. The Company uses the Black-Scholes valuation model to estimate the fair value of stock options at the time of each grant. Stock options are recorded as expense with an offsetting credit to stockholder's equity in accordance with SFAS No. 123 over the corresponding service period.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In December 2004 the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004) (SFAS 123R), *Share Based Payment*, which is a revision to SFAS 123. The Company expects to adopt SFAS 123R in 2006. The Company continues to evaluate the impact of SFAS 123R, however, the Company does not anticipate that the adoption of SFAS 123R will have a material impact on results of operations.

3. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are composed of the following at December 31, 2005:

	Securities Owned	Securities Sold, Not Yet Purchased
Options	\$ 172,960	\$ 130,740
Debt	12,040,330	
Equities and other	12,828	76,428
	\$ 12,226,118	\$ 207,168

4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2005:

Computer hardware	\$ 1,283,390
Leasehold improvements	270,063
Furniture and fixtures	440,585
Less: accumulated depreciation and amortization	(985,778)
	\$ 1,008,260

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)****5. Software and Website Development**

The Company has capitalized the following software and website development costs at December 31, 2005:

Computer software	\$ 1,225,227
Website and software development	3,368,202
Less: accumulated amortization	(2,134,737)
	\$ 2,458,692

6. Stock Based Compensation

The Company accounts for stock options under SFAS 123. SFAS 123 requires all stock based compensation awards, including stock options, to be accounted for at fair value. The difference between fair value and the stock option exercise price at date of grant is recognized as compensation expense over the required service period. During the year ended December 31, 2005, all prior year options were fully vested and the current year options were granted with an exercise price that made the fair value of the award \$0, so there was no compensation expense; however, the Company recognized a decrease in compensation expense of \$32,215 related to employee option award cancellations.

The following table presents a summary of the Company's option activity:

	Number of Options	Weighted-average Exercise Price
Outstanding, January 1, 2005	142,224	\$ 0.52
Granted	7,226	38.92
Exercised		
Canceled	(3,876)	8.53
Outstanding, December 31, 2005	145,574	\$ 2.21
Exercisable, December 31, 2005	143,922	\$ 1.52

The options outstanding as of December 31, 2005 have a weighted-average remaining contractual life of 7.12 years.

The following table represents the Company's weighted-average grant date fair values for the stock options granted, and the assumptions used to value the stock options under a Black-Scholes valuation model:

Weighted-average grant date fair value per option	\$ 19.40
Weighted-average annualized stock option valuation assumptions	
Risk-free interest rate	4.61%

Expected dividend yield	
Expected common stock price volatility	68.70%
Assumed weighted-average expected life of stock options per employee option (in years)	7.12

As of December 31, 2005, the Company had 176,110 issued and fully vested options outstanding to a former service provider. These options have a remaining contractual life of approximately 16 years and an exercise price of \$0.01 per share. In April 2005, the Company entered into an agreement with an independent contractor, under which the independent contractor would introduce new active customer accounts to Inc. and manage those accounts in a registered representative capacity. The agreement granted the independent contractor the option to buy up to one percent of the Company's stock per year for three years, not to exceed three percent in aggregate. Partial vesting of this grant occurs on each of the first three anniversaries of this agreement and is subject to various performance and

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

service conditions. As of December 31, 2005, 13,197 options had been earned and will vest in April 2006. These independent contractor options have a weighted average remaining life of 2.33 years and a weighted average exercise price of \$69.01.

7. Convertible Preferred Stock

Series A Convertible Preferred shares have voting rights equal to common shares, while Series B Convertible Preferred shares are non-voting. Series A Convertible Preferred shares and Series B Convertible Preferred shares are convertible at the option of the holder at any time into shares of common stock. At December 31, 2005, holders of Series A Convertible Preferred shares and Series B Convertible Preferred shares would receive 1.168 and 1.0 shares of common stock, respectively, if converted. Series A Convertible Preferred shares and Series B Convertible Preferred shares also have preference upon liquidation of \$26.0416 per share and \$125.6928 per share, respectively. Series B Convertible Preferred shares liquidation preference supersedes that of Series A Convertible Preferred shares. As of December 31, 2005, 59,060 shares of Series A Convertible Preferred stock and 184,770 shares of Series B Convertible Preferred stock were authorized. Series A Convertible Preferred stock and Series B Convertible Preferred stock had 59,060 and 179,008 shares issued and outstanding, respectively, as of December 31, 2005.

8. Income Taxes

Income tax expense for the year ended December 31, 2005 consists of:

Current	
U.S. Federal	\$ 1,889,518
State	494,890
Total current	2,384,408
Deferred	
U.S. Federal	(628,500)
State	(195,100)
Total deferred	(823,600)
Total income tax expense	\$ 1,560,808

Income tax expense differs from the statutory U.S. federal income tax rate as a result of the following:

Federal income tax expense computed at statutory rate	\$ 1,485,856
State tax expense net of Federal benefit	205,000
Permanent book/tax differences	48,974
Prior year tax adjustment	(99,022)

Research and development credit	(80,000)
Provision for income taxes	\$ 1,560,808

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 are presented below:

Management has determined that no valuation allowance is needed given the expectation of future taxable income which will exceed the amounts necessary to realize the deferred tax asset.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

Deferred tax assets arising from:	
Options	\$ 2,408,772
Legal fees/settlement	1,021,513
Leasehold improvements	78,822
Software acquisition	4,589
Start-up costs	4,199
Customer base	3,097
Customer lists	26,160
State tax benefit	(173,264)
 Total deferred tax assets	 3,373,888
Deferred tax liabilities arising from:	
Depreciation costs	197,354
 Net deferred taxes	 \$ 3,176,534

9. Commitments and Contingencies

The Company leases office space in three locations under operating lease agreements which expire during 2006 and 2007. Minimum required rental payments in 2006 under these lease obligations, including real estate taxes and operating expenses, is \$44,988, \$44,768 and \$45,837, respectively. Minimum required rental payments in 2007 under one of the lease agreements is \$30,431.

The Company has signed a lease for new office space under an operating lease agreement expiring in 2012. Minimum required rental payments in 2006 under this lease obligation, including taxes and operating expenses, are \$216,252. Minimum required future rental payments under lease obligations, including taxes and operating expenses are as follows:

Years Ending December 31,

2006	\$ 351,845
2007	324,689
2008	302,271
2009	310,431
2010	318,843
Thereafter	492,963
 Total	 \$ 2,101,042

Rent expense for the year ended December 31, 2005 was \$266,313, which includes \$76,804 of rent reimbursement to an independent contractor who is a registered representative of the Company. As the Company is not a part to this lease, it has been excluded from the lease obligations noted above.

The Company, under consultation with counsel, has accrued for the estimable outcome of pending litigation. The Company does not expect the ultimate resolution of these matters to have a material adverse effect on the Company's financial position or results of operations.

During the year, the Company was involved in two significant matters. The Company paid approximately \$1.5 million related to a settlement with a former third party vendor of the Company. In addition, the Company has recognized expense of approximately \$2.1 million related to an unfunded debit balance arising from trading activity

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

of a customer. The Company is vigorously pursuing reimbursement of the unfunded debit from the customer; however, the Company is unable to reasonably predict the ultimate outcome of recovery.

In the normal course of business, the Company enters into contracts which contain indemnification provisions, such as purchase contracts, service agreements and leasing agreements. Under the provisions of these contracts, the Company may indemnify counterparties to the contracts for certain aspects of the Company's past conduct if other parties fail to perform, or if certain events occur. These indemnification provisions will vary based upon the contract. The Company may, in turn, obtain indemnifications from other parties in certain contracts. These indemnification provisions are not expected to have a material impact on the Company's financial position or results of operations.

10. Off-Balance Sheet Risk and Concentration of Credit Risk

Credit risk is the amount of accounting loss the Company would incur if the counterparty failed to perform its obligations under contractual terms. Substantially all of the clearing and depository operations of the Company are performed by its clearing broker on a fully disclosed basis pursuant to a clearance agreement. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes.

In the normal course of business, the Company's clearing broker makes margin loans to the Company's customers, which are collateralized by customer securities. In permitting the customers to purchase securities on margin, the clearing broker is exposed to the risk of a market decline that could reduce the value of the collateral held below the customers' indebtedness before the collateral can be sold, which could result in losses to the clearing broker. The Company's agreement with the clearing broker requires the Company to reimburse the clearing broker for any losses incurred related to customers introduced by the Company. The Company seeks to control the risk associated with customer activities by making credit inquiries when establishing customer relationships and by monitoring customer trading activity.

The Company enters into repurchase agreements under which the Company purchases a security at a specified price with the intention to sell the same security to the same counterparty at a fixed or determinable price at a future date. The Company has not experienced any losses in such agreements. Management believes that the Company is not exposed to any significant credit risk on repurchase agreements.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk on bank deposits.

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thinkorswim Group, Inc.

**Consolidated Financial Statements
December 31, 2004**

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Report of Independent Auditors

To the Board of Directors and Stockholders of
thinkorswim Group, Inc.:

In our opinion, the accompanying consolidated statement of financial condition and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of thinkorswim Group, Inc. and its subsidiaries (collectively, the Company) at December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
May 31, 2005

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Financial Condition****December 31, 2004****ASSETS**

Cash and cash equivalents	\$ 25,153,794
Receivable from clearing broker	2,020,650
Securities owned, at market value	2,093,354
Software and website development, at cost net of accumulated amortization of \$1,517,720	926,989
Furniture, equipment and leasehold improvements, at cost net of accumulated depreciation and amortization of \$697,489	561,017
Income taxes receivable	494,784
Deferred tax asset	2,352,764
Accounts receivable	1,208,258
Prepaid expenses and other assets	552,905
Total assets	\$ 35,364,515

LIABILITIES AND STOCKHOLDERS EQUITY

Accrued compensation and related benefits	\$ 119,593
Securities sold, not yet purchased, at market value	65,696
Accounts payable and accrued expenses	620,325
Other liabilities	442,800
Total liabilities	1,248,414
Convertible preferred stock, \$0.001 par value, authorized 243,830 shares, 238,068 issued and outstanding	238
Common stock, \$0.001 par value, authorized 1,397,821 shares, 749,914 issued and outstanding	749
Additional paid in capital	32,395,343
Retained earnings	1,719,771
Total stockholders equity	34,116,101
Total liabilities and stockholders equity	\$ 35,364,515

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Income
Year Ended December 31, 2004**

Revenues	
Commissions	\$ 14,602,936
Development and maintenance fees	844,652
Management and subscription fees	593,884
Interest and dividends	950,066
Other	72,249
 Total revenues	 17,063,787
Expenses	
Employee compensation and benefits	5,487,478
Clearing and brokerage fees	3,300,974
Professional fees and legal settlement	1,137,177
Technology, communications and market data	1,080,085
Advertising and promotion	2,892,642
Depreciation and amortization	848,467
Occupancy	192,849
Other	1,045,703
 Total expenses	 15,985,375
 Income before provision for income taxes	 1,078,412
Provision for income taxes	(366,480)
 Net income	 \$ 711,932

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Changes in Stockholders' Equity
Year Ended December 31, 2004**

	Capital Stock						Retained Earnings	Total Stockholders Equity
	Convertible Preferred		Common		Additional Paid-in Capital			
	Shares	Amount	Shares	Amount				
Balance, December 31, 2003	59,060	\$ 59	602,462	\$ 602	\$ 7,627,783	\$ 1,007,839	\$ 8,636,283	
Net income						711,932	711,932	
Stock transactions	179,008	179	147,452	147	22,271,247		22,271,573	
Stock option awards (see Note 6)					2,496,313		2,496,313	
Balance, December 31, 2004	238,068	\$ 238	749,914	\$ 749	\$ 32,395,343	\$ 1,719,771	\$ 34,116,101	

The accompanying notes are an integral part of these financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Cash Flows
Year Ended December 31, 2004****Cash flows from operating activities**

Net income	\$ 711,932
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	848,467
Stock option expense	2,982,584
Deferred income taxes	(529,735)
(Increase)/decrease in operating assets	
Receivable from clearing broker	(719,768)
Securities owned	(2,089,299)
Income taxes receivable	(494,784)
Accounts receivable, prepaid expenses and other assets	(1,589,711)
Increase/(decrease) in operating liabilities	
Accrued compensation and related benefits	(260,637)
Securities sold, not yet purchased	55,279
Income taxes payable	(749,000)
Accounts payable and accrued expenses	(751,508)
Other liabilities	442,800
Net cash used in operating activities	(2,143,380)

Cash flows from investing activities

Software purchases and website development costs	(258,096)
Purchase of furniture, equipment and leasehold improvements	(424,984)
Net cash used in investing activities	(683,080)

Cash flows from financing activities

Shares issued	21,785,012
Stock options exercised	290
Net cash provided by financing activities	21,785,302

Net increase in cash and cash equivalents	18,958,842
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Cash and cash equivalents

Beginning of year	6,194,952
End of year	\$ 25,153,794

Supplemental disclosure of cash flow information

Cash paid for interest	\$ 2,321
Cash paid for income taxes	\$ 2,140,000

The accompanying notes are an integral part of these financial statements.

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements

December 31, 2004

1. Nature of Operations

Organization and Basis of Presentation

These consolidated financial statements include thinkorswim Group, Inc. and its wholly owned subsidiaries, thinkorswim, Inc. (Inc.), thinkorswim Technologies, Inc. (Tech), thinkorswim Advisors, Inc. (Advisors), TOS Services, Inc. and TOS Red, Inc. (collectively, the Company). Inc. is the primary operating subsidiary and is a registered broker-dealer subject to regulation by the Securities and Exchange Commission (SEC), National Association of Securities Dealers, Inc. and the National Futures Association. Inc. is in the business of providing brokerage services for index and equity options and the related equity securities to retail customers, primarily through online systems. Pursuant to a clearing agreement between Inc. and its clearing broker, Penson Financial Services, all securities transactions are cleared on a fully disclosed basis. The Company also offers a wide variety of investment advisory services to individual and institutional clients, subscriptions, investment news, quotes, charts and other tools. In addition, the Company developed and maintains an electronic institutional trading platform on behalf of Inc. and two other unaffiliated broker-dealers.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the Company's financial statements.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, money market funds and highly liquid securities with original maturities at the date of purchase of three months or less. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these investments. Included in cash and cash equivalents at December 31, 2004 are investments in an overnight repurchase agreement, a money market fund and commercial paper with balances of \$17,500,000, \$3,743,623 and \$432,686, respectively.

Receivable from Clearing Broker

Receivable from clearing broker consists of cash deposits and receivables from revenues earned, net of expenses incurred from customer transactions conducted through the clearing broker.

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are carried at market value and recorded on a trade date basis. The Company does not actively trade securities for its own benefit. Equities and options included in securities and securities sold, not yet purchased result from trade corrections, while certificates of deposit are investments of the

Company.

Estimated Fair Value of Financial Instruments

Fair value of securities owned and securities sold, not yet purchased, is determined using market quotations. Management estimates the aggregate fair value of other financial instruments recognized on the consolidated statement of financial condition (including receivables, payables and accrued expenses) approximates their fair

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Software and Website Development

Software and website development costs provided by third parties are capitalized and are stated at cost, net of accumulated amortization. These assets are being amortized on a straight-line basis over a three-year useful life.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are carried at cost and are depreciated on an accelerated basis over the estimated useful lives of the related assets ranging from five to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life of the improvement or the term of the lease.

Intangible Asset

Intangible assets relate to customer lists acquired during 2004 totaling \$289,345. These intangible assets are being amortized on a straight-line basis over their expected useful life of three years. Total amortization expense for the year ended December 31, 2004 was \$29,171. The unamortized intangible assets are included in Prepaid Expenses and Other Assets on the consolidated statement of financial condition.

Income Taxes

The Company and its eligible subsidiaries file a consolidated U.S. federal income tax return. The Company uses the asset and liability method required by Statement of Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* to provide income taxes on all transactions recorded in the consolidated financial statements. This requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based on the tax rates the Company expects to be in effect when the underlying items of income and expense are to be realized. The Company's expense for income taxes includes the current and deferred portions of that expense.

Recognition of Revenues and Expenses

Commissions revenues and clearing and brokerage fees are recorded on a trade date basis. Management fees are typically asset based and are recorded when earned. Subscription fees are recognized ratably over the associated subscription period. Interest income is recorded when earned.

Development and Maintenance Fees

Development and maintenance fees consist of amounts earned by the Company related to software developed and maintained by the Company and licensed to third parties. Development revenue represents payments or payment commitments received by the Company to fund its software development costs. Maintenance revenue is recognized over the life of the maintenance period.

Stock Options

The Company accounts for stock-based compensation in accordance with the fair value method prescribed by SFAS 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure. Under this method, compensation expense is recognized over the relevant service period based on the fair value of stock options. The Company uses the Black-Scholes valuation model to estimate the fair value of stock options at the time of each grant. Stock options are recorded as expense

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

with an offsetting credit to stockholder's equity in accordance with SFAS No. 123 over the corresponding service period.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are composed of the following at December 31, 2004:

	Securities Owned	Securities Sold, Not Yet Purchased
Certificates of deposit	\$ 2,016,668	\$
Options	66,675	55,685
Equities	10,011	10,011
	\$ 2,093,354	\$ 65,696

4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2004:

Computer hardware	\$ 882,586
Leasehold improvements	256,162
Furniture and fixtures	119,758
Total	1,258,506
Less: accumulated depreciation and amortization	(697,489)
	\$ 561,017

5. Software and Website Development

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The Company has capitalized the following software and website development costs at December 31, 2004:

Computer software	\$ 631,197
Website development	1,813,512
Total	2,444,709
Less: accumulated amortization	(1,517,720)
	\$ 926,989

During the year, the Company capitalized software development costs in the amount of \$1,342,848 relating to the development of its institutional trading platform. The Company received \$2,000,000 from two financial institutions in exchange for rights to use the institutional software. This revenue was credited against the capitalized software value, until such value was reduced to zero, and the remaining \$657,152 has been included within development and maintenance fees in the consolidated statement of income.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)****6. Stock Based Compensation**

Certain key employees and a director of the Company have been granted compensatory stock options. During the year ended December 31, 2004, the Company recognized compensation expense of \$1,192,377 related to employee and director option awards.

The following table presents a summary of the Company's option activity:

	Number of Options	Weighted-average Exercise Price
Outstanding, January 1, 2004	98,436	\$ 0.01
Granted	43,788	1.67
Exercised		
Canceled		
Outstanding, December 31, 2004	142,224	\$ 0.52
Exercisable, December 31, 2004	138,919	\$ 0.30

The options outstanding as of December 31, 2004 have a weighted-average remaining contractual life of 8.09 years.

The following table represents the Company's weighted-average grant date fair values for the employee stock options granted, and the assumptions used to value the stock options under a Black-Scholes valuation model:

Weighted-average grant date fair value per employee option	\$ 18.65
Weighted-average annualized stock option valuation assumptions	
Risk-free interest rate	2.02%
Expected dividend yield	
Expected common stock price volatility	65.39%
Assumed weighted-average expected life of stock options per employee option (in years)	6.38

In March 2002, Inc entered into a strategic marketing agreement (the Agreement) with a service provider, under which the service provider would introduce up to 6,000 new, funded customer accounts to Inc. The Agreement granted 205,072 options of Company stock to the service provider. Vesting of this grant was based on the number of new, funded customer accounts introduced to Inc. by the service provider. On each of the first three anniversaries of the date of the Agreement, the service provider vested in options based on the number of new, funded customer accounts introduced during the preceding twelve month period. Vesting was contingent upon introduction of a specified minimum number of accounts in each twelve month period.

Prior to 2004, Inc. recognized expense in each year equal to the estimated fair value of the options earned in that year.

During 2004, Inc. and the service provider mutually agreed to terminate the Agreement. As a result of the termination, 40,365 options vested immediately, making the service provider fully vested in all 205,072 options. During 2004, Inc.

recognized \$632,932 of expense related to options vested due to account introductions and \$1,157,275 of expense related to termination of the Agreement. These amounts were recorded as advertising and promotion expense.

During 2004, the service provider exercised 28,962 options at an aggregate exercise price of \$290, leaving this service provider with 176,110 vested options. These remaining options have a strike price of \$0.01 per share and a remaining contractual life of approximately 17 years.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)****7. Convertible Preferred Stock**

Holders of the convertible preferred stock have voting rights equal to the common shares. The shares are convertible at the option of the holder at any time into shares of common stock of the Company in accordance with the conversion ratio of one share of common stock for each \$22.297 of Preferred Classes A and \$75.6308 of Preferred Class B at December 31, 2004. Preferred Classes A and B shareholders also have a per share preference upon liquidation of \$26.0416 and \$125.6928, respectively. Preferred Class B shares' liquidation preference supersedes that of Preferred Class A shares. As of December 31, 2004 59,060 and 184,770 shares of Preferred Classes A and B, respectively, were authorized. Preferred Class A and B had 59,060 and 179,008 shares issued and outstanding, respectively, as of December 31, 2004.

8. Income Taxes

Income tax expense for the year ended December 31, 2004 consists of:

Current	
U.S. Federal	\$ 804,984
State	91,251
Total current	896,235
Deferred	
U.S. Federal	(455,200)
State	(74,555)
Total deferred	(529,755)
Total income tax expense	\$ 366,480

Income tax expense differs from the statutory U.S. federal income tax rate as a result of the following:

Federal income tax expense computed at statutory rate	34.00%
State tax expense	4.80
Miscellaneous credits and permanent items	(4.82)
Provision for income taxes	33.98%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2004 are presented below:

Deferred tax assets arising from:	
Stock options	\$ 2,418,811
Leasehold improvements	63,208
Start-up costs	5,271
Customer lists	9,638
State tax benefit	107,678
Total deferred tax assets	2,604,606
Deferred tax liabilities arising from:	
Depreciation	\$ 251,842
Net deferred taxes	2,352,764

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Management has determined that no valuation allowance is needed given the expectation of future taxable income which will exceed the amounts necessary to realize the deferred tax asset.

9. Commitments and Contingencies

The Company leases office space under an operating lease agreement which expires during 2005. Minimum required rental payments in 2005 under this lease obligation, including real estate taxes and operating expenses, is \$163,069.

Rent expense for the year ended December 31, 2004 was \$164,522.

The Company has accrued for the estimated outcome of litigation surrounding a non-customer related claim. The settlement, legal and arbitration fees are estimated at \$442,800 and are included in Other Liabilities. The Company does not expect resolution of this matter to have a material adverse effect on the Company's financial position or results of operations.

Management of the Company is not aware of any legal proceedings or other matters arising out of its activities as a broker-dealer in securities that would result in a material adverse effect on the Company's financial position or results of operations.

In the normal course of business, the Company enters into contracts which contain indemnification provisions, such as purchase contracts, service agreements and leasing agreements. Under the provisions of these contracts, the Company may indemnify counterparties to the contracts for certain aspects of the Company's past conduct if other parties fail to perform, or if certain events occur. These indemnification provisions will vary based upon the contract. The Company may, in turn, obtain indemnifications from other parties in certain contracts. These indemnification provisions are not expected to have a material impact on the Company's financial position or results of operations.

10. Off-Balance Sheet Risk and Concentration of Credit Risk

Credit risk is the amount of accounting loss the Company would incur if the counterparty failed to perform its obligations under contractual terms. Substantially all of the clearing and depository operations of the Company are performed by its clearing broker on a fully disclosed basis pursuant to a clearance agreement. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes.

In the normal course of business, the Company's clearing broker makes margin loans to the Company's customers, which are collateralized by customer securities. In permitting the customers to purchase securities on margin, the clearing broker is exposed to the risk of a market decline that could reduce the value of the collateral held below the customers' indebtedness before the collateral can be sold, which could result in losses to the clearing broker. The Company's agreement with the clearing broker requires the Company to reimburse the clearing broker for any losses incurred related to customers introduced by the Company. The Company seeks to control the risk associated with customer activities by making credit inquiries when establishing customer relationships and by monitoring customer trading activity.

The Company enters into repurchase agreements under which the Company purchases a security at a specified price with the intention to sell the same security to the same counterparty at a fixed or determinable price at a future date. The Company has not experienced any losses in such agreements. Management believes that the Company is not exposed to any significant credit risk on repurchase agreements.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk on bank deposits.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)****11. Subsequent Event**

During May 2005, the Company entered into new lease agreements for office facilities requiring minimum annual rental payments, excluding escalations and increases in operating expenses and taxes, as follows:

Year Ending December 31,	
2005	\$ 134,364
2006	227,500
2007	294,262
2008	302,271
2009	310,427
After 2009	811,799
Total	\$ 1,946,259

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thinkorswim Group, Inc.

**Consolidated Financial Statements
December 31, 2003**

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Report of Independent Auditors

To the Board of Directors and Stockholders of
thinkorswim Group, Inc.:

In our opinion, the accompanying consolidated statement of financial condition and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of thinkorswim Group, Inc. and its subsidiaries (collectively, the Company) at December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
October 11, 2006

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Financial Condition
December 31, 2003****ASSETS**

Cash and cash equivalents	\$ 6,194,952
Receivable from clearing broker	1,300,882
Securities owned, at market value	4,055
Software and website development, at cost net of accumulated amortization of \$911,677	1,274,935
Furniture, equipment and leasehold improvements, at cost net of accumulated depreciation and amortization of \$513,113	347,981
Deferred tax asset	1,823,029
Prepaid expenses and other assets	201,928
Total assets	\$ 11,147,762

LIABILITIES AND STOCKHOLDERS EQUITY

Accrued compensation and related benefits	\$ 380,230
Accounts payable and accrued expenses	371,831
Securities sold, not yet purchased, at market value	10,418
Prepaid software license	1,000,000
Income taxes payable	749,000
Total liabilities	2,511,479
Convertible preferred stock, \$0.001 par value, authorized 400,000 shares, 59,060 issued and outstanding	59
Common stock, \$0.001 par value, authorized 5,000,000 shares, 602,462 issued and outstanding	602
Additional paid-in capital	7,627,783
Retained earnings	1,007,839
Total stockholders equity	8,636,283
Total liabilities and stockholders equity	\$ 11,147,762

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Income
Year Ended December 31, 2003****Revenues**

Commissions	\$ 12,249,028
Management and subscription fees	341,039
Interest and dividends	443,641
Other	63,004
Total revenues	13,096,712

Expenses

Employee compensation and benefits	3,528,627
Clearing and brokerage fees	3,444,791
Professional legal fees	133,485
Technology, communications and market data	716,720
Marketing, advertising and promotion	1,842,657
Depreciation and amortization	612,151
Occupancy	190,514
Other	521,889
Total expenses	10,990,834
Income before income tax benefit	2,105,878
Income tax benefit (see note 7)	1,036,329
Net income	\$ 3,142,207

The accompanying notes are an integral part of these consolidated financial statements.

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thinkorswim Group, Inc.

Consolidated Statement of Changes in Stockholders Equity
Year Ended December 31, 2003

	Capital Stock		Additional Paid-in Capital		Additional Paid-in Capital	Retained Earnings/ Accumulated Deficit	Total Stockholders Equity	
	Preferred Shares	Common Shares	Preferred	Common	(Common)			
Balance, December 31, 2002	59,060	\$ 59	602,462	\$ 602	\$	\$ 6,274,457	\$ (2,134,368)	\$ 4,140,750
Net income							3,142,207	3,142,207
Stock options (see note 5)						1,353,326		1,353,326
Balance, December 31, 2003	59,060	\$ 59	602,462	\$ 602	\$	\$ 7,627,783	\$ 1,007,839	\$ 8,636,283

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Cash Flows
Year Ended December 31, 2003****Cash flows from operating activities**

Net income	\$ 3,142,207
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	612,151
Stock option expense	1,353,326
Deferred income taxes	(1,755,329)
(Increase)/decrease in operating assets	
Receivable from clearing broker	(397,725)
Securities owned	(1,715)
Prepaid expenses and other assets	(120,529)
Increase/(decrease) in operating liabilities	
Accrued compensation and related benefits	259,948
Accounts payable and accrued expenses	130,548
Securities sold, not yet purchased	8,558
Prepaid software license	1,000,000
Income taxes payable	749,000
Net cash provided by operating activities	4,980,440

Cash flows from investing activities

Purchase of furniture, equipment and leasehold improvements	(157,724)
Software and website development costs	(948,032)
Net cash used in investing activities	(1,105,756)

Net increase in cash and cash equivalents	3,874,684
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Cash and cash equivalents

Beginning of year	2,320,268
End of year	\$ 6,194,952

Supplemental disclosure of cash flow information

Cash paid for interest	\$
Cash paid for income taxes	\$

The accompanying notes are an integral part of these consolidated financial statements.

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements

December 31, 2003

1. Nature of Operations

Organization and Basis of Presentation

These consolidated financial statements include thinkorswim Group, Inc. and its wholly owned subsidiaries, thinkorswim, Inc. (Inc.), thinkorswim Technologies, Inc. (Tech), thinkorswim Advisors, Inc. (Advisors), TOS Services, Inc. and TOS Red, Inc. (collectively, the Company). Inc. is the primary operating subsidiary and is a registered broker-dealer subject to regulation by the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers, Inc. Inc. is in the business of providing brokerage services for index and equity options and the related equity securities to retail and institutional customers, primarily through online systems. In addition, Inc. provides its clients with news, quotes, charts and other tools. Pursuant to a clearing agreement between Inc. and its clearing broker, Penson Financial Services, all securities transactions are cleared on a fully disclosed basis. Advisors is registered with the SEC as an investment adviser and offers a wide variety of investment advisory services to individual and institutional clients. In addition, Tech is developing an electronic institutional trading platform.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the Company s financial statements.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, money market funds and highly liquid securities with original maturities at the date of purchase of three months or less. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these investments. Included in cash and cash equivalents at December 31, 2003 is commercial paper with a balance of \$427,267.

Receivable from Clearing Broker

Receivable from clearing broker consists of cash deposits and receivables from revenues earned, net of expenses incurred, from customer transactions conducted through the clearing broker.

Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, are carried at market value and recorded on a trade date basis. The Company does not actively trade securities for its own benefit. Equities and options included in securities and securities sold, not yet purchased, result from trade corrections. At December 31, 2003, securities owned and securities sold, not yet purchased, consisted solely of options.

Estimated Fair Value of Financial Instruments

Market value of securities owned and securities sold, not yet purchased, is determined using market quotations. Management estimates the aggregate fair value of other financial instruments recognized on the consolidated statement of financial condition (including receivables, payables and accrued expenses) approximates their fair value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Software and Website Development

Costs associated with software and website development provided by third parties, or acquired, are capitalized and are stated at cost, net of accumulated amortization. These assets are being amortized on a straight-line basis over a three-year useful life.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are carried at cost and are depreciated on an accelerated basis over the estimated useful lives of the related assets ranging from five to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life of the improvement or the term of the lease.

Income Taxes

The Company and its subsidiaries file a consolidated U.S. federal income tax return. The Company uses the asset and liability method required by Statement of Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes* to provide income taxes on all transactions recorded in the consolidated financial statements. This requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax liability or asset for each temporary difference is determined based on the tax rates the Company expects to be in effect when the underlying items of income and expense are to be realized. The Company's expense for income taxes includes the current and deferred portions of that expense.

Recognition of Revenues and Expenses

Commissions revenues and clearing and brokerage fees are recorded on a trade date basis. Management fees are typically asset based and are recorded when earned. Subscription fees and software fees are recognized ratably over the associated subscription period. Interest income is recorded when earned.

Prepaid Software License

Prepaid software license represents amounts received prior to the effective date of the license.

Stock Options

The Company accounts for stock-based compensation in accordance with the fair value method prescribed by SFAS No. 123, *Accounting for Stock Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock Based Compensation Transition and Disclosure*. Under this method, compensation expense is recognized over the relevant service period based on the fair value of stock options. The Company uses the Black-Scholes valuation model to estimate the fair value of stock options at the time of each grant. Stock options are recorded as expense with an offsetting credit to stockholders' equity in accordance with SFAS No. 123 over the corresponding service period.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)****3. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2003:

Computer hardware	\$ 536,621
Leasehold improvements	221,178
Furniture and fixtures	103,295
Less: accumulated depreciation and amortization	(513,113)
	\$ 347,981

4. Software and Website Development

The Company has capitalized the following software and website development costs at December 31, 2003:

Computer software	\$ 307,964
Website and software development	1,878,648
Less: accumulated amortization	(911,677)
	\$ 1,274,935

5. Stock Based Compensation

The Company accounts for stock options under SFAS 123. SFAS 123 requires all stock based compensation awards, including stock options, to be accounted for at fair value. The difference between fair value and the stock option exercise price at date of grant is recognized as compensation expense over the required service period. During the year ended December 31, 2003, all prior year employee options became fully vested increasing employee compensation by \$170,992. During the current year, 12,701 employee options were cancelled decreasing employee compensation by \$178,449. The net result was a decrease in employee compensation expense of \$7,457.

In March 2002, Inc. entered into a strategic marketing agreement with a service provider, under which the service provider would introduce up to 6,000 new, funded customer accounts to Inc. The agreement granted the service provider 205,072 options of the Company. These options have a strike price of \$0.01 and a contractual life of 20 years. On each of the first three anniversaries of the date of the Agreement, the service provider vests in options based on the number of new, funded customer accounts introduced in the preceding twelve month period. Based on the number of new, funded customer accounts introduced in 2003, the service provider earned 59,474 options. During 2003, Inc recognized \$1,360,783 of expense related to service provider options. These amounts are recorded under marketing, advertising and promotion expense. The total number of options earned by the service provider in 2002 and 2003 was 141,774, collectively, which are excluded from the employee option activity noted below.

The following table presents a summary of the Company's employee option activity:

	Number of Options	Weighted-Average Exercise Price
Outstanding, January 1, 2003	111,137	\$ 0.01
Granted		
Exercised		
Canceled	(12,701)	0.01
Outstanding, December 31, 2003	98,436	\$ 0.01
Exercisable, December 31, 2003	98,436	\$ 0.01

The options outstanding as of December 31, 2003 have a weighted-average remaining contractual life of 8.5 years.

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

The following table represents the Company's weighted-average grant date fair values for the stock options granted, and the assumptions used to value the stock options under a Black-Scholes valuation model:

Weighted-average grant date fair value per option	\$ 0.01
Weighted-average annualized stock option valuation assumptions	
Risk-free interest rate	5.01%
Expected dividend yield	
Expected common stock price volatility	49.96%
Assumed weighted-average expected life of stock options per employee option (in years)	8.5

6. Convertible Preferred Stock

Series A Convertible Preferred shares have voting rights equal to common shares. Series A Convertible Preferred shares are convertible at the option of the holder at any time into shares of common stock. At December 31, 2003, holders of Series A Convertible Preferred shares would receive 1.168 shares of common stock if converted. Series A Convertible Preferred shares also have preference upon liquidation of \$26.0416 per share. As of December 31, 2003, 59,060 shares of Series A Convertible Preferred stock were authorized. Series A Convertible Preferred stock had 59,060 shares issued and outstanding as of December 31, 2003.

7. Income Taxes

Income tax benefit for the year ended December 31, 2003 consists of:

Current	
U.S. Federal	\$ 615,180
State	171,491
Total current	786,671
Deferred	
U.S. Federal	(1,500,700)
State	(322,300)
Total deferred	(1,823,000)
Total income tax benefit	\$ (1,036,329)

During 2003, management determined that it was more likely than not that the Company would be able to realize deferred tax assets that had arisen in prior periods. Therefore, in 2003, the Company recorded a decrease in tax expense related to the reversal of previously established valuation allowances. Income tax expense differs from the statutory U.S. federal income tax rate as a result of the following:

Federal income tax expense computed at statutory rate	\$ 715,997
State tax expense net of Federal benefit	42,886
Permanent book/tax differences	86,645
Reversal of valuation allowances	(1,808,313)
Penalties	30,000
Research and development credit	(103,544)
Income tax benefit	\$ (1,036,329)

Table of Contents**thinkorswim Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2003 are presented below:

Management has determined that at December 31, 2003 no valuation allowance is needed given the expectation of future taxable income which will exceed the amounts necessary to realize the deferred tax asset.

Deferred tax assets arising from:	
Options	\$ 1,703,193
Software development fees	413,000
Start-up costs	16,136
Total deferred tax assets	2,132,329
Deferred tax liabilities arising from:	
Depreciation costs	309,300
Net deferred taxes	\$ 1,823,029

8. Commitments and Contingencies

The Company leases office space in two locations under operating lease agreements which expire during 2006 and 2007. Minimum required future rental payments under lease obligations, including taxes and operating expenses are as follows:

Years Ending December 31,	
2004	\$ 147,951
2005	152,916
2006	53,915
2007	30,431
Total	\$ 385,213

Rent expense for the year ended December 31, 2003 was \$162,284.

The Company, under consultation with counsel, has accrued for the estimable outcome of pending litigation. The Company does not expect the ultimate resolution of these matters to have a material adverse effect on the Company's financial position or results of operations.

In the normal course of business, the Company enters into contracts which contain indemnification provisions, such as purchase contracts, service agreements and leasing agreements. Under the provisions of these contracts, the Company

may indemnify counterparties to the contracts for certain aspects of the Company's past conduct if other parties fail to perform, or if certain events occur. These indemnification provisions will vary based upon the contract. The Company may, in turn, obtain indemnifications from other parties in certain contracts. These indemnification provisions are not expected to have a material impact on the Company's financial position or results of operations.

9. Off-Balance Sheet Risk and Concentration of Credit Risk

Credit risk is the amount of accounting loss the Company would incur if the counterparty failed to perform its obligations under contractual terms. Substantially all of the clearing and depository operations of the Company are performed by its clearing broker on a fully disclosed basis pursuant to a clearance agreement. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes.

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thinkorswim Group, Inc.

Notes to Consolidated Financial Statements (Continued)

In the normal course of business, the Company's clearing broker makes margin loans to the Company's customers, which are collateralized by customer securities. In permitting the customers to purchase securities on margin, the clearing broker is exposed to the risk of a market decline that could reduce the value of the collateral held below the customers' indebtedness before the collateral can be sold, which could result in losses to the clearing broker. The Company's agreement with the clearing broker requires the Company to reimburse the clearing broker for any losses incurred related to customers introduced by the Company. The Company seeks to control the risk associated with customer activities by making credit inquiries when establishing customer relationships and by monitoring customer trading activity.

The Company enters into repurchase agreements under which the Company purchases a security at a specified price with the intention to sell the same security to the same counterparty at a fixed or determinable price at a future date. The Company has not experienced any losses in such agreements. Management believes that the Company is not exposed to any significant credit risk on repurchase agreements.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk on bank deposits.

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thinkorswim Group, Inc.

Consolidated Financial Statements
June 30, 2006

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thinkorswim Group, Inc.

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June 30, 2006**

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Report of Independent Auditors

To the Board of Directors and Stockholders of
thinkorswim Group, Inc.:

In our opinion, the accompanying consolidated statement of financial condition and the related consolidated statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of thinkorswim Group, Inc. and its subsidiaries (collectively, the Company) at June 30, 2006, and the results of their operations and their cash flows for the six month period then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
September 25, 2006

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Financial Condition****June 30, 2006****ASSETS**

Cash and cash equivalents	\$ 12,960,743
Receivable from clearing broker	4,927,199
Securities owned, at market value	17,245,764
Software and website development, at cost net of accumulated amortization of \$2,631,802	2,745,152
Furniture, equipment and leasehold improvements, at cost net of accumulated depreciation and amortization of \$415,592	1,957,100
Goodwill and other intangibles, at cost net of accumulated amortization of \$242,665	1,576,726
Income taxes receivable	440,083
Deferred tax asset	3,181,334
Accounts receivable	1,497,585
Prepaid expenses and other assets	1,234,772
Total assets	\$ 47,766,458

LIABILITIES AND STOCKHOLDERS EQUITY

Accrued compensation and related benefits	\$ 995,639
Securities sold, not yet purchased, at market value	53,728
Accounts payable and accrued expenses	2,975,379
Other liabilities	1,580,023
Total liabilities	5,604,769
Convertible preferred stock, \$0.001 par value, authorized 243,830 shares 238,068 issued and outstanding	238
Common stock, \$0.001 par value, authorized 1,397,821 shares, 754,106 issued and outstanding	753
Additional paid-in capital	32,424,866
Retained earnings	10,296,524
Treasury stock, at cost (12,991 shares)	(560,692)
Total stockholders equity	42,161,689
Total liabilities and stockholders equity	\$ 47,766,458

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Income
Six Month Period Ended June 30, 2006****Revenues**

Commissions	\$ 17,833,898
Interest and dividends	4,203,434
Other brokerage related revenue	3,484,849
Software and maintenance fees	1,711,160
Management and subscription fees	473,867
Other	439,477
Total revenues	28,146,685

Expenses

Employee compensation and benefits	4,817,120
Clearing, brokerage and other related fees	7,469,011
Technology, communications and market data	2,219,485
Advertising and promotion	936,390
Depreciation and amortization	973,423
Professional fees	245,906
Occupancy	356,765
Other	1,582,877
Total expenses	18,600,977
Income before provision for income taxes	9,545,708
Provision for income taxes	(3,653,450)
Net income	\$ 5,892,258

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Changes in Stockholders' Equity
Six Month Period Ended June 30, 2006**

	Preferred		Capital Stock Common		Treasury		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2005	238,068	\$ 238	749,914	\$ 749	11,585	\$ (500,009)	\$ 32,363,128	\$ 4,404,266	\$ 36,268,377
Net income								5,892,258	5,892,258
Treasury stock purchase					1,406	(60,683)			(60,683)
Stock options (see Note 6)			4,192	4			61,738		61,742
Balance, June 30, 2006	238,068	\$ 238	754,106	\$ 753	12,991	\$ (560,692)	\$ 32,424,866	\$ 10,296,524	\$ 42,161,689

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**thinkorswim Group, Inc.****Consolidated Statement of Cash Flows
Six Month Period Ended June 30, 2006****Cash flows from operating activities**

Net income	\$ 5,892,258
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	973,423
Deferred income taxes	(4,800)
(Increase)/decrease in operating assets Receivable from clearing broker	(1,303,702)
Securities owned	11,009
Income taxes receivable	(386,600)
Accounts receivable, prepaid expenses and other assets	(1,216,065)
Increase/(decrease) in operating liabilities Accrued compensation and related benefits	890,736
Securities sold, not yet purchased	(153,439)
Accounts payable and accrued expenses	1,284,119
Other liabilities	430,023
Net cash provided by operating activities	6,416,962

Cash flows from financing activities

Purchase of treasury stock	(60,683)
Stock options exercised	42
Tax benefit from stock options exercised	61,700
Net cash provided by financing activities	1,059

Cash flows from investing activities

Disposal of fixed assets	74,863
Investment in debt instruments	(5,030,655)
Purchase of furniture, equipment and leasehold improvements	(1,238,058)
Website development costs	(903,213)
Purchase of software	(10,309)
Net cash used in investing activities	(7,107,372)

Net decrease in cash and cash equivalents	(689,351)
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Cash and cash equivalents

Beginning of year	13,650,094
End of year	\$ 12,960,743

Supplemental disclosure of cash flow information

Cash paid for interest	\$
Cash paid for income taxes	\$ 3,983,150

The accompanying notes are an integral part of these consolidated financial statements.

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thinkorswim Group, Inc.

**Notes to Consolidated Financial Statements
June 30, 2006**

1. Nature of Operations

Organization and Basis of Presentation

These consolidated financial statements include thinkorswim Group, Inc. and its wholly owned subsidiaries, thinkorswim, Inc. (Inc.), thinkorswim Technologies, Inc. (Tech), thinkorswim Advisors, Inc. (Advisors), TOS Services, Inc. and TOS Red, Inc. (collectively, the Company). Inc. is the primary operating subsidiary and is a registered broker-dealer subject to regulation by the Securities and Exchange Commission (SEC), National Association of Securities Dealers, Inc. and the National Futures Association. Inc. is in the business of providing brokerage services for index and equity options and the related equity securities to retail and institutional customers, primarily through online systems. In addition, Inc. provides its clients with news, quotes, charts and other tools. Pursuant to a clearing agreement between Inc. and its primary clearing broker, Penson Financial Services, all securities transactions are cleared on a fully disclosed basis. Advisors is registered with the SEC as an investment adviser and offers a wide variety of investment advisory services to individual and institutional clients. In addition, Tech developed and TOS Services maintains an electronic institutional trading platform which is utilized by Inc. and one other unaffiliated broker-dealer.

On December 1, 2005, the Company acquired certain fixed assets, software and customer relationships from Arrowhead Solutions Inc. (Arrowhead) on behalf of Tech. The fixed purchase price was \$2,000,000, of which \$1,250,000 was paid and \$750,000 is included in other liabilities and is payable in two equal installments due on each of the first and second anniversaries of the transaction. In addition, the agreement provides for additional consideration of up to \$1,250,000, subject to certain conditions being met. The Company has recorded \$75,000, \$500,000 and \$1,425,000 related to fixed assets, software and customer relationships, respectively.

On March 27, 2006, Inc. entered into a marketing agreement with Kes-Pipes LLC. Under this marketing agreement, a new division of Inc. was created for the primary purpose of allowing Kes-Pipes LLC to market Inc. s institutional services to new customers. Under this agreement, Inc. and Kes-Pipes LLC will share net income and net losses of the division on a 50/50 basis. In connection with this agreement, Kes-Pipes LLC loaned Inc. \$500,000, which is included in Other Liabilities. The corresponding cash is restricted for use by the division and repayment terms are dependent upon profitability of the division.

2. Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the Company s financial statements.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Gross Unrealized (1)

Weighted Average

Unpaid Principal
Balance

Amortized
Cost

Gains

Losses

Fair Value

Yield

Life
(Years) (2)
Agency Excess MSR
\$
768,385

\$
4,479

\$
333

\$
(11
)

\$
4,801

12.23
%

6.30
Credit Excess MSR
50,308

259

24

—

283

21.87
%

5.00
Total Excess MSR
\$
818,693

\$
4,738

\$
357

\$
(11
)

\$
5,084

12.76
%

6.20

(1) The Company has chosen to make a fair value election pursuant to ASC 825 for its Excess MSR portfolio. Unrealized gains and losses are recognized in current period earnings in the “Unrealized gain/(loss) on derivative

and other instruments, net” line item. The gross unrealized columns above represent inception to date unrealized gains (losses).

- (2) Actual maturities of Excess MSR may be shorter than stated contractual maturities. Maturities are affected by prepayments of principal.

As described in Note 2, the Company evaluates securities for OTTI on at least a quarterly basis. The determination of whether an excess MSR is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. When the fair value of an Excess MSR is less than its amortized cost at the balance sheet date, the Excess MSR is considered impaired, and the impairment is designated as either “temporary” or “other-than-temporary.” No OTTI was recorded for the three and nine months ended September 30, 2018 or the three and nine months ended September 30, 2017.

6. Single-family rental properties

In September 2018, the Company purchased 1,225 single-family rental properties for \$140.1 million. The Company also financed the portfolio with \$103 million of 5-year, fixed rate debt.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

The following table presents the net carrying amount associated with the Company's properties by component (in thousands).

	September 30, 2018
Land	\$ 29,182
Building	109,271
In-place lease intangibles	2,100
Single-family rental properties	140,553
Less: Accumulated depreciation and amortization	(494)
Single-family rental properties, net	\$ 140,059

As of September 30, 2018, the carrying amount of the properties included \$1.0 million of capitalized acquisition costs.

During the three and nine months ended September 30, 2018, the Company recognized \$0.2 million of depreciation expense related to components of the properties. We also recognized \$0.3 million of amortization related to in-place lease intangible assets. As the weighted average life of the in-place lease intangibles is 7.4 months, the Company expects to fully amortize these assets over that time period. These amounts are included in the "Property depreciation and amortization" line item in the consolidated statement of operations. Additionally, there was no impairment recognized during the three and nine months ended September 30, 2018.

The following table presents a schedule of non-cancellable, contractual, future minimum rent under leases at September 30, 2018 (in thousands). These rental payments are based on income recognition.

Period Ending December 31,	Amount
2018 (last 3 months)	\$ 2,660
2019	3,642
2020	37
2021	—
2022	—
Thereafter	—
Total	\$ 6,339

7. Fair value measurements

As described in Note 2, the fair value of financial instruments that are recorded at fair value will be determined by the Manager, subject to oversight of the Company's board of directors, and in accordance with ASC 820, "Fair Value Measurements and Disclosures." When possible, the Company determines fair value using independent data sources. ASC 820 establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable.

Values for the Company's securities, Excess MSRs, securitized debt, derivatives and U.S. Treasury securities are based upon prices obtained from third party pricing services, which are indicative of market activity. The fair value of the Company's obligation to return securities borrowed under reverse repurchase agreements is based upon the value of the underlying borrowed U.S. Treasury securities as of the reporting date. The evaluation methodology of the Company's third-party pricing services incorporates commonly used market pricing methods, including a spread measurement to various indices such as the one-year constant maturity treasury and LIBOR, which are observable inputs. The

evaluation also considers the underlying characteristics of each investment, which are also observable inputs, including: coupon; maturity date; loan age; reset date; collateral type; periodic and life cap; geography; and prepayment speeds. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available. As part of the Company's risk management process, the Company reviews and analyzes all prices obtained by comparing prices to recently completed transactions involving the same or similar investments on or near the reporting date. If, in the opinion of the Manager, one or more prices reported to the Company are not reliable or unavailable, the Manager reviews the fair value based on characteristics of the investment it receives from the issuer and available market information.

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

In valuing its derivatives, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company's derivatives are either subject to bilateral collateral arrangements or clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd Frank Act"). For swaps cleared under the Dodd Frank Act, a Central Counterparty Clearing House ("CCP") now stands between the Company and the over-the-counter derivative counterparties. In order to access clearing, the Company has entered into clearing agreements with Futures Commissions Merchants ("FCMs").

Beginning in the first quarter of 2017, as a result of a CME amendment to its rule book governing central clearing activities, the daily exchange of variation margin associated with a CME centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap and future derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps and futures reflected in the Company's consolidated balance sheets is equal to the unsettled fair value of such instruments. See Note 9 for more information.

The fair value of the Company's mortgage loans and loan participation considers data such as loan origination information, additional updated borrower information, loan servicing data, as available, forward interest rates, general economic conditions, home price index forecasts and valuations of the underlying properties. The variables considered most significant to the determination of the fair value of the Company's mortgage loans include market-implied discount rates, projections of default rates, delinquency rates, prepayment rates and loss severity (considering mortgage insurance). Projections of default and prepayment rates are impacted by other variables such as reperformance rates and timeline to liquidation. The Company uses loan level data and macro-economic inputs to generate loss adjusted cash flows and other information in determining the fair value of its mortgage loans. Because of the inherent uncertainty of such valuation, the fair values established for mortgage loans held by the Company may differ from the fair values that would have been established if a ready market existed for these mortgage loans. Accordingly, mortgage loans are classified as Level 3 in the fair value hierarchy.

The Manager may also engage specialized third party valuation service providers to assess and corroborate the valuation of a selection of investments in the Company's loan portfolio on a periodic basis. These specialized third party valuation service providers conduct independent valuation analyses based on a review of source documents, available market data, and comparable investments. The analyses provided by valuation service providers are reviewed and considered by the Manager.

TBA instruments are similar in form to the Company's Agency RMBS portfolio, and the Company therefore estimates fair value based on similar methods.

Cash equivalents include investments in money market funds that invest primarily in short-term U.S. Treasury and Agency securities. These cash equivalent instruments are valued at their market quoted prices, which generally approximate cost plus accrued interest and are generally categorized as Level 1.

The Company entered into a securitization transaction that resulted in the Company consolidating a VIE created with the SPE which was used to facilitate the transaction. The Company categorizes the fair value measurement of the consolidated tranche as Level 3.

In December 2015, the Company, alongside private funds under the management of Angelo Gordon, through AG Arc, formed Arc Home. The Company invests in Arc Home through AG Arc. In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, FHA, VA and Ginnie Mae seller/servicer of residential mortgages. Through this subsidiary, Arc Home originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. As a result of this acquisition, the Company transferred its investment in AG Arc from Level 1 into Level 3.

In February 2016, the Company originated a \$12.0 million commercial loan and transferred a 15% participation interest in the loan to an unaffiliated third party. The Company categorizes the fair value measurement of the commercial loan and consolidated participation interest as Level 3. The commercial loan was paid off in full in February 2017.

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AG Mortgage Investment Trust Inc. and Subsidiaries
 Notes to Consolidated Financial Statements (Unaudited)
 September 30, 2018

The following table presents the Company's financial instruments measured at fair value as of September 30, 2018 (in thousands):

	Fair Value at September 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$—	\$1,762,469	\$—	\$1,762,469
Fixed Rate CMO	—	45,323	—	45,323
ARM	—	105,821	—	105,821
Interest Only	—	118,102	—	118,102
Credit Investments:				
Non-Agency RMBS	—	117,350	593,645	710,995
Non-Agency RMBS Interest Only	—	—	3,860	3,860
ABS	—	—	37,544	37,544
CMBS	—	—	235,352	235,352
CMBS Interest Only	—	—	50,697	50,697
Residential mortgage loans	—	—	87,600	87,600
Commercial loans	—	—	94,618	94,618
Excess mortgage servicing rights	—	—	28,625	28,625
Cash equivalents	14,697	—	—	14,697
Derivative assets	—	4,887	—	4,887
AG Arc	—	—	23,068	23,068
Total Assets Measured at Fair Value	\$14,697	\$2,153,952	\$1,155,009	\$3,323,658
Liabilities:				
Securitized debt	\$—	\$—	\$(11,481)	\$(11,481)
Securities borrowed under reverse repurchase agreements	—	(5,730)	—	(5,730)
Derivative liabilities	—	(1,030)	—	(1,030)
Total Liabilities Measured at Fair Value	\$—	\$(6,760)	\$(11,481)	\$(18,241)

AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

The following table presents the Company's financial instruments measured at fair value as of December 31, 2017 (in thousands):

	Fair Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Agency RMBS:				
30 Year Fixed Rate	\$—	\$1,929,033	\$—	\$1,929,033
Fixed Rate CMO	—	52,951	—	52,951
ARM	—	176,387	—	176,387
Interest Only	—	88,790	—	88,790
Credit Investments:				
Non-Agency RMBS	—	156,170	845,424	1,001,594
Non-Agency RMBS Interest Only	—	—	2,662	2,662
ABS	—	—	40,958	40,958
CMBS	—	8,217	161,250	169,467
CMBS Interest Only	—	—	50,702	50,702
Residential mortgage loans	—	—	18,890	18,890
Commercial loans	—	—	57,521	57,521
Excess mortgage servicing rights	—	—	5,084	5,084
Derivative assets	110	2,017	—	2,127
AG Arc	—	—	17,911	17,911
Total Assets Measured at Fair Value	\$110	\$2,413,565	\$1,200,402	\$3,614,077
Liabilities:				
Securitized debt	\$—	\$—	\$(16,478)	\$(16,478)
Securities borrowed under reverse repurchase agreements	—	(24,379)	—	(24,379)
Derivative liabilities	—	(450)	—	(450)
Total Liabilities Measured at Fair Value	\$—	\$(24,829)	\$(16,478)	\$(41,307)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the three and nine months ended September 30, 2018 and September 30, 2017.

Refer to the tables below for details on transfers between the Level 3 and Level 2 categories under ASC 820. Transfers into the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of reduced levels of market transparency. Transfers out of the Level 3 category of the fair value hierarchy occur due to instruments exhibiting indications of increased levels of market transparency. Indications of increases or decreases in levels of market transparency include a change in observable transactions or executable quotes involving these instruments or similar instruments. Changes in these indications could impact price transparency, and thereby cause a change in level designations in future periods.

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AG Mortgage Investment Trust Inc. and Subsidiaries
 Notes to Consolidated Financial Statements (Unaudited)
 September 30, 2018

The following tables present additional information about the Company's assets and liabilities which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

Three Months Ended
 September 30, 2018
 (in thousands)

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Securitized debt
Beginning balance	\$786,108	\$2,871	\$37,755	\$159,832	\$43,182	\$93,129	\$43,217	\$29,282	\$18,353	\$(13,900)
Transfers (1):										
Transfers into level 3	—	—	—	8,217	—	—	—	—	—	—
Transfers out of level 3	(97,349)	—	—	—	—	—	—	—	—	—
Purchases/Transfers	3,807	—	303	57,427	10,437	149	51,401	—	—	—
Capital contributions	—	—	—	—	—	—	—	—	4,459	—
Proceeds from sales/redemptions	(53,018)	—	—	—	(742)	(3,821)	—	—	—	—
Proceeds from settlement	(45,361)	—	(386)	(4,500)	—	(1,774)	—	(12)	—	2,470
Total net gains/(losses) (2)										
Included in net income	(542)	989	(128)	14,376	(2,180)	(83)	—	(645)	256	33
Ending Balance	\$593,645	\$3,860	\$37,544	\$235,352	\$50,697	\$87,600	\$94,618	\$28,625	\$23,068	\$(11,400)
Change in unrealized appreciation/(depreciation) for level 3 assets/liabilities still held as of September 30, 2018 (3)	\$2,876	\$1,011	\$(128)	\$14,376	\$(2,083)	\$(195)	\$—	\$(646)	\$256	\$34

(1) Transfers are assumed to occur at the beginning of the period. During the three months ended September 30, 2018, the Company transferred 2 CMBS securities into the Level 3 category from the Level 2 category and 14 Non-Agency RMBS securities into the Level 2 category from the Level 3 category under the fair value hierarchy of ASC 820.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized
 gain/(loss)
 on
 real
 estate
 securities
 and
 loans,
 net
 Unrealized
 gain/(loss)
 on
 derivative
 and
 other
 instruments,

net
 Net
 realized)
 gain/(loss)
 Equity
 in
 earnings/(loss)
 from
 affiliates
 Total
 (3) Unrealized
 gains/(losses) are
 recorded in the
 following line items
 in the consolidated
 statement of
 operations:
 Unrealized
 gain/(loss)
 on
 real
 estate
 securities
 and
 loans,
 net
 Unrealized
 gain/(loss)
 on
 derivative
 and
 other
 instruments,
 net
 Equity
 in
 earnings/(loss)
 from
 affiliates
 Total

AG Mortgage Investment Trust Inc. and Subsidiaries
 Notes to Consolidated Financial Statements (Unaudited)
 September 30, 2018

Three Months Ended
 September 30, 2017
 (in thousands)

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Securit debt
Beginning balance	\$863,021	\$3,213	\$47,917	\$137,658	\$52,806	\$23,455	\$57,294	\$2,787	\$17,713	\$(18,7
Transfers (1):										
Transfers into level 3	83,490	—	—	8,460	—	—	—	—	—	—
Purchases/Transfers	137,744	—	5,601	20,191	—	—	—	13	—	—
Capital contributions	—	—	—	—	—	—	—	—	—	—
Proceeds from sales/redemptions	(297,784)	—	—	—	—	—	—	—	—	—
Proceeds from settlement	(26,789)	—	(211)	(20,512)	—	(272)	—	(127)	—	1,563
Total net gains/(losses) (2)										
Included in net income	14,549	(351)	(83)	70	(834)	685	104	8	111	(6
Ending Balance	\$774,231	\$2,862	\$53,224	\$145,867	\$51,972	\$23,868	\$57,398	\$2,681	\$17,824	\$(17,2

Change in unrealized
 appreciation/(depreciation)
 for level 3 assets/liabilities
 still held as of September
 30, 2017 (3)

for level 3 assets/liabilities still held as of September 30, 2017 (3)	\$12,110	\$(84)	\$(83)	\$(153)	\$(834)	\$826	\$104	\$8	\$112	\$(6
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(1) Transfers are assumed to occur at the beginning of the period. During the three months ended September 30, 2017, the Company transferred 9 Non-Agency RMBS securities and 1 CMBS security into the Level 3 category from the Level 2 category under the fair value hierarchy of ASC 820.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized
 gain/(loss)
 on
 real
 estate
 securities
 and
 loans,
 net
 Unrealized
 gain/(loss)
 on
 derivative
 and
 other
 instruments,
 net
 517

Net
realized
gain/(loss)
Equity
in
earnings/(loss)
from
affiliates
Total, 253
(3) Unrealized
gains/(losses) are
recorded in the
following line items
in the consolidated
statement of
operations:
Unrealized
gain/(loss)
on
real
estate
securities
and
loans,
net
Unrealized
gain/(loss)
on
derivative
(6)
and
other
instruments,
net
Equity
in
earnings/(loss)
from
affiliates
Total, 1,000

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AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

Nine Months Ended
September 30, 2018
(in thousands)

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Secur debt
Beginning balance	\$845,424	\$2,662	\$40,958	\$161,250	\$50,702	\$18,890	\$57,521	\$5,084	\$17,911	\$(16,
Transfers (1):										
Transfers into level 3	69,260	—	—	8,217	—	—	—	—	—	—
Transfers out of level 3	(64,623)	—	—	(6,951)	—	—	—	—	—	—
Purchases/Transfers	97,683	—	5,899	113,683	10,436	105,190	51,401	25,162	—	—
Capital contributions	—	—	—	—	—	—	—	—	4,459	—
Proceeds from sales/redemptions	(237,822)	—	—	—	(5,400)	(34,653)	—	—	—	—
Proceeds from settlement	(114,924)	—	(9,097)	(53,645)	—	(3,030)	(14,522)	(524)	—	4,952
Total net gains/(losses) (2)										
Included in net income	(1,353)	1,198	(216)	12,798	(5,041)	1,203	218	(1,097)	698	45
Ending Balance	\$593,645	\$3,860	\$37,544	\$235,352	\$50,697	\$87,600	\$94,618	\$28,625	\$23,068	\$(11,

Change in unrealized
appreciation/(depreciation)

for level 3 assets/liabilities still held as of September 30, 2018 (3)	\$1,179	\$1,241	\$(197)	\$12,725	\$(4,711)	\$389	\$—	\$(1,097)	\$698	\$45
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(1) Transfers are assumed to occur at the beginning of the period. During the nine months ended September 30, 2018, the Company transferred 5 Non-Agency RMBS securities and 2 CMBS securities into the Level 3 category from the Level 2 category and 14 Non-Agency RMBS securities and 1 CMBS security into the Level 2 category from the Level 3 category under the fair value hierarchy of ASC 820.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized
gain/(loss)

on
real

estate
securities

and
loans,

net
Unrealized

gain/(loss)

on
derivative

and
other

instruments,
net

Net
realized
gain/(loss)
Equity
in
earnings/(loss)
from
affiliates
Total
\$8,453
(3) Unrealized
gains/(losses) are
recorded in the
following line items
in the consolidated
statement of
operations:
Unrealized
gain/(loss)
on
real
estate
securities
and
loans,
net
Unrealized
gain/(loss)
on
derivative
and
other
instruments,
net
Equity
in
earnings/(loss)
from
affiliates
Total
\$10,272

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AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

Nine Months Ended
September 30, 2017
(in thousands)

	Non-Agency RMBS	Non-Agency RMBS Interest Only	ABS	CMBS	CMBS Interest Only	Residential Mortgage Loans	Commercial Loans	Excess Mortgage Servicing Rights	AG Arc	Secur debt
Beginning balance	\$717,761	\$3,761	\$21,232	\$130,790	\$52,137	\$38,196	\$60,069	\$413	\$12,895	\$(21,000)
Transfers (1):										
Transfers into level 3	203,851	—	—	8,460	—	—	—	—	—	—
Transfers out of level 3	(51,307)	—	—	—	—	—	—	—	—	—
Purchases/Transfers	395,021	—	52,049	38,760	—	—	10,271	2,578	—	—
Capital contributions	—	—	—	—	—	—	—	—	4,459	—
Proceeds from sales/redemptions	(382,544)	—	(16,977)	(4,534)	—	(10,103)	—	—	—	—
Proceeds from settlement	(142,166)	—	(4,196)	(29,106)	—	(5,570)	(13,534)	(314)	—	4,311
Total net gains/(losses) (2)										
Included in net income	33,615	(899)	1,116	1,497	(165)	1,345	592	4	470	(40)
Ending Balance	\$774,231	\$2,862	\$53,224	\$145,867	\$51,972	\$23,868	\$57,398	\$2,681	\$17,824	\$(17,000)

Change in unrealized
appreciation/(depreciation)

for level 3 assets still held as of September 30, 2017	\$32,503	\$(632)	\$660	\$1,705	\$(165)	\$(576)	\$537	\$4	\$470	\$(40)
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(3)

(1) Transfers are assumed to occur at the beginning of the period. During the nine months ended September 30, 2017, the Company transferred 18 Non-Agency RMBS securities and 1 CMBS security into the Level 3 category from the Level 2 category and 5 Non-Agency RMBS securities into the Level 2 category from the Level 3 category under the fair value hierarchy of ASC 820.

(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Unrealized
gain/(loss)

on
real

estate
securities

and
loans,

net
Unrealized
gain/(loss)

on
derivative
(195)
and

other
instruments,
net

Net
 realized)
 gain/(loss)
 Equity
 in
 earnings/(loss)
 from
 affiliates
 Total
 \$37,381
 (3) Gains/(losses)
 are recorded in the
 following line items
 in the consolidated
 statement of
 operations:
 Unrealized
 gain/(loss)
 on
 real
 estate
 securities
 and
 loans,
 net
 Unrealized
 gain/(loss)
 on
 derivative
 and
 other
 instruments,
 net
 Equity
 in
 earnings/(loss)
 from
 affiliates
 Total
 \$34,466

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AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
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The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of investments for which the Company has utilized Level 3 inputs to determine fair value.

Asset Class	Fair Value at September 30, 2018 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-Agency RMBS	\$ 579,852	Discounted Cash Flow	Yield	2.79% - 11.01% (4.67%)
			Projected Collateral Prepayments	0.00% - 25.00% (11.72%)
	\$ 13,793	Consensus Pricing	Projected Collateral Losses	0.00% - 30.00% (2.39%)
			Projected Collateral Severities	-0.61% - 100.00% (29.99%)
Non-Agency RMBS Interest Only	\$ 3,860	Discounted Cash Flow	Offered Quotes	92.50 - 93.06 (92.72)
			Yield	7.00% - 35.00% (28.15%)
			Projected Collateral Prepayments	9.50% - 18.00% (15.51%)
			Projected Collateral Losses	0.75% - 2.00% (1.48%)
ABS	\$ 32,411	Discounted Cash Flow	Projected Collateral Severities	10.00% - 65.00% (18.52%)
			Yield	6.38% - 6.38% (6.38%)
	\$ 5,133	Consensus Pricing	Projected Collateral Prepayments	20.00% - 40.00% (23.71%)
			Projected Collateral Losses	0.00% - 2.00% (1.67%)
CMBS	\$ 232,461	Discounted Cash Flow	Projected Collateral Severities	0.00% - 50.00% (41.80%)
			Offered Quotes	100.00 - 100.00 (100.00)
	\$ 2,891	Consensus Pricing	Yield	5.49% - 64.88% (8.82%)
			Projected Collateral Prepayments	0.00% - 0.00% (0.00%)
CMBS Interest Only	\$ 50,697	Discounted Cash Flow	Projected Collateral Losses	0.00% - 0.50% (0.02%)
			Projected Collateral Severities	0.00% - 25.00% (0.96%)
			Offered Quotes	4.86 - 8.88 (7.87)
			Yield	3.71% - 10.61% (5.20%)
Residential Mortgage Loans	\$ 13,058	Discounted Cash Flow	Projected Collateral Prepayments	99.00% - 100.00% (99.92%)
			Projected Collateral Losses	0.00% - 0.00% (0.00%)
			Projected Collateral Severities	0.00% - 0.00% (0.00%)
			Yield	7.00% - 9.00% (8.80%)
		Projected Collateral Prepayments	4.78% - 5.04% (4.85%)	
		Projected Collateral Losses	3.31% - 5.81% (4.43%)	
			6.89% - 26.78% (16.23%)	

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Liability Class	Fair Value at September 30, 2018 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Commercial Loans	\$ 74,542	Recent Transaction	Projected Collateral Severities	N/A
			Cost Yield	7.25% - 7.25% (7.25%)
Excess Mortgage Servicing Rights	\$ 32,800	Discounted Cash Flow	Credit Spread	4.75 bps - 4.75 bps (4.75 bps)
			Recovery Percentage (1)	100.00% - 100.00% (100.00%)
			Offered Quotes Yield	100.00 - 100.00 (100.00) 8.50% - 11.55% (9.18%)
AG Arc	\$ 28,391	Discounted Cash Flow	Projected Collateral Prepayments	6.15% - 9.82% (7.83%)
			Consensus Pricing	Offered Quotes
AG Arc	\$ 23,068	Comparable Multiple	Book Value Multiple	1.0x - 1.0x (1.0x)
			Consensus Pricing	Offered Quotes
Securitized debt	\$ (11,481)	Discounted Cash Flow	Yield	4.16% - 4.16% (4.16%)
			Projected Collateral Prepayments	10.00% - 10.00% (10.00%)
			Projected Collateral Losses	3.50% - 3.50% (3.50%)
			Projected Collateral Severities	45.00% - 45.00% (45.00%)

(1) Represents the proportion of the principal expected to be collected relative to the loan balances as of September 30, 2018.

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AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2018

Asset Class	Fair Value at December 31, 2017 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)	
Non-Agency RMBS	\$ 783,881	Discounted Cash Flow	Yield	0.94% - 31.75% (4.49%)	
			Projected Collateral Prepayments	0.00% - 35.00% (10.50%)	
			Projected Collateral Losses	0.00% - 50.00% (3.25%)	
			Projected Collateral Severities	0.00% - 100.00% (34.77%)	
			\$ 14,794	Consensus Pricing	Offered Quotes
Non-Agency RMBS Interest Only	\$ 2,662	Discounted Cash Flow	\$ 46,749	Recent Transaction	N/A
			Yield	7.00% - 25.00% (22.34%)	
			Projected Collateral Prepayments	10.50% - 18.00% (16.89%)	
			Projected Collateral Losses	1.50% - 2.00% (1.57%)	
			Projected Collateral Severities	10.00% - 40.00% (14.43%)	
ABS	\$ 40,958	Discounted Cash Flow	Yield	4.62% - 9.83% (7.56%)	
			Projected Collateral Prepayments	20.00% - 40.00% (22.62%)	
			Projected Collateral Losses	0.00% - 2.00% (1.74%)	
			Projected Collateral Severities	0.00% - 50.00% (43.45%)	
CMBS	\$ 157,685	Discounted Cash Flow	Yield	-1.45% - 8.35% (6.24%)	
			Projected Collateral Prepayments	0.00% - 0.00% (0.00%)	
			Projected Collateral Losses	0.00% - 0.00% (0.00%)	
			Projected Collateral Severities	0.00% - 0.00% (0.00%)	
CMBS Interest Only	\$ 3,565	Consensus Pricing	Offered Quotes	6.20 - 7.60 (7.12)	
			Yield	2.93% - 5.90% (4.43%)	
			Projected Collateral Prepayments	100.00% - 100.00% (100.00%)	
			Projected Collateral Losses	0.00% - 0.00% (0.00%)	
Residential Mortgage Loans	\$ 18,890	Discounted Cash Flow	Projected Collateral Severities	0.00% - 0.00% (0.00%)	
			Yield	6.25% - 9.00% (7.81%)	
			Projected Collateral Prepayments	2.98% - 5.05% (3.93%)	
			Projected Collateral Losses	3.88% - 6.91% (4.27%)	
			Projected Collateral Severities	20.21% - 37.25% (22.00%)	
			Yield	6.52% - 6.52% (6.52%)	

AG Mortgage Investment Trust Inc. and Subsidiaries
 Notes to Consolidated Financial Statements (Unaudited)
 September 30, 2018

periodic and life cap, geography, and prepayment speeds. These valuations also require significant judgments, which include assumptions regarding capitalization rates, re-performance rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders and other factors deemed necessary by management. Changes in the market environment and other events that may occur over the life of our investments may cause the gains or losses ultimately realized on these investments to be different than the valuations currently estimated. If applicable, analyses provided by valuation service providers are reviewed and considered by the Manager.

8. Financing arrangements

Repurchase agreements

A vast majority of the Company's financing arrangements are through repurchase agreements. The Company pledges certain real estate securities and loans as collateral under repurchase agreements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a "haircut." The Company calculates haircuts disclosed in the tables below by dividing allocated capital on each borrowing by the current fair market value of each investment. Repurchase agreements entered into by the Company are accounted for as financings and require the repurchase of the transferred assets at the end of each agreement's term, typically 30 to 90 days. The carrying amount of the Company's repurchase agreements approximates fair value due to their short-term maturities or floating rate coupons. If the Company maintains the beneficial interest in the specific assets pledged during the term of the borrowing, it receives the related principal and interest payments. If the Company does not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, it will have the related principal and interest payments remitted to it by the lender. Interest rates on these borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time the Company may enter into a new borrowing arrangement at prevailing market rates with the same counterparty or repay that counterparty and negotiate financing with a different counterparty. If the fair value of pledged assets declines due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically would require the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. The fair value of financial instruments pledged as collateral on the Company's repurchase agreements disclosed in the tables below represent the Company's fair value of such instruments which may differ from the fair value assigned to the collateral by its counterparties. The Company maintains a level of liquidity in the form of cash and unpledged Agency RMBS and Agency Interest-Only securities in order to meet these obligations. Under the terms of the Company's master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of September 30, 2018 (in thousands):

Financing Arrangements Maturing Within:	Financing Arrangements				Financial Instruments Pledged		
	Balance	Weighted Average Rate	Weighted Average Haircut	Weighted Average	Fair Value Pledged	Amortized Cost	Accrued Interest
Overnight	\$126,397	2.36 %	3.0 %		\$130,265	\$131,579	\$420
30 days or less	2,330,949	2.51 %	8.1 %		2,568,069	2,266,719	9,040
31-60 days	136,189	3.62 %	20.3 %		171,807	155,000	544

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61-90 days	47,725	3.52	%	22.1	%	61,370	58,631	291
91-180 days	4,346	3.62	%	22.5	%	5,613	5,622	13
Greater than 180 days	42,154	3.13	%	11.3	%	49,849	49,636	25
Total / Weighted Average	\$2,687,760	2.59	%	8.8	%	\$2,986,973	\$ 2,667,187	\$ 10,333

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The following table presents certain financial information regarding the Company's repurchase agreements secured by real estate securities as of December 31, 2017 (in thousands):

Financing Arrangements Maturing Within:	Financing Arrangements				Financial Instruments Pledged			
	Balance	Weighted Average Rate	Weighted Average Haircut	Weighted Average	Fair Value Pledged	Amortized Cost	Accrued Interest	
Overnight	\$128,779	1.80 %	3.2 %	%	\$133,012	\$133,030	\$376	
30 days or less	2,105,103	1.94 %	9.6 %	%	2,361,574	2,302,744	8,407	
31-60 days	611,763	1.76 %	7.6 %	%	677,310	670,307	2,131	
61-90 days	32,445	3.04 %	25.9 %	%	43,851	42,712	301	
91-180 days	1,131	3.21 %	22.7 %	%	1,463	1,479	1	
Greater than 180 days	93,060	3.00 %	20.4 %	%	119,490	118,698	47	
Total / Weighted Average	\$2,972,281	1.94 %	9.4 %	%	\$3,336,700	\$3,268,970	\$11,263	

Although repurchase agreements are committed borrowings until maturity, the lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets resulting from changes in market conditions or factor changes would require the Company to provide additional collateral or cash to fund margin calls. See Note 9 for details on collateral posted/received against certain derivatives. The following table presents information with respect to the Company's posting of collateral under repurchase agreements on September 30, 2018 and December 31, 2017, broken out by investment type (in thousands):

	September 30, 2018	December 31, 2017
Fair Value of investments pledged as collateral under repurchase agreements		
Agency RMBS	\$1,721,310	\$2,118,615
Non-Agency RMBS	693,696	976,072
ABS	24,383	30,833
CMBS	272,907	211,180
Cash pledged (i.e., restricted cash) under repurchase agreements	10,053	12,155
Fair Value of unsettled trades pledged as collateral under repurchase agreements	274,677	—
Total collateral pledged under repurchase agreements	\$2,997,026	\$3,348,855

The following table presents information with respect to the Company's total borrowings under repurchase agreements on September 30, 2018 and December 31, 2017, broken out by investment type (in thousands):

	September 30, 2018	December 31, 2017
Repurchase agreements secured by investments:		
Agency RMBS	\$1,888,026	\$2,005,133
Non-Agency RMBS	566,269	784,897
ABS	18,585	22,761
CMBS	214,880	159,490
Gross Liability for repurchase agreements	\$2,687,760	\$2,972,281

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The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of September 30, 2018 (in thousands):

Description	Gross Amounts of Recognized Liabilities	Gross Amounts of Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase agreements	\$ 2,687,760	\$ —	\$ 2,687,760	\$ 2,687,760	\$ —	\$ —

The following table presents both gross information and net information about repurchase agreements eligible for offset in the consolidated balance sheets as of December 31, 2017 (in thousands):

Description	Gross Amounts of Recognized Liabilities	Gross Amounts of Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		
				Financial Instruments Posted	Cash Collateral Posted	Net Amount
Repurchase agreements	\$2,972,281	\$ —	\$ 2,972,281	\$2,972,281	\$ —	\$ —

Term loan and revolving facilities

The following table presents information regarding the Company's term loan and revolving facilities, excluding facilities within investments in debt and equity of affiliates, as of September 30, 2018 and December 31, 2017 (in thousands).

Facility (1)	Maturity Date	September 30, 2018			December 31, 2017			Net Carrying Value of Assets Pledged as Collateral	Net Carrying Value of Assets Pledged as Collateral
		Rate	Funding Cost	Balance	Rate	Funding Cost	Balance		
Term loan, net (2)	October 10, 2023	4.63%	4.80%	\$ 101,987	—%	—%	\$ —	\$ —	
Revolving facility A	July 1, 2019	4.37%	4.37%	\$ 21,796	3.70%	3.70%	\$ 21,796	\$ 32,800	
Revolving facility B	June 15, 2020	4.25%	4.28%	64,827	4.07%	4.07%	10,330	15,861	
Revolving facility C	August 10, 2023	4.27%	4.48%	37,011	—%	—%	—	—	
Total revolving facilities				\$ 123,634			\$ 32,126	\$ 48,661	

Total term loan and revolving facilities	\$225,621	\$ 310,919	\$32,126	\$ 48,661
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(1) The term loan and all revolving facilities listed above are interest only until maturity.

(2) The total borrowings under the term loan is \$103 million, which is shown net of deferred financing costs of \$1.0 million.

On September 17, 2014, AG MIT CREL, LLC (“AG MIT CREL”), a subsidiary of the Company, entered into a Master Repurchase Agreement and Securities Contract (the “CREL Repurchase Agreement” or “Revolving facility A”) with Wells Fargo to finance AG MIT CREL’s acquisition of certain beneficial interests in one or more commercial mortgage loans. Each transaction under the CREL Repurchase Agreement will have its own specific terms, such as identification of the assets subject to the transaction, sale price, repurchase price and rate. The CREL Repurchase Agreement provided for a funding period ending September 17, 2016 and an initial facility termination date of September 17, 2016 (the “Initial Termination Date”), subject to the satisfaction of certain terms of the extensions described below. AG MIT CREL had three (3) one-year options to extend the term of the CREL Repurchase Agreement.

On August 4, 2015, the Company, AG MIT CREL and AG MIT, LLC (“AG MIT”) entered into an Omnibus Amendment No. 1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the “First Amendment”) with Wells Fargo, which amended certain terms in the CREL Repurchase Agreement, the Guarantee, dated as of September 17, 2014, delivered

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by the Company and AG MIT to Wells Fargo and the Fee and Pricing Letter, dated as of September 17, 2014, between AG MIT CREL and Wells Fargo. The First Amendment lowered the maximum aggregate borrowing capacity available under the CREL Repurchase Agreement from \$150 million to approximately \$42.8 million. The First Amendment also provided that the CREL Repurchase Agreement become full recourse to the Company and AG MIT, LLC. By amending the recourse of the CREL Repurchase Agreement to the Company and AG MIT, the Company was able to remove certain financial covenants on AG MIT CREL that limited the amount that AG MIT CREL could borrow under the CREL Repurchase Agreement. The First Amendment also eliminated the fee for the portion of the repurchase facility that was unused. The CREL Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. As of September 30, 2018 and December 31, 2017, the Company had \$21.8 million of debt outstanding under this facility.

In September 2016, the Company exercised its first option to extend the term of the CREL Repurchase Agreement. In June 2017, the Company, AG MIT CREL and AG MIT entered into an Omnibus Amendment No. 2 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter (the “Second Amendment”) with Wells Fargo. The Second Amendment amended the CREL Repurchase Agreement to extend the facility termination date to July 1, 2019 and removed the second and third extension options.

In June 2018, AG MIT WFB1 2014 LLC (“AG MIT WFB1”), a subsidiary of the Company, entered into Amendment Numbers Seven and Eight of the Master Repurchase Agreement and Securities Contract (as amended, the “WFB1 Repurchase Agreement” or “Revolving facility B”) with Wells Fargo to finance the ownership and acquisition of certain pools of residential mortgage loans. The WFB1 Repurchase Agreement provides for a funding period ending June 14, 2019 and a facility termination date of June 15, 2020. The maximum aggregate borrowing capacity available under the WFB1 Repurchase Agreement is \$110.0 million. The WFB1 Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. In the event the debt outstanding under the WFB1 Repurchase Agreement falls below \$7.0 million, a cash trap trigger event will occur in which all income payments received by Wells Fargo will be applied against the outstanding balance until the WFB1 Repurchase Agreement is paid off. As of September 30, 2018 and December 31, 2017, the Company had \$64.8 million and \$10.3 million of debt outstanding under the WFB1 Repurchase Agreement, respectively.

In August 2018, AG MIT CREL II, LLC, a subsidiary of the Company, entered into a Master Repurchase Agreement with JP Morgan (the “JPM Repurchase Agreement” or “Revolving facility C”). The agreement provides a maximum aggregate borrowing capacity of \$100.0 million. The JPM Repurchase Agreement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. As of September 30, 2018, the Company had \$37.0 million of debt outstanding under the JPM Repurchase Agreement.

In September 2018, SFR MT LLC, a subsidiary of the Company, entered into an agreement with an insurance company to finance the ownership and acquisition of Single-family rental properties (the “term loan”). The financing has a fixed rate of 4.625% and has a termination date of October 10, 2023. The agreement provides a maximum aggregate borrowing capacity of \$103.0 million. This financing arrangement contains representations, warranties, covenants, including financial covenants, events of default and indemnities that are customary for agreements of this type. As of September 30, 2018, the Company has \$103.0 million of debt outstanding under the agreement.

Financing arrangements

The Company seeks to obtain financing from several different counterparties in order to reduce the financing risk related to any single counterparty. The Company has entered into master repurchase agreements (“MRAs”) or loan agreements with such financing counterparties. As of September 30, 2018 and December 31, 2017 the Company had 41 and 39 financing counterparties, respectively, under which it had outstanding debt with 31 and 27 counterparties, respectively.

At September 30, 2018, there were no counterparties that provided the Company with financing for which the Company had greater than 5% of its stockholders’ equity at risk, excluding stockholders’ equity at risk under financing through affiliated entities.

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The following table presents information at December 31, 2017 with respect to each counterparty that provides the Company with financing for which the Company had greater than 5% of its stockholders' equity at risk, excluding stockholders' equity at risk under financing through affiliated entities.

Counterparty	Stockholders'		Percentage	
	Equity at Risk (in thousands)	Weighted Average Maturity (days)	of Stockholders' Equity	
RBC (Barbados) Trading Bank Corporation	\$ 45,239	26	6	%
Barclays Capital Inc	39,358	13	6	%

The Company's financing arrangements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each financing arrangement, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

9. Derivatives

The Company's derivatives may include interest rate swaps ("swaps"), TBAs, swaption contracts and Eurodollar Futures and U.S. Treasury Futures, (the latter two, collectively, "Futures"). Derivatives have not been designated as hedging instruments. The Company may also utilize other instruments to manage interest rate risk, including long and short positions in U.S. Treasury securities.

The Company may exchange cash "variation margin" with the counterparties to its derivative instruments on a daily basis based upon changes in fair value as measured by the Chicago Mercantile Exchange ("CME"), the central clearinghouse through which those derivatives are cleared. In addition, the CME requires market participants to deposit and maintain an "initial margin" amount which is determined by the CME and is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant's contracts.

Receivables recognized for the right to reclaim cash initial margin posted in respect of derivative instruments are included in the "Restricted cash" line item in the consolidated balance sheets. Prior to the first quarter of 2017, the daily exchange of variation margin associated with centrally cleared derivative instruments was considered a pledge of collateral. For these prior periods, receivables recognized for the right to reclaim cash variation margin posted in respect of derivative instruments are included in the "Restricted cash" line item in the consolidated balance sheets.

Beginning in the first quarter of 2017, as a result of an amendment to the CME's rule book, which governs their central clearing activities, the daily exchange of variation margin associated with a CME instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared derivative instruments as a direct reduction to the carrying value of the derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared derivative instruments reflected in the Company's consolidated balance sheets approximates the unsettled fair value of such instruments. As variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period. Non-exchange traded derivatives were not affected by these legal interpretations and continue to be reported at fair value including accrued interest.

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The following table presents the fair value of the Company's derivatives and other instruments and their balance sheet location at September 30, 2018 and December 31, 2017 (in thousands).

Derivatives and Other Instruments	Designation	Balance Sheet Location	September	December
			30, 2018	31, 2017
Interest rate swaps (1)	Non-Hedge	Derivative assets, at fair value	\$ 3,583	\$ 1,428
Interest rate swaps (1)	Non-Hedge	Derivative liabilities, at fair value	(511)	(450)
Swaptions	Non-Hedge	Derivative assets, at fair value	523	362
TBAs	Non-Hedge	Derivative assets, at fair value	781	227
TBAs	Non-Hedge	Derivative liabilities, at fair value	(519)	—
Short positions on U.S. Treasury Futures (2)	Non-Hedge	Derivative assets, at fair value	—	110
		Obligation to return securities borrowed		
Short positions on U.S. Treasuries	Non-Hedge	under reverse repurchase agreements, at fair value (3)	(5,730)	(24,379)

(1) As of September 30, 2018, the Company applied a reduction in fair value of \$61.1 million and \$0.4 million to its interest rate swap assets and liabilities, respectively, related to variation margin. As of December 31, 2017, the Company applied a reduction in fair value of \$19.5 million and \$0.6 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) As of September 30, 2018, the Company applied a reduction in fair value of \$0.6 million its U.S. Treasury Futures assets, related to variation margin. As of December 31, 2017, the Company did not apply a fair value reduction to its U.S. Treasury Futures assets and liabilities related to variation margin.

(3) The Company's obligation to return securities borrowed under reverse repurchase agreements relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded on the "Unrealized gain/(loss) on derivatives and other instruments, net" line item in the Company's consolidated statement of operations.

The following table summarizes information related to derivatives and other instruments (in thousands):

Non-hedge derivatives and other instruments held long/(short):	September 30, 2018	December 31, 2017
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	2,143,000	2,227,000
Notional amount of Swaptions	250,000	270,000
Net notional amount of TBAs	75,000	100,000
Notional amount of short positions on U.S. Treasury Futures (1)	(50,000)	(52,500)
Notional amount of short positions on U.S. Treasuries	(5,750)	(24,668)

(1) Each U.S. Treasury Future contract embodies \$100,000 of notional value.

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The following table summarizes gains/(losses) related to derivatives and other instruments (in thousands):

Non-hedge derivatives and other instruments gain/(loss):	Statement of Operations Location	Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest rate swaps, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	\$5,921	\$ 2,955	\$47,783	\$ 6,214
Interest rate swaps, at fair value	Net realized gain/(loss)	7,925	(1,813)	13,787	(9,896)
Eurodollar Futures	Unrealized gain/(loss) on derivative and other instruments, net	—	75	—	75
Eurodollar Futures	Net realized gain/(loss)	—	323	—	323
Swaptions, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	(449)	—	(481)	—
Swaptions, at fair value	Net realized gain/(loss)	—	—	51	—
U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	573	(722)	464	658
U.S. Treasury Futures	Net realized gain/(loss)	(5)	(224)	735	(4,055)
TBAs (1)	Unrealized gain/(loss) on derivative and other instruments, net	18	54	36	(996)
TBAs (1)	Net realized gain/(loss)	(124)	1,672	40	3,003
U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	28	—	(66)	(1,725)
U.S. Treasuries	Net realized gain/(loss)	—	—	131	1,731

For the three months ended September 30, 2018, gains and losses from purchases and sales of TBAs consisted of \$0.5 million of net TBA dollar roll net interest income and net losses of \$(0.5) million due to price changes. For the nine months ended September 30, 2018, gains and losses from purchases and sales of TBAs consisted of \$1.6 million of net TBA dollar roll net interest income and net losses of \$(1.5) million due to price changes. For the (1) three months ended September 30, 2017, gains and losses from purchases and sales of TBAs consisted of \$1.5 million of net TBA dollar roll net interest income and net gains of \$0.2 million due to price changes. For the nine months ended September 30, 2017, gains and losses from purchases and sales of TBAs consisted of \$2.6 million of net TBA dollar roll net interest income and net losses of \$(0.6) million due to price changes.

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The following table presents both gross information and net information about derivative and other instruments eligible for offset in the consolidated balance sheets as of September 30, 2018 (in thousands):

Description (1)	Gross Amounts Not Offset in the Consolidated Balance Sheet					
	Gross Amounts of Assets Recognized (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	Net Amount
Receivable Under Reverse Repurchase Agreements	\$ 5,750	\$ —	\$ 5,750	\$ 5,730	\$ —	\$ 20
Derivative Assets (2)						
Interest Rate Swaps	\$ 9,054	\$ —	\$ 9,054	\$ —	\$ 9,054	\$ —
Interest Rate Swaptions	523	—	523	—	(100)	623
TBAs	781	—	781	—	—	781
Total Derivative Assets	\$ 10,358	\$ —	\$ 10,358	\$ —	\$ 8,954	\$ 1,404
Derivative Liabilities (3)						
Interest Rate Swaps	\$ 1,480	\$ —	\$ 1,480	\$ —	\$ 1,480	\$ —
TBAs	(519)	—	(519)	—	(519)	—
Total Derivative Liabilities	\$ 961	\$ —	\$ 961	\$ —	\$ 961	\$ —

(1) The Company applied a reduction in fair value of \$61.1 million and \$0.4 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) Included in Derivative Assets on the consolidated balance sheet is \$10.4 million less accrued interest of \$(5.5) million for a total of \$4.9 million.

(3) Included in Derivative Liabilities on the consolidated balance sheet is \$1.0 million plus accrued interest of \$(2.0) million for a total of \$(1.0) million.

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The following table presents both gross information and net information about derivative instruments eligible for offset in the consolidated balance sheets as of December 31, 2017 (in thousands):

Description (1)	Gross Amounts of Assets Recognized in the Consolidated Balance Sheet (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet (Liabilities)	Gross Amounts Not Offset in the Consolidated Balance Sheet		Net Amount
				Financial Instruments (Posted)/Received	Cash Collateral (Posted)/Received	
Receivable Under Reverse Repurchase Agreements	\$ 24,671	\$ —	\$ 24,671	\$ 24,379	\$ —	\$ 292
Derivative Assets (2)						
Interest Rate Swaps	\$ 4,544	\$ —	\$ 4,544	\$ —	\$ 1,666	\$ 2,878
Interest Rate Swaptions	362	—	362	—	—	362
TBAs	227	—	227	—	—	227
U.S. Treasury Futures - Short	110	—	110	—	—	110
Total Derivative Assets	\$ 5,243	\$ —	\$ 5,243	\$ —	\$ 1,666	\$ 3,577
Derivative Liabilities (3)						
Interest Rate Swaps	\$ (6)	\$ —	\$ (6)	\$ —	\$ (6)	\$ —
Total Derivative Liabilities	\$ (6)	\$ —	\$ (6)	\$ —	\$ (6)	\$ —

- (1) The Company applied a reduction in fair value of \$19.5 million and \$0.6 million to its interest rate swap assets and liabilities, respectively, related to variation margin.
- (2) Included in Derivative Assets on the consolidated balance sheet is \$5.2 million less accrued interest of \$(3.1) million for a total of \$2.1 million.
- (3) Included in Derivative Liabilities on the consolidated balance sheet is \$(6) thousand plus accrued interest of \$(444) thousand for a total of \$(450) thousand.

The Company must post cash or securities as collateral on its derivative instruments when their fair value declines. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the term of the derivatives involved. The posting of collateral is generally bilateral, meaning that if the fair value of the Company's derivatives increases, its counterparty will post collateral to it. As of September 30, 2018, the Company pledged real estate securities with a fair value of \$7.1 million and cash of \$31.8 million as collateral against certain derivatives. The Company's counterparties posted cash of \$3.5 million to it as collateral for certain derivatives. As of December 31, 2017, the Company pledged real estate securities with a fair value of \$7.5 million and cash of \$25.4 million as collateral against certain derivatives. The Company's counterparties posted cash of \$1.7 million as collateral for certain derivatives.

Interest rate swaps

To help mitigate exposure to increases in interest rates, the Company uses currently-paying and may use forward-starting, one- or three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement hedges our exposure to higher interest rates because the variable-rate payments received on the

swap agreements largely offset additional interest accruing on the related borrowings due to the higher interest rate, leaving the fixed-rate payments to be paid on the swap agreements as the Company's effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

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As of September 30, 2018, the Company's interest rate swap positions consist of pay-fixed interest rate swaps. The following table presents information about the Company's interest rate swaps as of September 30, 2018 (in thousands):

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2019	\$ 50,000	1.29 %	2.34 %	1.08
2020	250,000	1.63 %	2.34 %	1.52
2021	27,000	2.86 %	2.31 %	2.89
2022	653,000	1.90 %	2.34 %	3.84
2023	219,000	2.97 %	2.35 %	4.75
2024	230,000	2.06 %	2.34 %	5.75
2025	125,000	2.87 %	2.36 %	6.63
2026	75,000	2.12 %	2.32 %	8.14
2027	264,000	2.35 %	2.34 %	8.94
2028	250,000	2.97 %	2.34 %	9.66
Total/Wtd Avg	\$ 2,143,000	2.24 %	2.34 %	5.41

As of December 31, 2017, the Company's interest rate swap positions consist of pay-fixed interest rate swaps. The following table presents information about the Company's interest rate swaps as of December 31, 2017 (in thousands):

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate	Weighted Average Receive-Variable Rate	Weighted Average Years to Maturity
2019	\$ 170,000	1.36 %	1.43 %	1.88
2020	835,000	1.77 %	1.52 %	2.54
2022	653,000	1.90 %	1.51 %	4.59
2024	230,000	2.06 %	1.47 %	6.50
2026	75,000	2.12 %	1.44 %	8.89
2027	264,000	2.35 %	1.50 %	9.69
Total/Wtd Avg	\$ 2,227,000	1.89 %	1.50 %	4.56

TBAs

As discussed in Note 2, the Company has entered into TBAs. The following table presents information about the Company's TBAs for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

For the Three Months Ended September 30, 2018

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 160,000	\$ 487,000	\$(572,000)	\$ 75,000	\$ 75,727	\$ (75,224)	\$ 633	\$ (130)
TBAs - Short	\$—	\$ 177,000	\$(177,000)	\$—	\$—	\$ (241)	\$ 148	\$ (389)

For the Three Months Ended September 30, 2017

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
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					Period				
					End				
TBAs - Long	\$ 300,000	\$ 738,000	\$(922,000)	\$ 116,000	\$ 121,125	\$ (122,545)	\$ 118	\$(1,537)

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AG Mortgage Investment Trust Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
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For the Nine Months Ended September 30, 2018

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 100,000	\$ 1,438,000	\$(1,463,000)	\$ 75,000	\$ 75,727	\$ (75,224)	\$ 633	\$ (130)
TBAs - Short	\$—	\$ 1,031,000	\$(1,031,000)	\$—	\$—	\$ (241)	\$ 148	\$ (389)

For the Nine Months Ended September 30, 2017

	Beginning Notional Amount	Buys or Covers	Sales or Shorts	Ending Notional Amount	Fair Value as of Period End	Receivable/(Payable) from/to Broker	Derivative Asset	Derivative Liability
TBAs - Long	\$ 50,000	\$ 1,914,000	\$(1,848,000)	\$ 116,000	\$ 121,125	\$ (122,545)	\$ 118	\$ (1,537)
TBAs - Short	\$(75,000)	\$ 75,000	\$—	\$—	\$—	\$ —	\$ —	\$—

10. Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing net income/(loss) available to common stockholders for the period by the weighted- average shares of the Company’s common stock outstanding for that period that participate in the Company’s common dividends. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, warrants, unvested restricted stock and unvested restricted stock units but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding.

As of September 30, 2018 and September 30, 2017, the Company’s outstanding warrants and unvested restricted stock units were as follows:

	September 30, 2018	September 30, 2017
Outstanding warrants (1)	—	1,007,500
Unvested restricted stock units previously granted to the Manager	40,007	60,000

(1) The warrants expired on July 6, 2018.

Each warrant entitled the holder to purchase half a share of the Company’s common stock at a fixed price upon exercise of the warrant. For the three and nine months ended September 30, 2017, the Company excluded the effects of such from the computation of diluted earnings per share because their effect would be anti-dilutive. The warrants expired on July 6, 2018.

Restricted stock units granted to the manager do not entitle the participant the rights of a shareholder of the Company’s common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The restricted stock units are not considered to be participating shares. The dilutive effects of the restricted stock units are only included in diluted weighted average common shares outstanding.

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The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands, except per share data):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Numerator:				
Net income/(loss) available to common stockholders for basic and diluted earnings per share	\$ 20,010	\$ 32,644	\$ 29,691	\$ 84,198
Denominator:				
Basic weighted average common shares outstanding	28,422	27,841	28,274	27,756
Dilutive effect of restricted stock units	16	16	8	14
Diluted weighted average common shares outstanding	28,438	27,857	28,282	27,770
Basic Earnings/(Loss) Per Share of Common Stock:	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03
Diluted Earnings/(Loss) Per Share of Common Stock:	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03

The following tables detail our common stock dividends for the nine months ended September 30, 2018 and September 30, 2017:

2018

Declaration Date	Record Date	Payment Date	Dividend Per Share
3/15/2018	3/29/2018	4/30/2018	\$ 0.475
6/18/2018	6/29/2018	7/31/2018	0.500
9/14/2018	9/28/2018	10/31/2018	0.500

2017

Declaration Date	Record Date	Payment Date	Dividend Per Share (1)
3/10/2017	3/21/2017	4/28/2017	\$ 0.475
6/8/2017	6/19/2017	7/31/2017	0.475
9/11/2017	9/29/2017	10/31/2017	0.575

(1) The combined dividend of \$0.575 includes a dividend of \$0.475 per common share and a special cash dividend of \$0.10 per common share.

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The following tables detail our preferred stock dividends during the nine months ended September 30, 2018 and September 30, 2017:

2018

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/16/2018	2/28/2018	3/19/2018	\$0.51563
8.25% Series A	5/15/2018	5/31/2018	6/18/2018	0.51563
8.25% Series A	8/16/2018	8/31/2018	9/17/2018	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/16/2018	2/28/2018	3/19/2018	\$0.50
8.00% Series B	5/15/2018	5/31/2018	6/18/2018	0.50
8.00% Series B	8/16/2018	8/31/2018	9/17/2018	0.50

2017

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/16/2017	2/28/2017	3/17/2017	\$0.51563
8.25% Series A	5/15/2017	5/31/2017	6/19/2017	0.51563
8.25% Series A	8/16/2017	8/31/2017	9/18/2017	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/16/2017	2/28/2017	3/17/2017	\$0.50
8.00% Series B	5/15/2017	5/31/2017	6/19/2017	0.50
8.00% Series B	8/16/2017	8/31/2017	9/18/2017	0.50

11. Income taxes

As a REIT, the Company is not subject to federal income tax to the extent that it makes qualifying distributions to its stockholders, and provided it satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. Most states follow U.S. federal income tax treatment of REITs.

For the three months ended September 30, 2018 and September 30, 2017, the Company recorded excise tax expense of \$0.4 million and \$0.4 million, respectively. For the nine months ended September 30, 2018 and September 30, 2017, the Company recorded excise tax expense of \$1.1 million and \$1.1 million, respectively. Excise tax represents a four percent tax on the required amount of the Company's ordinary income and net capital gains not distributed during the year. The expense is calculated in accordance with applicable tax regulations.

The Company files tax returns in several U.S. jurisdictions. There are no ongoing U.S. federal, state or local tax examinations related to the Company.

The Company elected to treat certain domestic subsidiaries as TRSs and may elect to treat other subsidiaries as TRSs. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly, and

generally may engage in any real estate or non-real estate-related business.

The Company elected to treat one of its foreign subsidiaries as a TRS and, accordingly, taxable income generated by this TRS may not be subject to local income taxation, but generally will be included in the Company's income on a current basis as Subpart F income, whether or not distributed.

Cash distributions declared by the Company that do not exceed its current or accumulated earnings and profits will be considered ordinary income to stockholders for income tax purposes unless all or a portion of a distribution is designated by the Company as a capital gain dividend. Distributions in excess of the Company's current and accumulated earnings and profits will be characterized as return of capital or capital gains.

Based on the Company's analysis of any potential uncertain income tax positions, the Company concluded it did not have any uncertain tax positions that meet the recognition or measurement criteria of ASC 740 as of September 30, 2018 or September 30, 2017. The Company's federal income tax returns for the last three tax years are open to examination by the Internal Revenue

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Service. In the event that the Company incurs income tax related interest and penalties, its policy is to classify them as a component of provision for income taxes.

12. Related party transactions

The Company has entered into a management agreement with the Manager, which provided for an initial term and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. As of September 30, 2018 and December 31, 2017, no event of termination had occurred. The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, which became effective July 6, 2011 (upon the consummation of the Company's initial public offering (the "IPO")), the Manager provides the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of Angelo Gordon. The Company does not have any employees. The Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo Gordon the overall responsibility of its day-to-day duties and obligations arising under the Company's management agreement.

Management fee

The Manager is entitled to a management fee equal to 1.50% per annum, calculated and paid quarterly, of the Company's Stockholders' Equity. For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus the Company's retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that the Company pays for repurchases of its common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in the Company's financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and the Company's independent directors and after approval by a majority of the Company's independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's financial statements.

For the three and nine months ended September 30, 2018, the Company incurred management fees of approximately \$2.4 million and \$7.2 million, respectively. For the three and nine months ended September 30, 2017, the Company incurred management fees of approximately \$2.5 million and \$7.4 million, respectively.

Termination fee

The termination fee, payable upon the occurrence of (i) the Company's termination of the management agreement without cause or (ii) the Manager's termination of the management agreement upon a breach of any material term of the management agreement, will be equal to three times the average annual management fee during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. As of September 30, 2018 and December 31, 2017, no event of termination of the management agreement had occurred.

Expense reimbursement

The Company is required to reimburse the Manager or its affiliates for operating expenses which are incurred by the Manager or its affiliates on behalf of the Company, including expenses relating to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by the Company's board of directors.

The Company reimburses the Manager or its affiliates for the Company's allocable share of the compensation, including, without limitation, annual base salary, bonus, any related withholding taxes and employee benefits paid to (i) the Company's chief financial officer based on the percentage of time spent on Company affairs, (ii) the Company's general counsel based on the percentage of time spent on the Company's affairs, and (iii) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment personnel of the Manager and its affiliates who spend all or a portion of their time managing the Company's affairs based upon the percentage of time devoted by such personnel to the Company's affairs. In their capacities as officers or personnel of the Manager or its affiliates, they devote such portion of their time to the Company's affairs as is necessary to enable the Company to operate its business.

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Of the \$3.5 million and \$10.2 million of Other operating expenses for the three and nine months ended September 30, 2018, respectively, the Company has accrued \$2.0 million and \$5.5 million, respectively, representing a reimbursement of expenses. Of the \$2.6 million and \$8.2 million of Other operating expenses for the three and nine months ended September 30, 2017, respectively, the Company has accrued \$1.4 million and \$4.8 million, respectively, representing a reimbursement of expenses.

Restricted stock grants

Pursuant to the Company's Manager Equity Incentive Plan and the Equity Incentive Plan adopted on July 6, 2011, the Company can award up to 277,500 shares of its common stock in the form of restricted stock, stock options, restricted stock units or other types of awards to the directors, officers, advisors, consultants and other personnel of the Company and to the Manager. As of September 30, 2018, 48,461 shares of common stock were available to be awarded under the equity incentive plans. Awards under the equity incentive plans are forfeitable until they become vested. An award will become vested only if the vesting conditions set forth in the applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

As of September 30, 2018, the Company has granted an aggregate of 68,789 and 40,250 shares of restricted common stock to its independent directors and Manager, respectively, and 120,000 restricted stock units to its Manager under its equity incentive plans. As of September 30, 2018, all the shares of restricted common stock granted to the Company's Manager and independent directors have vested and 79,993 restricted stock units granted to the Company's Manager have vested. The 40,007 restricted stock units that have not vested as of September 30, 2018 were granted to the Manager on July 1, 2017 and represent the right to receive an equivalent number of shares of the Company's common stock to be issued if and when the units vest. Annual vesting of approximately 20,000 units will occur on each of July 1, 2019, and July 1, 2020. The units do not entitle the participant the rights of a holder of the Company's common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by the Manager or the Manager's transferee shall be immediately cancelled and forfeited without consideration.

Director compensation

Beginning in 2018, the Company began paying a \$160,000 annual base director's fee to each independent director. Base director's fees are paid 50% in cash and 50% in restricted common stock. The number of shares of restricted common stock to be issued each quarter to each independent director is determined based on the average of the high and low prices of the Company's common stock on the New York Stock Exchange on the last trading day of each fiscal quarter. To the extent that any fractional shares would otherwise be issuable and payable to each independent director, a cash payment is made to each independent director in lieu of any fractional shares. All directors' fees are paid pro rata (and restricted stock grants determined) on a quarterly basis in arrears, and shares issued are fully vested and non-forfeitable. These shares may not be sold or transferred by such director during the time of his service as an independent member of the Company's board.

Investments in debt and equity of affiliates

The Company invests in credit sensitive residential and commercial real estate assets through affiliated entities which hold an ownership interest in the assets. The Company is one investor, amongst other investors managed by affiliates

of Angelo Gordon, in such entities and has applied the equity method of accounting for such investments. As of September 30, 2018 and December 31, 2017, the Company's share of these investments had a gross fair market value of \$164.9 million and \$88.3 million, respectively, net of any non-recourse securitized debt. During Q3 2018, the Company transferred certain of its CMBS from certain of its non-wholly owned subsidiaries to a fully consolidated entity. The Company executed this transfer in order to obtain financing on these real estate securities. As a result, there was a reclassification of these assets from the "Investments in debt and equity affiliates" line item to the "CMBS" line item on the Company's consolidated balance sheets. In addition, the Company has also shown this reclassification as a non-cash transfer on its consolidated statements of cash flows.

The Company's investment in AG Arc, the entity through which the Company invests in Arc Home, is reflected on the "Investments in debt and equity of affiliates" line item on its consolidated balance sheets at a fair value of \$23.1 million and \$17.9 million on September 30, 2018 and December 31, 2017, respectively. On March 8, 2016, an affiliate of the Manager ("the Affiliate") became a member of AG Arc. The Affiliate acquired an ownership interest in AG Arc which resulted in the Company's ownership interest being reduced on a pro-rata basis.

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In June 2016, Arc Home closed on the acquisition of a Fannie Mae, Freddie Mac, Federal Housing Administration (“FHA”), Veteran’s Administration (“VA”) and Ginnie Mae seller/servicer of mortgages with licenses to conduct business in 47 states, including Washington D.C. Through this subsidiary, Arc Home originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. Arc Home is led by an external management team.

On August 29, 2017, the Company, alongside private funds under the management of Angelo Gordon entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. The Company’s share of MATH’s total capital commitment to MATT is \$33.4 million, of which the Company had funded \$14.5 million as of September 30, 2018. As of September 30, 2018, the Company’s remaining commitment was \$18.9 million (net of any return of capital to the Company).

Transactions with affiliates

In connection with the Company’s investments in residential mortgage loans and residential mortgage loans in securitized form that it purchases from an affiliate (or affiliates) of the Manager (“Securitized Whole Loans”), the Company may engage asset managers to provide advisory, consultation, asset management and other services to help our third-party servicers formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, the Company engaged Red Creek Asset Management LLC (“Asset Manager”), a related party of the Manager and direct subsidiary of Angelo Gordon, as the asset manager for certain of its residential loans and Securitized Whole Loans. The Asset Manager acknowledges that the Company will at all times have and retain ownership and control of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. The Company pays separate arm’s-length asset management fees as assessed and confirmed periodically by a third party valuation firm for (i) non-performing loans and (ii) reperforming loans. For the three and nine months ended September 30, 2018, the fees paid by the Company to the Asset Manager totaled \$123,050 and \$244,481, respectively. For the three and nine months ended September 30, 2017, the fees paid by the Company to the Asset Manager totaled \$41,732 and \$137,022, respectively.

Arc Home may sell loans to the Company, to third parties, or to affiliates of the Manager. Arc Home may also enter into agreements with third parties or affiliates of the Manager to sell rights to receive the excess servicing spread related to MSR that it either purchases from third parties or originates. The Company has entered into agreements with Arc Home to purchase rights to receive the excess servicing spread related to certain of Arc Home’s MSR and as of September 30, 2018, these Excess MSR had fair value of approximately \$29.3 million.

In connection with the Company’s investments in Excess MSR purchased through Arc Home, the Company pays an administrative fee to Arc Home. For the three and nine months ended September 30, 2018 the administrative fees paid by the Company to Arc Home totaled \$87,264 and \$164,946, respectively. For the three and nine months ended September 30, 2017 the administrative fees paid by the Company to Arc Home totaled \$2,921 and \$6,364, respectively.

In June 2016, in accordance with the Company’s Affiliated Transactions Policy, the Company executed two trades whereby the Company acquired real estate securities from two separate affiliates of the Manager (the “June Selling Affiliates”). As of the date of the trades, the securities acquired from the June Selling Affiliates had a total fair value of

\$6.9 million. In each case, the June Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the June Selling Affiliates, the Company submitted its bid for the real estate securities to the June Selling Affiliates. The Company's pre-submission of its bid allowed the Company to confirm third-party market pricing and best execution.

In February 2017, in accordance with the Company's Affiliated Transactions Policy, the Company executed one trade whereby the Company acquired a real estate security from an affiliate of the Manager (the "February Selling Affiliate"). As of the date of the trade, the security acquired from the February Selling Affiliate had a total fair value of \$2.0 million. The February Selling Affiliate sold the real estate security through a BWIC. Prior to the submission of the BWIC by the February Selling Affiliate, the Company submitted its bid for the real estate security to the February Selling Affiliate. The Company's pre-submission of its bid allowed the Company to confirm third-party market pricing and best execution.

In July 2017, in accordance with the Company's Affiliated Transactions Policy, the Company acquired certain real estate securities from an affiliate of the Manager (the "July Selling Affiliate"). As of the date of the trade, the securities acquired from the July Selling Affiliate had a total fair value of \$0.2 million. As procuring market bids for the real estate securities was determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by an independent

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third-party pricing vendor. The third-party pricing vendor allowed the Company to confirm third-party market pricing and best execution.

In October 2017, in accordance with the Company's Affiliated Transactions Policy, the Company acquired certain real estate securities and loans from two affiliates of the Manager (the "October Selling Affiliates"). As of the date of the trade, the real estate securities and loans acquired from the October Selling Affiliates had a total fair value of \$8.4 million. As procuring market bids for the real estate securities and loans were determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by independent third-party pricing vendors. The third-party pricing vendors allowed the Company to confirm third-party market pricing and best execution.

13. Equity

On May 2, 2018, the Company filed a shelf registration statement registering up to \$750.0 million of its securities, including capital stock (the "2018 Registration Statement"). As of September 30, 2018, \$650.0 million of the Company's securities, including capital stock, was available for issuance under the 2018 Registration Statement. The 2018 Registration Statement became effective on May 18, 2018 and will expire on May 18, 2021.

Concurrently with the IPO in 2011, the Company offered a private placement of 3,205,000 units at \$20.00 per share to a limited number of investors qualifying as "accredited investors" under Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Each unit consisted of one share of common stock ("private placement share") and a warrant ("private placement warrant") to purchase 0.50 of a share of common stock. Each private placement warrant had an exercise price of \$20.50 per share (as adjusted for reorganizations, reclassifications, consolidations, mergers, sales, transfers or other dispositions) and expired on July 6, 2018. No warrants were exercised for the three and nine months ended September 30, 2017, or in 2018 through the expiration date on July 6, 2018.

The Company's Series A and Series B Preferred Stock have no stated maturity and are not subject to any sinking fund or mandatory redemption. Under certain circumstances upon a change of control, the Company's Series A and Series B Preferred Stock are convertible to shares of the Company's common stock. Holders of the Company's Series A and Series B Preferred Stock have no voting rights, except under limited conditions, and holders are entitled to receive cumulative cash dividends at a rate of 8.25% and 8.00% per annum on the Series A and Series B Preferred Stock, respectively, of the \$25.00 per share liquidation preference before holders of the common stock are entitled to receive any dividends. Shares of the Company's Series A and Series B Preferred Stock are currently redeemable at \$25.00 per share plus accumulated and unpaid dividends (whether or not declared) exclusively at the Company's option. Dividends are payable quarterly in arrears on the 17th day of each March, June, September and December. As of September 30, 2018, the Company had declared all required quarterly dividends on the Company's Series A and Series B Preferred Stock.

On November 3, 2015, the Company's board of directors authorized a stock repurchase program ("Repurchase Program") to repurchase up to \$25.0 million of its outstanding common stock. Such authorization does not have an expiration date. As part of the Repurchase Program, shares may be purchased in open market transactions, including through block purchases, through privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Exchange Act. Open market repurchases will be made in accordance with Exchange Act Rule 10b-18, which sets certain restrictions on the method, timing, price and volume of open market stock repurchases. Subject to applicable securities laws, the timing, manner, price and amount of any repurchases of common stock under the Repurchase Program may be determined by the Company in its discretion,

using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program, if any, will be cancelled and, until reissued by the Company, will be deemed to be authorized but unissued shares of its common stock as required by Maryland law. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice and the authorization does not obligate the Company to acquire any particular amount of common stock. The cost of the acquisition by the Company of shares of its own stock in excess of the aggregate par value of the shares first reduces additional paid-in capital, to the extent available, with any residual cost applied against retained earnings. No shares were repurchased under the Repurchase Program during the nine months ended September 30, 2018 or September 30, 2017, and approximately \$14.6 million of common stock remained authorized for future share repurchases under the Repurchase Program.

On May 5, 2017, the Company entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the “Sales Agents”), which the Company refers to as the “Equity Distribution Agreements,” pursuant to which the Company may sell up to \$100.0 million aggregate offering price of shares of its common stock from time to time through the Sales Agents, as defined in Rule 415 under the Securities Act of 1933. The Equity Distribution Agreements were amended on May 2, 2018 in conjunction with the filing of the Company’s 2018 Registration Statement. As of September 30,

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2018, the Company sold 972.7 thousand shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$18.1 million.

14. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business.

On December 9, 2015, the Company, alongside private funds under the management of Angelo Gordon, through AG Arc, entered into Arc Home's LLC Agreement and agreed to fund an initial capital commitment of \$30.0 million. On each of April 25, 2017 and September 28, 2018, the Company, alongside private funds under the management of Angelo Gordon, agreed to fund an additional capital commitment to Arc Home in the amount of \$10.0 million. As of September 30, 2018, the Company's share of Arc Home's total capital commitment was \$22.3 million. The Company had funded all of its capital commitment to Arc Home as of September 30, 2018.

On February 28, 2017, the Company, alongside a private fund under the management of Angelo Gordon, purchased a mezzanine loan and agreed to fund a commitment of \$21.9 million. The Company's share of the commitment is \$14.6 million of which the Company had funded \$10.4 million as of September 30, 2018. As of September 30, 2018, the Company's remaining commitment was \$4.2 million.

On August 29, 2017, the Company, alongside private funds under the management of Angelo Gordon, entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. The Company's share of MATH's total capital commitment to MATT is \$33.4 million (net of any return of capital to the Company), of which the Company had funded \$14.5 million as of September 30, 2018. As of September 30, 2018, the Company's remaining commitment was \$18.9 million (net of any return of capital to the Company).

On March 29, 2018, the Company alongside private funds under the management of Angelo Gordon, purchased a variable funding note issued pursuant to an indenture. The Company's share of the total commitment to the variable funding note is \$7.1 million, of which the Company has funded \$5.1 million as of September 30, 2018. As of September 30, 2018, the Company's remaining commitment was \$2.0 million.

On June 8, 2018, the Company, alongside private funds under the management of Angelo Gordon and other third parties, entered into a commitment to close on a commercial loan, subject to the satisfaction of certain conditions. The Company's share of the commitment is \$20.0 million. As of September 30, 2018, the conditions had not been met, the loan had not closed and the Company had not funded any of this commitment.

On July 26, 2018, the Company entered into a commitment on a commercial loan. The Company's share of the commitment is \$75.0 million. As of September 30, 2018, the Company has funded \$15.4 million and has a remaining commitment of \$59.6 million.

On September 21, 2018, the Company entered into a commitment on a commercial loan. The Company's share of the commitment is \$36.0 million. As of September 30, 2018, the Company had funded all of its capital commitment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this quarterly report on Form 10-Q, or this "report," we refer to AG Mortgage Investment Trust, Inc. as "we," "us," the "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our external manager, AG REIT Management, LLC, as our "Manager," and we refer to the direct parent company of our Manager, Angelo, Gordon & Co., L.P., as "Angelo Gordon."

The following discussion should be read in conjunction with our consolidated financial statements and the accompanying notes to our consolidated financial statements, which are included in Item 1 of this report, as well as the information contained in our Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-looking statements

We make forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in this report that are subject to substantial known and unknown risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans, objectives, the composition of our portfolio, actions by governmental entities, including the Federal Reserve, the potential effects of actual and proposed legislation on us, and our views on certain macroeconomic trends. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or expressions, we intend to identify forward-looking statements.

These forward-looking statements are based upon information presently available to our management and are inherently subjective, uncertain and subject to change. There can be no assurance that actual results will not differ materially from our expectations. Some, but not all, of the factors that might cause such a difference include, but are not limited to, changes in interest rates, changes in the yield curve, changes in prepayment rates, the availability and terms of financing, changes in the market value of our assets, general economic conditions, conditions in the market for Agency RMBS, Non-Agency RMBS, ABS and CMBS securities and loans, our ability to integrate newly acquired rental assets into our investment portfolio, difficulties in identifying single-family properties to acquire, our ability to acquire single-family rental properties generating attractive returns, our ability to predict and control costs, and legislative and regulatory changes that could adversely affect us. We caution investors not to rely unduly on any forward-looking statements, which speak only as of the date made, and urge you to carefully consider the risks noted above and identified under the captions "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017 and any subsequent filings, including this one. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice.

Our company

We are a Maryland corporation focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities, financial assets and real estate, which we refer to as our target assets. We are externally managed by our Manager, a wholly-owned subsidiary of Angelo Gordon, pursuant to a management agreement. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo Gordon the overall responsibility of its day-to-day duties and obligations arising under the management agreement. We conduct our operations to qualify and be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes. Accordingly, we generally will not be subject to U.S. federal income taxes on our

taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol MITT. Our 8.25% Series A Cumulative Redeemable Preferred Stock and our 8.00% Series B Cumulative Redeemable Preferred Stock trade on the NYSE under the ticker symbols MITT-PA and MITT-PB, respectively.

Our investment portfolio

Our investment portfolio is comprised of Agency RMBS, Residential Investments, Commercial Investments, ABS, and Single-family rental properties, each of which is described below.

Agency RMBS

Our investment portfolio is comprised primarily of residential mortgage-backed securities, or RMBS. Certain of the assets in our RMBS portfolio have an explicit guarantee of principal and interest by a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or by a government-sponsored entity such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac (each, a “GSE”). We refer to these securities as Agency RMBS. Our Agency RMBS portfolio includes:

- Fixed rate securities (held as mortgage pass-through securities);
- Sequential pay fixed rate collateralized mortgage obligations (“CMOs”);
- Inverse Interest Only securities (CMOs where the holder is entitled only to the interest payments made on the mortgages underlying certain mortgage backed securities (“MBS”) whose coupon has an inverse relationship to its benchmark rate, such as LIBOR);
- Interest Only securities (CMOs where the holder is entitled only to the interest payments made on the mortgages underlying certain MBS “interest-only strips”);
- Excess mortgage servicing rights (“Excess MSRs”) whose underlying collateral is securitized in a trust held by a U.S. government agency or GSE; and
- Certain Agency RMBS for which the underlying collateral is not identified until shortly (generally two days) before the purchase or sale settlement date (“TBAs”).

Residential Investments

Our investment portfolio also includes a significant portion of Residential Investments. The Residential Investments that we own include RMBS that are not issued or guaranteed by Ginnie Mae or a GSE, which we refer to as our Non-Agency RMBS. Our Non-Agency RMBS include investment grade and non-investment grade fixed- and floating-rate securities. We categorize certain of our Residential Investments by weighted average credit score at origination:

- Prime (weighted average credit score above 700)
- Alt-A/Subprime
 - Alt-A (weighted average credit score between 700 and 620); and
 - Subprime (weighted average credit score below 620).

The Residential Investments that we do not categorize by weighted average credit score at origination include our:

- CRTs (defined below)
- RPL/NPL Securities (described below)
- Interest Only securities (Non-Agency RMBS backed by interest-only strips)
- Excess MSRs whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE (grouped with Interest-Only securities throughout this Item 2)
 - Re/Non-Performing Loans (described below); and
 - New Origination Loans (described below).

Credit Risk Transfer securities (“CRTs”) include:

- Unguaranteed and unsecured mezzanine, junior mezzanine and first loss securities issued either by GSEs or issued by other third-party institutions to transfer their exposure to mortgage default risk to private investors. These securities

reference a specific pool of newly originated single-family mortgages from a specified time period (typically around the time of origination). The risk of loss on the reference pool of mortgages is transferred to investors who may experience losses when adverse credit events such as defaults, liquidations or delinquencies occur in the underlying mortgages. Owners of these securities generally receive an uncapped floating interest rate equal to a predetermined spread over one-month LIBOR.

RPL/NPL Securities include:

Mortgage-backed securities collateralized by re-performing mortgage loans (“RPL”) and/or non-performing mortgage loans (“NPL”). The RPL/NPL that we own represent the senior and mezzanine tranches of such securitizations. These RPL/NPL securitizations are structured with significant credit enhancement (typically, approximately 50% to the senior tranche and 40% to the mezzanine tranche), which mitigates our exposure to credit risk on these securities. “Credit enhancement” refers

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to the value of the subordinated tranches available to absorb all credit losses prior to those losses being allocated to more senior tranches. Subordinate tranches typically receive no cash flow (interest or principal) until the senior and mezzanine tranches have been paid off. In addition, the RPL/NPL that we own contain an “interest rate step-up” feature, whereby the interest rate or “coupon” on the senior tranche increases by typically 300 basis points or typically 400 basis points in the case of mezzanine tranches (a “step up”) if the security that we hold has not been redeemed or repurchased by the issuer within 36 months of issuance. We expect that the combination of the priority cash flow of the senior and mezzanine tranches and the 36-month step-up feature will result in these securities exhibiting short average lives and, accordingly, reduced interest rate sensitivity.

Re/Non-Performing Loans include:

- RPLs or NPLs in securitized form that we purchase from an affiliate (or affiliates) of the Manager. The securitizations typically take the form of various classes of notes and a trust certificate. These investments are primarily included in the “RMBS” and “Investments in debt and equity of affiliates” line items on our consolidated balance sheets.

- RPLs or NPLs that we hold through interests in certain consolidated trusts. These investments are primarily included in the “Residential mortgage loans, at fair value” line item on our consolidated balance sheets.

New Origination Loans include:

“Non-QMs,” which are residential mortgage loans that are not deemed “qualified mortgage,” or “QM,” loans under the rules of the Consumer Financial Protection Bureau (the “CFPB”) that we hold alongside other private funds under the management of Angelo Gordon. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. These investments are held in one of our unconsolidated subsidiaries, Mortgage Acquisition Trust I LLC (see the “Contractual obligations” section of this Item 2 for more detail), and are included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets.

Commercial Investments

We also invest in Commercial Investments. Our Commercial Investments include:

- Commercial mortgage-backed securities, or CMBS;
- Freddie Mac K-Series (described below);
- Interest Only securities (CMBS backed by interest-only strips); and
- Commercial loans.

Freddie Mac K-Series (“K-Series”) include:

CMBS, Interest-Only securities and CMBS principal-only securities which are regularly-issued by Freddie Mac as structured pass-through securities backed by multifamily mortgage loans. These K-Series feature a wide range of investor options which include guaranteed senior and interest-only bonds as well as unguaranteed senior, mezzanine, subordinate and interest-only bonds. Our K-Series portfolio includes unguaranteed senior, mezzanine, subordinate and interest-only bonds. Throughout Item 2, we categorize our Freddie Mac K-Series interest-only bonds as part of our Interest-Only securities.

ABS

We also invest in asset backed securities, or ABS. Our ABS portfolio may include securities collateralized by various asset classes, including automobiles, credit cards and student loans, among others.

Single-Family Rental Properties

We also invest in Single-Family Rental Properties ("SFR portfolio" or "SFR"). We acquired a stabilized portfolio of single-family rental homes in September 2018 from funds affiliated with Connorex-Lucinda, LLC ("Conrex"). The portfolio includes 1,225 homes located predominately in the Southeast United States. At closing, we entered into a property management services agreement with Conrex whereby Conrex will continue to provide property management services with respect to the properties.

Investment classification

Throughout this Item 2, (1) we use the terms “credit portfolio” and “credit investments” to refer to our Residential Investments, Commercial Investments, ABS and SFR, inclusive of investments held within affiliated entities but exclusive of AG Arc (discussed below); (2) we refer to our Re/Non-Performing Loans (exclusive of our RPLs or NPLs in securitized form that we purchase from an affiliate (or affiliates) of the Manager), new origination loans, and commercial loans, collectively, as our “loans”; (3) we use the term “credit securities” to refer to our credit portfolio, excluding Excess MSR, loans and SFR; and (4) we use the term “real estate securities” or “securities” to refer to our Agency RMBS portfolio, exclusive of Excess MSR, and our credit securities. Our “investment portfolio” refers to our combined Agency RMBS portfolio, credit portfolio, and SFR portfolio and encompasses all of the investments described above.

We also use the term “GAAP investment portfolio” which consists of (i) our Agency RMBS, exclusive of (x) TBAs, and (y) any investments classified as “Other assets” on our consolidated balance sheets (our “GAAP Agency RMBS portfolio”), (ii) our credit portfolio, exclusive of (x) all investments held within affiliated entities, and (y) any investments classified as “Other assets” on our consolidated balance sheets (our “GAAP credit portfolio”) and (iii) our SFR portfolio. See Note 2 to the Notes to Consolidated Financial Statements for a discussion of our investments held within affiliated entities.

This presentation of our investment portfolio is consistent with how our management evaluates our business, and we believe this presentation, when considered with the GAAP presentation, provides supplemental information useful for investors in evaluating our investment portfolio and financial condition.

Arc Home LLC

We, alongside private funds under the management of Angelo Gordon, through AG Arc LLC, one of our indirect subsidiaries (“AG Arc”), formed Arc Home LLC (“Arc Home”). Arc Home, through its wholly-owned subsidiary, originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans that it originates, and purchases additional mortgage servicing rights from third-party sellers.

Market overview

During the quarter, MITT’s book value increased primarily due to spread tightening on the credit portfolio, which was partially offset by spread widening in Agency RMBS. Mortgage sectors performed well during the third quarter, as legacy RMBS spreads remained tight due to the favorable supply demand dynamic. The CRT market saw broad-based spread tightening along with the broader markets as well. In a continuation from the second quarter, investors generally favored seasoned CRT deals with comparatively better underwritten collateral versus new issue deals. Agency RMBS widened modestly during the quarter, as benchmark rates rose in response to a more robust consensus outlook for the economy. The uptick in rate volatility was accompanied by a marginal increase in origination and a further reduction of the Federal Reserve’s support of the sector, all of which weighed on market technicals. Money managers continued to provide the primary source of support for Agency RMBS during the quarter.

Housing, economic and interest rate trends

Inclusive of distressed sales, home prices nationwide increased by 5.5% on a year-over-year basis in August 2018 as compared with August 2017, according to data released by CoreLogic. This marks the 79th consecutive monthly increase year-over-year in national home prices. According to CoreLogic’s Homeowner Equity Report, in the second quarter of 2018, U.S. homeowners with mortgages have seen their equity increase by a total of nearly \$981 billion since the second quarter of 2017. In the second quarter of 2018, as compared to the second quarter of 2017, the total

number of mortgaged residential properties with negative equity (homes where the homeowner owes more on the home than the home is worth) decreased to 2.2 million homes from 2.8 million homes.

Home prices have benefitted from the persistently tight supply of homes across the nation, and the negative equity epidemic has eased due to the rise in home prices over the past several years. Additionally, credit performance in terms of serious delinquencies and subsequent default rates continued to be stable-to-improving in 2018 as borrowers strengthen household balance sheets and see steady employment gains.

At its September meeting, the Fed raised the federal funds interest rate by 0.25% to a target range of 2.00%-2.25%. Unemployment remains well below 5%, and inflation has improved to levels close to the Fed's 2.0% target for core PCE. In the September update of the Fed's Summary of Economic Projections, the median forecast for real GDP growth increased in 2018 and 2019 and remained the same for 2020, while the median forecast for the unemployment rate increased in 2018 and remained the same for 2019 and

2020. The projection of the median Fed Funds rates, based on the individual assessments of the FOMC numbers, was 2.4% in 2018, 3.1% in 2019 and 3.4% in 2020.

The market overview and trends outlined above may have a meaningful impact on our operating results and our existing portfolio and may cause us to adjust our investment and financing strategies over time as new opportunities emerge and the risk profile of our business changes.

Recent government activity

The current regulatory environment may be impacted by future legislative developments, such as amendments to key provisions of the Dodd-Frank Act or changes to Fannie Mae and Freddie Mac, including with respect to how long they will continue to be in existence, the extent of their roles in the market and what forms they will take. The impact of such potential reform on our operations is unknown.

Results of operations

Our operating results can be affected by a number of factors and primarily depend on the size and composition of our investment portfolio, the level of our net interest income, the market value of our assets and the supply of, and demand for, our target assets in the marketplace, which can be impacted by unanticipated credit events, such as defaults, liquidations or delinquencies, experienced by borrowers whose mortgage loans are included in our investment portfolio. Our primary source of net income available to common stockholders is our net interest income, less our cost of hedging, which represents the difference between the interest earned on our investment portfolio and the costs of financing and hedging our investment portfolio. Our net interest income varies primarily as a result of changes in market interest rates, prepayment speeds, as measured by the Constant Prepayment Rate (“CPR”) on the Agency RMBS in our investment portfolio, and our funding and hedging costs.

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The table below presents certain information from our consolidated statements of operations for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands, except for share and per share data):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Statement of Operations Data:				
Net Interest Income				
Interest income	\$ 39,703	\$ 33,592	\$ 115,072	\$ 92,773
Interest expense	18,692	11,959	50,289	30,322
Total Net Interest Income	21,011	21,633	64,783	62,451
Other Income/(Loss)				
Net realized gain/(loss)	(14,204)	22	(37,103)	(12,527)
Net interest component of interest rate swaps	1,816	(2,147)	1,607	(5,615)
Unrealized gain/(loss) on real estate securities and loans, net	700	14,893	(36,032)	53,190
Unrealized gain/(loss) on derivative and other instruments, net	6,589	2,423	48,460	4,224
Rental income	794	—	794	—
Other income	1	2	21	34
Total Other Income/(Loss)	(4,304)	15,193	(22,253)	39,306
Expenses				
Management fee to affiliate	2,384	2,454	7,210	7,374
Other operating expenses	3,503	2,603	10,168	8,247
Equity based compensation to affiliate	66	61	211	226
Excise tax	375	375	1,125	1,125
Servicing fees	148	23	232	185
Property depreciation and amortization	494	—	494	—
Property operating and maintenance expenses	232	—	232	—
Property management fee	88	—	88	—
Total Expenses	7,290	5,516	19,760	17,157
Income/(loss) before equity in earnings/(loss) from affiliates	9,417	31,310	22,770	84,600
Equity in earnings/(loss) from affiliates	13,960	4,701	17,023	9,700
Net Income/(Loss)	23,377	36,011	39,793	94,300
Dividends on preferred stock	3,367	3,367	10,102	10,102
Net Income/(Loss) Available to Common Stockholders	\$ 20,010	\$ 32,644	\$ 29,691	\$ 84,198
Share Data:				
Earnings/(Loss) Per Share of Common Stock				
Basic	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03
Diluted	\$ 0.70	\$ 1.17	\$ 1.05	\$ 3.03

Net Income/(Loss) Available to Common Stockholders

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Net income/(loss) available to common stockholders decreased \$12.6 million from \$32.6 million for the three months ended September 30, 2017 to \$20.0 million for the three months ended September 30, 2018, primarily due to lower prices on our securities, which decreased our “Net Realized gain/(loss),” offset by higher derivative prices, which increased our “Unrealized gain/(loss) on derivatives and other instruments, net.”

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Net income/(loss) available to common stockholders decreased \$54.5 million from \$84.2 million for the nine months ended September 30, 2017 to \$29.7 million for the nine months ended September 30, 2018, primarily due to lower prices on our securities, which decreased our “Net Realized gain/(loss)” and our “Unrealized gain/(loss) on real estate securities and loans, net,” offset by higher derivative prices, which increased our “Unrealized gain/(loss) on derivatives and other instruments, net.”

Interest income

Interest income is calculated using the effective interest method for our GAAP investment portfolio excluding SFR and calculated based on the actual coupon rate and the outstanding principal balance on our U.S. Treasury securities.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Interest income increased by \$6.1 million from \$33.6 million at September 30, 2017 to \$39.7 million at September 30, 2018 primarily due an increase in the weighted average yield on our GAAP investment portfolio and U.S. Treasury securities, if applicable, during the period of 0.65% from 4.25% at September 30, 2017 to 4.90% at September 30, 2018. The weighted average cost of our GAAP investment portfolio and U.S. Treasury securities period over period remained relatively unchanged.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Interest income increased by \$22.3 million from \$92.8 million at September 30, 2017 to \$115.1 million at September 30, 2018 primarily due to an increase in the weighted average cost of our GAAP investment portfolio and U.S. Treasury securities period over period by \$0.6 billion from \$2.7 billion at September 30, 2017 to \$3.3 billion at September 30, 2018. This was coupled with an increase in the weighted average yield on our GAAP investment portfolio and U.S. Treasury securities, if applicable, during the period of 0.18% from 4.52% at September 30, 2017 to 4.70% at September 30, 2018.

Interest expense

Interest expense is calculated based on the actual financing rate and the outstanding financing balance of our GAAP investment portfolio and U.S. Treasury securities.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Interest expense increased by \$6.7 million from \$12.0 million at September 30, 2017 to \$18.7 million at September 30, 2018 primarily due to an increase in the weighted average financing rate on our GAAP investment portfolio and U.S. Treasury securities, if applicable, during the period, by 0.82% from 1.89% at September 30, 2017 to 2.71% at September 30, 2018. This was coupled with an increase in the weighted average financing balance on our

GAAP investment portfolio and U.S. Treasury securities during the period of \$0.3 billion from \$2.5 billion at September 30, 2017 to \$2.8 billion at September 30, 2018. Refer to the “Financing activities” section below for a discussion of our cost of funds.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Interest expense increased by \$20.0 million from \$30.3 million at September 30, 2017 to \$50.3 million at September 30, 2018 primarily due to an increase in the weighted average financing rate on our GAAP investment portfolio and U.S. Treasury securities, if applicable, during the period, by 0.56% from 1.86% at September 30, 2017 to 2.42% at September 30, 2018. This was coupled with an increase in the weighted average financing balance on our GAAP investment portfolio and U.S. Treasury securities during the period of \$0.6 billion from \$2.2 billion at September 30, 2017 to \$2.8 at September 30, 2018. Refer to the “Financing activities” section below for a discussion of our cost of funds.

Net realized gain/(loss)

Net realized gain/(loss) represents the net gain or loss recognized on any (i) sales of real estate securities out of our GAAP investment portfolio, (ii) sales of Residential mortgage loans out of our GAAP investment portfolio, transfers of Residential mortgage loans from our GAAP investment portfolio to real estate owned included in Other assets, and sales of Other assets, (iii) sales of single-family rental properties out of our GAAP investment portfolio, (iv) sales of derivatives and other instruments, and (v) other-than-temporary-impairment (“OTTI”) charges recorded during the period. See Note 2, Note 3 and Note 4 of the Notes to Consolidated Financial Statements (unaudited) for further discussion on OTTI. The following table presents a summary of Net realized gain/(loss) for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
Sale of real estate securities	\$(18,053)	\$ 2,365	\$(47,421)	\$ 1,274
Sale of loans, and loans transferred to or sold from Other assets	1,043	(331)	2,272	1,903
Settlement of derivatives and other instruments	7,796	(42)	14,744	(8,894)
OTTI	(4,990)	(1,970)	(6,698)	(6,810)
Total Net realized gain/(loss)	\$(14,204)	\$ 22	\$(37,103)	\$(12,527)

Net interest component of interest rate swaps

Net interest component of interest rate swaps represents the net interest income received or expense paid on our interest rate swaps.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Net interest component of interest rate swaps increased by \$3.9 million from \$(2.1) million at September 30, 2017 to \$1.8 million at September 30, 2018 due to an increase in the average 3 month LIBOR rate (receive rate). Average 3 month LIBOR, the interest rate upon which these derivative instruments are based, increased from 1.315 for the three months ended September 30, 2017 to 2.337 for the three months ended September 30, 2018. In addition, the weighted average swap notional increased from \$1.8 billion at September 30, 2017 to \$2.4 billion at September 30, 2018.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Net interest component of interest rate swaps increased by \$7.2 million from \$(5.6) million at September 30, 2017 to \$1.6 million at September 30, 2018 due to an increase in the average 3 month LIBOR rate (receive rate). Average 3 month LIBOR, the interest rate upon which these derivative instruments are based, increased from 1.197 for the nine months ended September 30, 2017 to 2.200 for the nine months ended September 30, 2018. In addition, the weighted average swap notional increased from \$1.2 billion at September 30, 2017 to \$2.4 billion at September 30, 2018.

Unrealized gain/(loss) on real estate securities and loans, net

Refer to the “Market overview” section of this Item 2 for a discussion of the changes in market pricing which contributed to our “Unrealized gain/(loss) on real estate securities and loans, net” line item. Realized gains and losses on sales of real estate securities and loans can also impact our “Unrealized gain/(loss) on real estate securities and loans, net.”

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

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For the three months ended September 30, 2018 and September 30, 2017, Unrealized gain/(loss) on real estate securities and loans, net was \$0.7 million and \$14.9 million, respectively. The \$0.7 million at September 30, 2018 was comprised of unrealized gains on securities and unrealized losses on loans of \$1.9 million and \$1.2 million, respectively, during the period.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, Unrealized gain/(loss) on real estate securities and loans, net was \$(36.0) million and \$53.2 million, respectively. The \$(36.0) million at September 30, 2018 was comprised of unrealized losses on securities and unrealized losses on loans of \$34.4 million and \$1.6 million, respectively, during the period.

Unrealized gain/(loss) on derivative and other instruments, net

Refer to the “Market overview” section of this Item 2 for a discussion of the changes in market pricing which contributed to our “Unrealized gain/(loss) on derivative and other instruments, net” line item. Realized gains and losses on sales of derivative and other investments can also impact our “Unrealized gain/(loss) on derivative and other instruments, net.”

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017, Unrealized gain/(loss) on derivative and other instruments, net was \$6.6 million and \$2.4 million, respectively. The \$6.6 million at September 30, 2018 was comprised of unrealized gains on certain derivatives and other instruments of \$6.6 million.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, Unrealized gain/(loss) on derivative and other instruments, net was \$48.5 million and \$4.2 million, respectively. The \$48.5 million at September 30, 2018 was comprised of unrealized gains on certain derivatives and other instruments of \$48.4 million, coupled with unrealized gains on TBAs of \$0.1 million during the period.

Rental income

Rental income is accrued monthly on a straight-line basis over the terms of the leases on our SFR portfolio. We acquired a stabilized portfolio of SFR in September 2018.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018, Rental income was \$0.8 million. There was no rental income for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, Rental income was \$0.8 million. There was no rental income for the nine months ended September 30, 2017.

Other income

Other income pertains to certain fees we receive on our Residential Whole Loans.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017, Other income remained relatively flat.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, Other income remained relatively flat.

Management fee to affiliate

Our management fee is based upon a percentage of our Stockholders' Equity. See the "Contractual obligations" section of this Item 2 for further detail on the calculation of our management fee and for the definition of Stockholders' Equity.

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Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017, our management fees were \$2.4 million and \$2.5 million, respectively. Management fees decreased slightly due to the decrease in our Stockholders' Equity as calculated pursuant to our Management Agreement.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, our management fees were \$7.2 million and \$7.4 million, respectively. Management fees decreased slightly due to the decrease in our Stockholders' Equity as calculated pursuant to our Management Agreement.

Other operating expenses

These amounts are primarily comprised of professional fees, directors' and officers' ("D&O") insurance and directors' fees, as well as certain expenses reimbursable to the Manager. We are required to reimburse our Manager or its affiliates for operating expenses which are incurred by our Manager or its affiliates on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Refer to the "Contractual obligations" section below for more detail on certain expenses reimbursable to the Manager. The following table presents a summary of certain expenses within Other operating expenses for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Affiliate reimbursement				
Operating expenses	\$1,628	\$ 1,393	\$4,889	\$ 4,728
Deal related expenses	382	34	584	115
Professional fees	572	409	1,789	1,142
Residential mortgage loan related expenses	17	201	848	561
D&O insurance	176	180	533	543
Directors' fees and stock compensation	226	137	645	412
Other expenses	502	249	878	746
Total Other operating expenses	\$3,503	\$ 2,603	\$10,168	\$ 8,247

Equity based compensation to affiliate

Equity based compensation to affiliates represents the amortization of the fair value of our restricted stock units granted to our Manager remeasured quarterly, less the present value of dividends expected to be paid on the underlying shares through the requisite period.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017, our equity based compensation to affiliate remained relatively flat.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, our equity based compensation to affiliate remained relatively flat.

Excise tax

Excise tax represents a four percent tax on the required amount of our ordinary income and net capital gains not distributed during the year. The quarterly expense is calculated in accordance with applicable tax regulations.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

Excise tax remained flat period over period for the three months ended September 30, 2018 and September 30, 2017.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

Excise tax remained flat period over period for the nine months ended September 30, 2018 and September 30, 2017.

Servicing fees

We incur servicing fee expenses in connection with the servicing of our Residential mortgage loans. As of September 30, 2018 and September 30, 2017, we owned Residential mortgage loans with fair market value of \$87.6 million and \$23.9 million, respectively. The increase in fair market value pertains to the purchase of a pool of primarily RPLs towards the end of the second quarter of 2018.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017 our servicing fees were \$148,000 and \$23,000, respectively. The increase in fees primarily pertains to purchases of residential mortgage loans in 2018.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017 our servicing fees were \$232,000 and \$185,000, respectively. The increase in fees primarily pertains to purchases of residential mortgage loans in 2018.

Property depreciation and amortization

We recognize straight line depreciation and amortization on our buildings, in-place lease intangibles and any capitalized acquisition, renovation, or other expense that improves or extends the useful life of our SFR portfolio. We acquired a stabilized portfolio of SFR in September 2018.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018, Depreciation and amortization on properties expense was \$0.5 million. There was no depreciation and amortization on properties expense for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, Depreciation and amortization on properties expense was \$0.5 million. There was no depreciation and amortization on properties expense for the nine months ended September 30, 2017.

Property operating and maintenance expenses

Property operating and maintenance expenses may include property taxes, insurance, HOA fees, market-level personnel expenses, utility expenses, repairs and maintenance, leasing costs, and marketing expenses on our SFR portfolio. We acquired a stabilized portfolio of SFR in September 2018.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018, Property operating and maintenance expenses were \$0.2 million. There were no property operating and maintenance expenses for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, Property operating and maintenance expenses were \$0.2 million. There were no property operating and maintenance expenses for the nine months ended September 30, 2017.

Property management fee

Property management fees represent costs associated with the oversight and management of our SFR portfolio. Our SFR portfolio is managed by Conrex. We acquired a stabilized portfolio of SFR in September 2018.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018, our Property management fee was \$0.1 million. There was no property management fee for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018, our Property management fee was \$0.1 million. There was no property management fee for the nine months ended September 30, 2017.

Equity in earnings/(loss) from affiliates

Equity in earnings/(loss) from affiliates represents our share of earnings and profits of investments held within affiliated entities. A majority of these investments are comprised of real estate securities, loans and our investment in AG Arc.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

For the three months ended September 30, 2018 and September 30, 2017, we recorded Equity in earnings/(loss) from affiliates of \$14.0 million and \$4.7 million, respectively. The increase primarily pertains to our share of the unrealized gains on investments held within affiliated entities.

Nine Months Ended September 30, 2018 compared to the Nine Months Ended September 30, 2017

For the nine months ended September 30, 2018 and September 30, 2017, we recorded Equity in earnings/(loss) from affiliates of \$17.0 million and \$9.7 million, respectively. The increase primarily pertains to our share of the unrealized gains on investments held within affiliated entities.

Book value per share

As of September 30, 2018, December 31, 2017 and September 30, 2017, our book value per common share was \$19.16, \$19.62 and \$19.35 respectively.

Presentation of investment, financing and hedging activities

In the “Investment activities,” “Financing activities,” “Hedging activities” and “Liquidity and capital resources” sections of this Item 2, where we disclose our investment portfolio and the related financing arrangements that finance it, we have presented this information inclusive of (i) unconsolidated ownership interests in affiliates that are accounted for under GAAP using the equity method and (ii) TBAs, which are accounted for as derivatives under GAAP. Our investment portfolio and the related financing arrangements that finance it are presented along with a reconciliation to GAAP. This presentation of our investment portfolio is consistent with how our management evaluates the business, and we believe this presentation, when considered with the GAAP presentation, provides supplemental information useful for investors in evaluating our investment portfolio and financial condition. See Note 2 to the “Notes to Consolidated Financial Statements (unaudited)” for a discussion of investments in debt and equity of affiliates and TBAs.

Net interest margin and leverage ratio

Our GAAP net interest margin is calculated by subtracting the weighted average cost of funds on our GAAP investment portfolio from the weighted average yield for our GAAP investment portfolio, which excludes cash held by us and any net TBA position. Both elements of cost of funds on our GAAP investment portfolio are weighted by the outstanding financing arrangements on our GAAP investment portfolio, securitized debt, and loan participation payable at quarter-end, exclusive of repurchase agreements associated with U.S. Treasury securities.

Net interest margin, a non-GAAP financial measure, is calculated by subtracting the weighted average cost of funds from the weighted average yield for our investment portfolio, which excludes cash held by us and any net TBA position. The weighted average yield on our real estate securities, loans, and Excess MSR represents an effective interest rate, which utilizes all estimates of future cash flows and adjusts for actual prepayment and cash flow activity as of quarter-end. The weighted average yield on our SFR portfolio represents annualized net operating income for the quarter. The weighted average cost of funds is the sum of the weighted average funding costs on total financing outstanding at quarter-end and our weighted average hedging cost, which is the weighted average of the net pay rate on our interest rate swaps, the net receive/pay rate on our Treasury long and short positions, respectively, and the net receivable rate on our IO index derivatives, if any. Both elements of cost of funds are weighted by the outstanding financing arrangements on our investment portfolio, securitized debt, and loan participation payable at quarter-end, exclusive of repurchase agreements associated with U.S. Treasury securities.

Net interest margin and leverage ratio can be used to calculate the return on equity of our investment portfolio and Management believes that these metrics should be considered together when evaluating the performance of our investment portfolio. See the “Financing activities” section below for more detail on our leverage ratio.

The chart below sets forth the net interest margin and leverage ratio from our investment portfolio as of September 30, 2018 and September 30, 2017 and for a reconciliation to our GAAP investment portfolio:

September 30, 2018

Weighted Average	GAAP Investment Portfolio		Other Assets		Investments in Debt and Equity of Affiliates		Investment Portfolio**	
Yield*	5.14	%	—	%	6.66	%	5.24	%
Cost of Funds	2.67	%	—	%	4.70	%	2.75	%
Net Interest Margin	2.47	%	—	%	1.96	%	2.49	%
Leverage Ratio	4.0x		N/A		***		4.3x	

September 30, 2017

Weighted Average	GAAP Investment Portfolio		Other Assets		Investments in Debt and Equity of Affiliates		Investment Portfolio**	
Yield	4.49	%	7.58	%	13.74	%	4.69	%
Cost of Funds	2.12	%	—	%	3.51	%	2.12	%
Net Interest Margin	2.37	%	7.58	%	10.23	%	2.57	%
Leverage Ratio	4.0x		N/A		***		4.2x	

*Yield of 6.09% on SFR portfolio is based on net operating income.

**Excludes any net TBA position.

***Refer to the “Financing activities” section below for an aggregate breakout of leverage.

Core Earnings

We define core earnings, a non-GAAP financial measure, as Net Income/(loss) available to common stockholders excluding (i) unrealized and realized gains/(losses) on the sale or termination of securities, loans, derivatives and other instruments, (ii) beginning with Q2 2018, any transaction related expenses incurred in connection with the acquisition or disposition of our investments, (iii) beginning with Q3 2018, any depreciation or amortization expense related to our SFR portfolio, and (iv) beginning with Q3 2018, accrued deal related performance fees payable to Arc Home and third party operators to the extent the primary component of the accrual relates to items that are excluded from core earnings, such as unrealized and realized gains/(losses). Items (i) through (iv) above include any amounts related to those items held in affiliated entities. Management considers the transaction related expenses referenced in (ii) above to be similar to realized losses incurred at acquisition or disposition and does not view them as being part of its core operations. As defined, Core Earnings include the net interest income and other income earned on our investments on a yield adjusted basis, including TBA dollar roll income or any other investment activity that may earn or pay net interest or its economic equivalent. One of our objectives is to generate net income from net interest margin on the portfolio, and management uses Core Earnings to help measure this objective. Management believes that this non-GAAP measure, when considered with our GAAP financials, provides supplemental information useful for investors in evaluating our results of operations. This metric, in conjunction with related GAAP measures, provides greater transparency into the information used by our management team in its financial and operational decision-making. Our presentation of Core Earnings may not be comparable to similarly-titled measures of other companies, who may use different calculations. This non-GAAP measure should not be considered a substitute for, or superior to, the financial measures calculated in accordance with GAAP. Our GAAP financial results and the reconciliations from these results should be carefully evaluated. Refer to the “Results of Operations” section above for a detailed discussion of our GAAP financial results.

A reconciliation of “Net Income/(loss) available to common stockholders” to Core Earnings for the three and nine months ended September 30, 2018 and September 30, 2017 is set forth below (in thousands, except for share and per share data):

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net Income/(loss) available to common stockholders	\$ 20,010	\$ 32,644	\$ 29,691	\$ 84,198
Add (Deduct):				
Net realized (gain)/loss	14,204	(22)	37,103	12,527
Dollar roll income	453	1,525	1,598	2,626
Equity in (earnings)/loss from affiliates	(13,960)	(4,701)	(17,023)	(9,700)
Net interest income and expenses from equity method investments (a)	2,586	2,196	8,685	6,458
Transaction related expenses and deal related performance fees (b)(c)	216	—	530	—
Property depreciation and amortization	494	—	494	—
Unrealized (gain)/loss on real estate securities and loans, net	(700)	(14,893)	36,032	(53,190)
Unrealized (gain)/loss on derivative and other instruments, net	(6,589)	(2,423)	(48,460)	(4,224)
Core Earnings	\$ 16,714	\$ 14,326	\$ 48,650	\$ 38,695
Core Earnings, per Diluted Share	\$ 0.59	\$ 0.51	\$ 1.72	\$ 1.39

(a) For the three months ended September 30, 2018, we recognized \$0.3 million or \$0.01 per diluted share of net income/(loss) attributed to our investment in AG Arc. For the nine months ended September 30, 2018, we recognized \$0.7 million or \$0.02 per diluted share of net income/(loss) attributed to our investment in AG Arc. For

the three months ended September 30, 2017, we recognized \$0.1 million or \$0.00 per diluted share of net income/(loss) attributed to our investment in AG Arc. For the nine months ended September 30, 2017, we recognized \$0.5 million or \$0.02 per diluted share of net income/(loss) attributed to our investment in AG Arc. For the three months ended September 30, 2017, transaction related expenses were excluded from the above chart as they did not have a material impact on core earnings for the period. For the nine months ended September 30, 2017, transaction related expenses of \$0.1 million were excluded from the above chart and did not have a material impact on core earnings for those periods. For the three months ended March 31, 2018, transaction related expenses of \$0.1 million were excluded from the above chart and did not have a material impact on core earnings for that period.

For the three and nine months ended September 30, 2017, deal related performance fees were excluded from the above chart as they did not have a material impact on core earnings for those periods. For the six months ended (c) June 30, 2018, deal related performance fees were excluded from the above chart as they did not have a material impact on core earnings for that period.

Investment activities

We evaluate investments in Agency RMBS using factors including expected future prepayment trends, supply of and demand for Agency RMBS, costs of financing, costs of hedging, expected future interest rate volatility and the overall shape of the U.S. Treasury and interest rate swap yield curves. Prepayment speeds, as reflected by the CPR and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. In general, as prepayment speeds on our Agency RMBS portfolio increase, the related purchase premium amortization increases, thereby reducing the net yield on such assets.

Our credit investments are subject to risk of loss with regard to principal and interest payments. We evaluate each investment in our credit portfolio based on the characteristics of the underlying collateral and the securitization structure. We maintain a comprehensive portfolio management process that generally includes day-to-day oversight by the portfolio management team and a quarterly credit review process for each investment that examines the need for a potential reduction in accretable yield, missed or late contractual payments, significant declines in collateral performance, prepayments, projected defaults, loss severities and other data which may indicate a potential issue in our ability to recover our capital from the investment. These processes are designed to enable our Manager to evaluate and proactively manage asset-specific credit issues and identify credit trends on a portfolio-wide basis. Nevertheless, we cannot be certain that our review will identify all issues within our portfolio due to, among other things, adverse economic conditions or events adversely affecting specific assets. Therefore, potential future losses may also stem from issues with our investments that are not identified by our credit reviews.

Our SFR portfolio is comprised of 1,225 homes located predominantly in the Southeast United States. The values of these homes are subject to volatility and may be affected adversely by a number of factors, including, but not limited to: national, regional and local economic conditions, local real estate conditions, construction quality, age and design; demographic factors; and retroactive changes to building or similar codes.

The risk-reward profile of our investment opportunities changes continuously with the market, including with labor, housing and economic fundamentals and U.S. monetary policy. As a result, in reacting to market conditions and taking into account a variety of other factors, including liquidity, duration, interest rate expectations and hedging, the mix of our assets changes over time.

As of September 30, 2018, we had a \$3.4 billion GAAP investment portfolio, which consisted of \$2.1 billion, or 60.2%, of assets in our GAAP Agency RMBS portfolio, \$1.2 billion, or 35.7%, of assets in our GAAP credit portfolio and \$0.1 billion, or 4.1%, of assets in our SFR portfolio. As of September 30, 2018, our investment portfolio totaled \$3.7 billion, which consisted of \$2.1 billion, or 58.4%, of assets in our Agency RMBS portfolio, \$1.5 billion, or 37.8%, of assets in our credit portfolio and \$0.1, or 3.8%, in our SFR portfolio. This compares with a \$3.6 billion GAAP investment portfolio as of December 31, 2017, which consisted of \$2.3 billion, or 62.7%, of assets in our GAAP Agency RMBS portfolio and \$1.3 billion, or 37.3%, of assets in our GAAP credit portfolio. As of December 31, 2017, our investment portfolio totaled \$3.8 billion, which consisted of \$2.4 billion, or 62.3%, of assets in our Agency RMBS portfolio and \$1.4 billion, or 37.7%, of assets in our credit portfolio.

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The following table presents a break-down of our investment portfolio as of September 30, 2018 and December 31, 2017 (in thousands):

	Amortized Cost		Carrying Value (a)		Weighted Average Yield (b)		Weighted Average Funding Cost (c)		Net Interest Margin (c)		Leverage Ratio (d)	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	
Agency RMBS	\$2,163,578	\$2,354,789	\$2,136,779	\$2,354,915	3.90%	3.27%	2.28%	1.56%	1.62%	1.71%	6.7x	7.0x
Residential Investments	904,260	969,743	962,249	1,034,816	6.74%	6.24%	3.57%	2.77%	3.17%	3.47%	3.0x	3.0x
Commercial Investments	368,870	345,214	383,762	351,594	7.93%	8.26%	3.68%	2.90%	4.25%	5.36%	2.3x	1.0x
ABS	37,277	40,217	37,544	40,958	9.36%	8.27%	3.61%	2.93%	5.75%	5.34%	1.0x	1.0x
Single-Family Rental Properties	140,059	—	140,059	—	6.09%	—%	4.80%	—%	1.29%	—%	2.7x	—
Total: Investment Portfolio	\$3,614,044	\$3,709,963	\$3,660,393	\$3,782,283	5.24%	4.64%	2.75%	2.26%	2.49%	2.38%	4.3x	4.0x
Investments in Debt and Equity of Affiliates (e)	\$163,038	\$83,434	\$163,601	\$85,291	6.66%	12.32%	4.70%	3.80%	1.96%	8.52%	(e)	(e)
Other Assets	\$—	\$238	\$—	\$242	—	10.03%	N/A	N/A	—	10.03%	N/A	N/A
TBA's	\$75,598	\$102,484	\$75,727	\$102,711	N/A	N/A	N/A	N/A	N/A	N/A	(e)	(e)
Total: GAAP Investment Portfolio	\$3,375,408	\$3,523,807	\$3,421,065	\$3,594,039	5.14%	4.45%	2.67%	2.26%	2.47%	2.19%	4.0x	4.0x

(a) Carrying value represents fair value, except in the case of Single-family rental properties, which represents cost less accumulated depreciation and amortization.

(b) Yield of 6.09% on SFR portfolio is based on net operating income.

Funding cost and NIM shown in each investment category line exclude the costs of our interest rate hedges, however these costs are included in the total funding cost and NIM lines. As of September 30, 2018, the total (c) funding cost and NIM lines excluding the cost of our interest rate hedges would be 2.82% and 2.42%, respectively. As of December 31, 2017, the total funding cost and NIM lines excluding the cost of our interest rate hedges would be 1.98% and 2.66%, respectively.

(d) The leverage ratio on Agency RMBS includes any net receivables on TBA. The leverage ratio by type of investment is calculated based on allocated equity.

Refer to the "Financing activities" section below for an aggregate breakout of leverage. During Q3 2018, the

(e) Company transferred certain of its CMBS from its non-wholly owned subsidiaries to a consolidated entity, resulting in those investments being reflected in the "Commercial Investments" line item of this chart and not in the "Investments in Debt and Equity of Affiliates" line item.

(f) Net of any non-recourse securitized debt as applicable.

In managing our portfolio, we allocate our equity by investment using the fair market value of our investment portfolio, less any associated leverage, inclusive of any long TBA position (at cost). We allocate all non-investment portfolio related items based on their respective characteristics in order to sum to stockholders' equity per the consolidated balance sheets. Our equity allocation method is a non-GAAP methodology and may not be comparable to the similarly titled measure or concepts of other companies, who may use different calculations.

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The following table presents a summary of the allocated equity of our investment portfolio as of September 30, 2018 and December 31, 2017 (in thousands):

	Allocated Equity		Percent of Equity			
	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2018	December 31, 2017	December 31, 2017
Agency RMBS	\$285,447	\$280,336	40.1 %	39.2 %		
Residential Investments	251,290	245,934	35.3 %	34.5 %		
Commercial Investments	117,200	169,953	16.5 %	23.8 %		
ABS	19,399	18,036	2.7 %	2.5 %		
Single-Family Rental Properties	38,536	—	5.4 %	— %		
Total	\$711,872	\$714,259	100.0 %	100.0 %		

The following table presents a reconciliation of our investment portfolio, exclusive of SFR, to our GAAP investment portfolio, exclusive of SFR, as of September 30, 2018 (in thousands):

Instrument	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Yield	Weighted Average Life (Years) (3) (4)
Agency RMBS:							
30 Year Fixed Rate	\$1,740,991	\$1,785,093	\$(22,624)	\$1,762,469	3.99 %	3.61 %	9.48
Fixed Rate CMO	46,042	46,392	(1,069)	45,323	3.00 %	2.79 %	4.10
ARM	108,008	108,514	(2,693)	105,821	2.41 %	2.87 %	4.55
Inverse Interest Only	316,940	54,667	(2,186)	52,481	3.98 %	8.30 %	7.26
Interest Only	383,921	64,964	657	65,621	3.54 %	7.27 %	5.32
Excess MSR (5)	3,828,737	28,350	987	29,337	N/A	11.33 %	7.02
Fixed Rate 30 Year TBA (6)	75,000	75,598	129	75,727	4.00 %	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (7)	402,184	298,105	32,831	330,936	4.77 %	7.11 %	11.16
Alt-A/Subprime (7)	230,811	144,392	13,504	157,896	4.82 %	6.23 %	6.81
Credit Risk Transfer	120,275	120,427	8,767	129,194	5.78 %	5.98 %	5.12
RPL/NPL Securities	75,278	75,278	(752)	74,526	3.38 %	3.38 %	1.31
Interest Only and Excess MSR (8)	358,372	3,427	667	4,094	0.56 %	26.59 %	5.66
Re/Non-Performing Loans	263,488	200,724	2,648	203,372	4.25 %	8.36 %	5.18
New Origination Loans	60,202	61,907	324	62,231	6.27 %	5.05 %	3.28
Commercial Investments							
CMBS	199,541	157,625	(274)	157,351	5.93 %	6.39 %	3.44
Freddie Mac K-Series	196,968	67,654	13,034	80,688	5.91 %	12.23 %	9.65
Interest Only (9)	3,470,363	48,980	2,125	51,105	0.25 %	6.81 %	3.48
Commercial Loans	94,618	94,611	7	94,618	7.20 %	7.43 %	1.14
ABS	37,453	37,277	267	37,544	8.79 %	9.36 %	4.54
Total: Investment Portfolio excluding SFR	\$12,009,192	\$3,473,985	\$46,349	\$3,520,334	2.38 %	5.20 %	6.18
Investments in Debt and Equity of Affiliates	\$430,616	\$163,038	\$563	\$163,601	3.87 %	6.66 %	5.22
TBA's	\$75,000	\$75,598	\$129	\$75,727	4.00 %	N/A	N/A

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Total: GAAP Investment Portfolio, excluding SFR	\$11,503,576	\$3,235,349	\$45,657	\$3,281,006	2.32	%	5.10	%	6.21
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(1) Included in Agency RMBS, Residential Investments and Commercial Investments are \$0.9 million fair market value, \$159.6 million fair market value and \$3.1 million fair market value, respectively, net of any non-recourse securitized debt, that are included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheet.

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These items, inclusive of our investment in AG Arc and other items, net to \$79.7 million which is included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheet.

(2) Equity residuals, principal only securities and Excess MSR with a zero coupon rate are excluded from this calculation.

(3) Fixed Rate 30 Year TBA are excluded from this calculation.

Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are

(4) affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(5) Excess MSR whose underlying collateral is securitized in a trust held by a U.S. government agency or GSE.

(6) Represents long positions in Fixed Rate 30 Year TBA.

Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified

(7) as Prime, Alt-A, and Subprime, respectively. The weighted average credit scores of our Prime and Alt-A/Subprime

Non-Agency RMBS were 719 and 666, respectively.

(8) Excess MSR whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE.

(9) Includes Freddie Mac K-Series interest-only bonds.

The following table presents a reconciliation of our investment portfolio to our GAAP investment portfolio as of December 31, 2017 (in thousands):

Instrument	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Yield	Weighted Average Life (Years) (3) (4)
Agency RMBS:							
30 Year Fixed Rate	\$1,848,172	\$1,929,306	\$(273)	\$1,929,033	3.79 %	3.13 %	8.64
Fixed Rate CMO	52,264	52,670	281	52,951	3.00 %	2.79 %	4.13
ARM	176,561	175,726	661	176,387	2.35 %	2.83 %	4.79
Inverse Interest Only	256,983	44,704	(775)	43,929	4.20 %	7.37 %	5.86
Interest Only	387,256	45,182	(321)	44,861	2.66 %	6.32 %	4.38
Excess MSR (5)	822,600	4,717	326	5,043	N/A	12.12 %	6.27
Fixed Rate 30 Year TBA (6)	100,000	102,484	227	102,711	3.50 %	N/A	N/A
Credit Investments:							
Residential Investments							
Prime (7)	550,559	437,068	35,802	472,870	4.43 %	6.34 %	9.72
Alt-A/Subprime (7)	311,153	216,422	16,196	232,618	4.10 %	5.91 %	6.46
Credit Risk Transfer	149,710	149,786	10,712	160,498	5.11 %	5.28 %	5.87
RPL/NPL Securities	67,999	67,968	(92)	67,876	3.50 %	3.57 %	1.40
Interest Only and Excess MSR (8)	421,605	3,579	(634)	2,945	0.30 %	11.58 %	3.13
Re/Non-Performing Loans	122,478	90,995	3,089	94,084	5.16 %	9.59 %	6.57
New Origination Loans	3,822	3,925	—	3,925	5.50 %	5.50 %	3.20
Commercial Investments							
CMBS	214,052	162,226	(271)	161,955	5.48 %	6.16 %	3.58
Freddie Mac K-Series	210,838	68,970	2,110	71,080	5.84 %	13.54 %	9.68
Interest Only (9)	3,493,579	57,384	3,654	61,038	0.27 %	6.64 %	3.70
Commercial Loans	57,738	56,634	887	57,521	8.20 %	9.41 %	1.76
ABS	40,655	40,217	741	40,958	7.61 %	8.27 %	5.43
Total: Investment Portfolio	\$9,288,024	\$3,709,963	\$72,320	\$3,782,283	2.20 %	4.64 %	5.65
Investments in Debt and Equity of Affiliates	\$1,690,414	\$83,434	\$1,857	\$85,291	0.19 %	12.32 %	5.77

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Other Assets	\$54,215	\$238	\$4	\$242	N/A	10.03 %	5.89
TBAs	\$100,000	\$102,484	\$227	\$102,711	3.50 %	N/A	N/A
Total: GAAP Investment Portfolio	\$7,443,395	\$3,523,807	\$70,232	\$3,594,039	2.65 %	4.45 %	5.64

Included in Residential Investments and Commercial Investments are \$11.4 million fair market value and \$73.9 million fair market value, respectively, that are included in the “Investments in debt and equity of affiliates” line item (1) on our consolidated balance sheet. These items, inclusive of our investment in AG Arc and other items, net to \$99.7 million which is included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheet.

(2) Equity residuals, principal only securities and Excess MSR with a zero coupon rate are excluded from this calculation.

(3) Fixed Rate 30 Year TBA are excluded from this calculation.

Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are (4) affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

(5) Excess MSR's whose underlying collateral is securitized in a trust held by a U.S. government agency or GSE.

(6) Represents long positions in Fixed Rate 30 Year TBA.

Non-Agency RMBS with credit scores above 700, between 700 and 620 and below 620 at origination are classified (7) as Prime, Alt-A, and Subprime, respectively. The weighted average credit scores of our Prime and Alt-A/Subprime

Non-Agency RMBS were 726 and 656, respectively.

(8) Excess MSR's whose underlying collateral is securitized in a trust not held by a U.S. government agency or GSE.

(9) Includes Freddie Mac K-Series interest-only bonds.

The following table presents the CPR experienced on our GAAP Agency RMBS portfolio, on an annualized basis, for the quarterly periods presented:

Agency RMBS	Three Months Ended (1) (2)			
	September 30, 2018		September 30, 2017	
30 Year Fixed Rate	6	%	6	%
Fixed Rate CMO	9	%	12	%
ARM	10	%	13	%
Interest Only	6	%	14	%
Weighted Average	6	%	7	%

(1) Represents the weighted average monthly CPRs published during the quarter for our in-place portfolio during the same period.

(2) Source: Bloomberg

The following table presents certain information grouped by vintage as it relates to our credit securities portfolio as of September 30, 2018 (in thousands). We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Yield	Weighted Average Life (Years) (3)
Pre 2009	455,936	320,005	33,621	353,626	4.92 %	6.62 %	10.41
2010	1,532	1,354	15	1,369	2.26 %	5.66 %	2.97
2011	6,358	5,575	25	5,600	4.28 %	6.12 %	5.04
2012	5,346	4,450	594	5,044	4.24 %	6.40 %	3.62
2013	72,589	14,405	1,460	15,865	2.10 %	7.52 %	3.00
2014	1,003,081	40,434	3,773	44,207	0.32 %	10.03 %	1.14
2015	1,163,176	116,654	14,737	131,391	0.75 %	9.28 %	4.52
2016	1,320,329	134,306	11,553	145,859	0.90 %	7.67 %	5.01
2017	895,608	271,205	7,114	278,319	1.77 %	6.81 %	5.32
2018	281,548	154,818	(605)	154,213	2.81 %	6.57 %	4.24
Total: Credit Securities	\$5,205,503	\$1,063,206	\$72,287	\$1,135,493	1.37 %	7.24 %	4.61
Investments in Debt and Equity of Affiliates	\$201,905	\$97,052	\$(7)	\$97,045	2.62 %	7.79 %	4.46
Total: GAAP Basis	\$5,003,598	\$966,154	\$72,294	\$1,038,448	1.33 %	7.19 %	4.62

(1) Net of any non-recourse securitized debt.

(2) Equity residual investments and principal only securities are excluded from this calculation.

Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual (3) maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

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The following table presents certain information grouped by vintage as it relates to our credit securities portfolio as of December 31, 2017 (in thousands). We have also presented a reconciliation to GAAP.

Credit Securities:	Current Face	Amortized Cost	Unrealized Mark-to-Market	Fair Value	Weighted Average Coupon (1)	Weighted Average Yield	Weighted Average Life (Years) (2)
Pre 2009	570,127	415,152	38,219	453,371	4.62 %	6.55 %	9.69
2010	1,855	1,648	(1)	1,647	1.69 %	5.70 %	3.35
2011	6,953	6,059	(112)	5,947	3.50 %	4.48 %	5.72
2012	72,881	10,355	768	11,123	1.97 %	6.31 %	2.45
2013	109,464	41,716	1,874	43,590	2.48 %	5.56 %	3.80
2014	1,065,779	61,073	6,949	68,022	0.34 %	11.08 %	1.55
2015	1,341,477	234,963	8,266	243,229	1.01 %	6.57 %	3.85
2016	1,359,009	160,539	8,006	168,545	0.81 %	6.95 %	5.33
2017	970,500	339,345	6,284	345,629	1.84 %	5.84 %	5.92
Total: Credit Portfolio	\$5,498,045	\$1,270,850	\$70,253	\$1,341,103	1.38 %	6.61 %	4.72
Investments in Debt and Equity of Affiliates	\$1,677,993	\$73,887	\$1,833	\$75,720	0.13 %	13.05 %	5.77
Total: GAAP Basis	\$3,820,052	\$1,196,963	\$68,420	\$1,265,383	1.89 %	6.22 %	4.26

(1) Equity residual investments and principal only securities are excluded from this calculation.

Actual maturities of mortgage-backed securities are generally shorter than stated contractual maturities. Actual (2) maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The following table presents the fair value of our credit securities portfolio by credit rating as of September 30, 2018 and December 31, 2017 (in thousands):

Credit Rating - Credit Securities (1)	September 30, 2018 (2)	December 31, 2017
AAA	\$7,001	\$69,582
A	46,758	49,000
BBB	16,902	10,763
BB	65,053	65,784
B	178,797	183,944
Below B	265,026	370,699
Not Rated	555,956	591,331
Total: Credit Securities	\$1,135,493	\$1,341,103
Investments in Debt and Equity of Affiliates	\$97,045	\$75,720
Total: GAAP Basis	\$1,038,448	\$1,265,383

(1) Represents the minimum rating for rated assets of S&P, Moody and Fitch credit ratings, stated in terms of the S&P equivalent.

(2) Net of any non-recourse securitized debt.

The following tables present the geographic concentration of the underlying collateral for our Non-Agency RMBS and CMBS portfolios:

September 30, 2018

Non-Agency RMBS		CMBS		
State	Percentage	State	Percentage	
California	22.7 %	California	12.1	%
New York	7.5 %	Texas	10.3	%
Florida	7.0 %	Florida	9.1	%
Colorado	4.0 %	New Jersey	7.5	%
Georgia	3.6 %	New York	7.1	%
Other	55.2 %	Other	53.9	%
Total	100.0 %	Total	100.0	%

December 31, 2017

Non-Agency RMBS		CMBS		
State	Percentage	State	Percentage	
California	22.6 %	California	12.5	%
Florida	7.8 %	Texas	9.4	%
New York	7.2 %	New York	7.7	%
Colorado	4.0 %	Arizona	7.5	%
Texas	3.9 %	New Jersey	6.8	%
Other	54.5 %	Other	56.1	%
Total	100.0 %	Total	100.0	%

See Note 4 to the Consolidated Financial Statements (unaudited) for a breakout of geographic concentration of credit risk within loans we include in the “Residential mortgage loans, at fair value” line item on our consolidated balance sheets.

The following tables present certain information regarding credit quality for certain categories within our Non-Agency RMBS and CMBS portfolios:

September 30, 2018

Non-Agency RMBS*

Category	Weighted Average 60+ Days Delinquent	%	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement	%
Prime	10.2	%	131.7	12.9	%
Alt-A/Subprime	15.0	%	155.3	22.7	%
Credit Risk Transfer	0.4	%	27.8	1.3	%
RPL/NPL Securities	65.7	%	143.6	41.3	%

CMBS*

Category	Weighted Average 60+ Days Delinquent	%	Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement	%
CMBS	1.8	%	26.6	15.3	%
Freddie Mac K Series	0.4	%	37.2	0.6	%

December 31, 2017

Non-Agency RMBS*

Category	Weighted Average 60+ Days Delinquent		Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement	
Prime	9.5 %		114.5	14.5	%
Alt-A/Subprime	16.0 %		143.6	28.4	%
Credit Risk Transfer	0.3 %		19.7	1.1	%
RPL/NPL Securities	73.3 %		108.9	40.7	%

CMBS*

Category	Weighted Average 60+ Days Delinquent		Weighted Average Loan Age (Months)	Weighted Average Credit Enhancement	
CMBS	4.2 %		37.1	18.5	%
Freddie Mac K Series	0.0 %		31.2	0.8	%

*Sources: Intex, Trepp

The following table presents certain information on our SFR portfolio as of September 30, 2018.

State	Number of Homes	Average Occupancy		Average Monthly Rent	% of Rental Income
South Carolina	436	88.1 %		\$ 1,069	37.8 %
Alabama	296	91.2 %		983	23.6 %
Georgia	210	91.9 %		909	15.4 %
North Carolina	121	85.1 %		954	9.4 %
Ohio	70	92.9 %		1,068	6.1 %
Indiana	49	91.8 %		1,057	4.2 %
Tennessee	43	79.1 %		1,016	3.5 %
Total	1,225	89.3 %		\$ 1,007	100.0 %

Financing activities

We use leverage to complete the purchase of real estate, real estate securities, and loans in our investment portfolio. In 2018 and 2017, our leverage has primarily been in the form of repurchase agreements, facilities, and securitized debt. Repurchase agreements involve the sale and a simultaneous agreement to repurchase the transferred assets or similar assets at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a “haircut.” The size of the haircut reflects the perceived risk associated with the pledged asset. Haircuts may change as our financing arrangements mature or roll and are sensitive to governmental regulations. We did not experience fluctuations in our haircuts that caused us to alter our business and financing strategies for the three and nine months ended September 30, 2018, but we continue to monitor the regulatory environment, which may influence the timing and amount of our financing activity. We seek to obtain financing from multiple different counterparties in order to reduce our financing risk related to any single counterparty. We had outstanding debt with 31 and 27 counterparties at September 30, 2018 and December 31, 2017, respectively.

A vast majority of our financing arrangements are repurchase agreements. Our repurchase agreements are accounted for as financings and require the repurchase of the transferred securities or loans or repayment of the advance at the end of each agreement's term, typically 30 to 90 days. If we maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we receive the related principal and interest payments. If we do not maintain the beneficial interest in the specific assets pledged during the term of the borrowing, we will have the related principal and interest payments remitted to us by the lender. Interest rates on borrowings are fixed based on prevailing rates corresponding to the terms of the borrowings, and interest is paid at the termination of the borrowing at which time we may enter into a new borrowing arrangement at prevailing market rates with the

same counterparty or repay that counterparty and negotiate financing with a different counterparty. In response to declines in fair value of pledged assets due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically require us to post additional assets as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, referred to as margin calls. As of September 30, 2018 and December 31, 2017, we have met all margin call requirements.

For the nine months ended September 30, 2018, we noted changes in the spread of our financing arrangements. The Fed raised the federal funds interest rate by 25 bps in each of March, June and September of 2018. As a result, our cost of financing increased by 83bps from 1.98% at December 31, 2017 to 2.81% at September 30, 2018.

The following table presents the quarter-end balance, average quarterly balance and maximum balance at any month-end for the Company's (i) financing arrangements on its investment portfolio, U.S Treasury securities, and FHLBC Advances, and (ii) financing arrangements through affiliated entities, excluding any financing utilized in our investment in AG Arc, with a reconciliation of all quarterly figures to GAAP. Refer to the "Hedging Activities" section below for more information on repurchase agreements secured by U.S. Treasury securities.

Quarter Ended	Quarter-End Balance	Average Quarterly Balance	Maximum Balance at Any Month-End
September 30, 2018			
Non-GAAP Basis	\$ 3,015,530	\$2,896,931	\$ 3,015,530
Less: Investments in Debt and Equity of Affiliates	102,149	92,833	102,149
GAAP Basis	\$ 2,913,381	\$2,804,098	\$ 2,913,381
June 30, 2018			
Non-GAAP Basis	\$ 2,719,376	\$2,792,123	\$ 2,932,186
Less: Investments in Debt and Equity of Affiliates	85,194	170,006	213,489
GAAP Basis	\$ 2,634,182	\$2,622,117	\$ 2,718,697
March 31, 2018			
Non-GAAP Basis	\$ 3,035,398	\$2,954,404	\$ 3,043,392
Less: Investments in Debt and Equity of Affiliates	208,819	77,309	208,819
GAAP Basis	\$ 2,826,579	\$2,877,095	\$ 2,834,573
December 31, 2017			
Non-GAAP Basis	\$ 3,011,591	\$2,882,548	\$ 3,011,591
Less: Investments in Debt and Equity of Affiliates	7,184	8,849	9,807
GAAP Basis	\$ 3,004,407	\$2,873,699	\$ 3,001,784
September 30, 2017			
Non-GAAP Basis	\$ 2,703,069	\$2,596,533	\$ 2,746,151
Less: Investments in Debt and Equity of Affiliates	8,517	8,697	8,869
GAAP Basis	\$ 2,694,552	\$2,587,836	\$ 2,737,282
June 30, 2017			
Non-GAAP Basis	\$ 2,265,227	\$2,209,991	\$ 2,339,133
Less: Investments in Debt and Equity of Affiliates	8,485	8,806	9,116
GAAP Basis	\$ 2,256,742	\$2,201,185	\$ 2,330,017
March 31, 2017			
Non-GAAP Basis	\$ 1,887,767	\$1,813,668	\$ 1,887,766
Less: Investments in Debt and Equity of Affiliates	8,424	8,788	9,172
GAAP Basis	\$ 1,879,343	\$1,804,880	\$ 1,878,594
December 31, 2016			
Non-GAAP Basis	\$ 1,910,509	\$1,972,785	\$ 2,009,130
Less: Investments in Debt and Equity of Affiliates	9,999	10,525	11,019

GAAP Basis	\$1,900,510	\$1,962,260	\$1,998,111
September 30, 2016			
Non-GAAP Basis	\$2,237,849	\$2,242,396	\$2,275,368
Less: Investments in Debt and Equity of Affiliates	11,485	12,147	12,843
GAAP Basis	\$2,226,364	\$2,230,249	\$2,262,525
June 30, 2016			
Non-GAAP Basis	\$2,263,591	\$2,305,133	\$2,368,335
Less: Investments in Debt and Equity of Affiliates	13,595	14,628	15,535
GAAP Basis	\$2,249,996	\$2,290,505	\$2,352,800
March 31, 2016			
Non-GAAP Basis	\$2,573,321	\$2,559,322	\$2,582,944
Less: Investments in Debt and Equity of Affiliates	16,405	17,169	17,983
GAAP Basis	\$2,556,916	\$2,542,153	\$2,564,961
December 31, 2015			
Non-GAAP Basis	\$2,450,495	\$2,611,418	\$2,737,441
Less: Investments in Debt and Equity of Affiliates	18,638	19,119	19,644
GAAP Basis	\$2,431,857	\$2,592,299	\$2,717,797
September 30, 2015			
Non-GAAP Basis	\$2,585,828	\$2,509,992	\$2,585,828
Less: Investments in Debt and Equity of Affiliates	20,212	20,567	20,877
GAAP Basis	\$2,565,616	\$2,489,425	\$2,564,951

The balance on our financing arrangements can reasonably be expected to (i) increase as the size of our investment portfolio increases primarily through equity capital raises and as we increase our investment allocation to Agency RMBS and (ii) decrease as the size of our portfolio decreases through asset sales, principal paydowns, and as we increase our investment allocation to credit investments. Credit investments and investments in SFR, due to their risk profile, have lower leverage ratios than Agency RMBS, which restricts our financing counterparties from providing as much financing to us and lowers the balance of our total financing.

Financing arrangements on our investment portfolio

As of September 30, 2018 and December 31, 2017, we have entered into financing arrangements on our investment portfolio with 41 and 39 counterparties, respectively, under which we had outstanding debt with 31 and 27 counterparties, respectively, inclusive of repurchase agreements in affiliated entities. See Note 8 to the “Notes to Consolidated Financial Statements (unaudited)” for a description of our material financing arrangements.

Our financing arrangements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each MRA, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios.

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The following table presents a summary of certain financial information related to financing arrangements secured by our Investment Portfolio as of September 30, 2018 (in thousands):

Financing Arrangements Maturing Within: (1)	Agency	Credit		SFR		
	Balance	Weighted Average Funding Cost	%	Balance	Weighted Average Funding Cost	Weighted Average Funding Cost
Overnight	\$126,397	2.36	%	\$—	—	\$—
30 days or less	1,758,867	2.27	%	594,502	3.28	%
31-60 days	2,762	2.81	%	133,427	3.64	%
61-90 days	—	—	%	47,725	3.52	%
91-180 days	—	—	%	44,429	4.65	%
Greater than 180 days	—	—	%	205,434	4.25	%
Total: Non-GAAP Basis	\$1,888,026	2.28	%	\$1,025,517	3.59	%
Investments in Debt and Equity of Affiliates	\$—	—	%	\$102,149	4.70	%
Total: GAAP Basis	\$1,888,026	2.28	%	\$923,368	3.47	%

As of September 30, 2018, our weighted average days to maturity is 122 days and our weighted average original (1)days to maturity is 162 days on a Non-GAAP Basis. As of September 30, 2018, our weighted average days to maturity is 117 days and our weighted average original days to maturity is 153 days on a GAAP Basis.

The following table presents a summary of certain financial information related to financing arrangements secured by our Investment Portfolio as of December 31, 2017 (in thousands):

Financing Arrangements Maturing Within: (1)	Agency	Credit		SFR		
	Balance	Weighted Average Funding Cost	%	Balance	Weighted Average Funding Cost	Weighted Average Funding Cost
Overnight	\$128,779	1.80	%	\$—	—	\$—
30 days or less	1,398,411	1.57	%	707,993	2.68	%
31-60 days	477,943	1.49	%	133,820	2.75	%
61-90 days	—	—	%	32,445	3.04	%
91-180 days	—	—	%	1,189	3.22	%
Greater than 180 days	—	—	%	131,011	3.24	%
Total: Non-GAAP Basis	\$2,005,133	1.56	%	\$1,006,458	2.77	%
Investments in Debt and Equity of Affiliates	\$—	—	%	\$7,184	3.80	%
Total: GAAP Basis	\$2,005,133	1.56	%	\$999,274	2.77	%

As of December 31, 2017, our weighted average days to maturity is 43 days and our weighted average original (1)days to maturity is 118 days on a Non-GAAP Basis. As of December 31, 2017, our weighted average days to maturity is 42 days and our weighted average original days to maturity is 117 days on a GAAP Basis.

Repurchase agreements

The following table presents, as of September 30, 2018, certain financial information related to our repurchase agreements secured by our real estate securities (in thousands). It also reconciles these items to GAAP:

Financing Arrangements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
Overnight	\$126,397	2.36 %	2.36 %	1	3.0 %
30 days or less	2,353,370	2.53 %	2.53 %	12	8.2 %
31-60 days	136,189	3.62 %	3.62 %	48	20.3 %
61-90 days	47,725	3.52 %	3.52 %	74	22.1 %
91-180 days	4,346	3.62 %	3.62 %	121	22.5 %
Greater than 180 days	78,301	3.96 %	3.99 %	307	18.3 %
Total: Non-GAAP Basis	\$2,746,328	2.63 %	2.63 %	23	9.1 %
Investments in Debt and Equity of Affiliates	\$58,568	4.62 %	4.66 %	175	25.4 %
Total: GAAP Basis	\$2,687,760	2.59 %	2.59 %	20	8.8 %

The following table presents, as of December 31, 2017, certain financial information related to our repurchase agreements secured by our real estate securities (in thousands). It also reconciles these items to GAAP:

Financing Arrangements Maturing Within:	Balance	Weighted Average Rate	Weighted Average Funding Cost	Weighted Average Days to Maturity	Weighted Average Haircut
Overnight	\$128,779	1.80 %	1.80 %	2	3.2 %
30 days or less	2,106,404	1.94 %	1.94 %	10	9.6 %
31-60 days	611,763	1.76 %	1.76 %	43	7.6 %
61-90 days	32,445	3.04 %	3.04 %	76	25.9 %
91-180 days	1,189	3.22 %	3.22 %	151	22.8 %
Greater than 180 days	93,060	3.00 %	3.00 %	644	20.4 %
Total: Non-GAAP Basis	\$2,973,640	1.94 %	1.94 %	37	9.4 %
Investments in Debt and Equity of Affiliates	\$1,359	3.31 %	3.31 %	24	6.0 %
Total: GAAP Basis	\$2,972,281	1.94 %	1.94 %	37	9.4 %

The increase in the balance of our repurchase agreements held in our investments in affiliates from December 31, 2017 to September 30, 2018 is due to financing added on newly purchased Re/Non-Performing Loans we have structured as securities.

Financing facilities

The following table presents information regarding the Company's term loan and revolving facilities as of September 30, 2018 and December 31, 2017 (in thousands). It also reconciles these items to GAAP.

Facility	Maturity Date	September 30, 2018			December 31, 2017		
		Rate	Funding Cost	Balance	Rate	Funding Cost	Balance
Term loan facility, net (1)	October 10, 2023	4.63%	4.80%	\$ 101,987	—%	—%	\$ —
Revolving facility A	July 1, 2019	4.37%	4.37%	\$ 21,796	3.70%	3.70%	\$ 21,796
Revolving facility B	July 15, 2020	4.25%	4.28%	64,827	4.07%	4.07%	10,330
Revolving facility C	August 10, 2023	4.27%	4.48%	37,011	—%	—%	—
Revolving facility D	February 19, 2019	4.76%	4.76%	40,083	—%	—%	—
Revolving facility E	August 25, 2019	4.59%	4.59%	3,499	3.91%	3.91%	5,825
Total revolving facilities				\$ 167,216			\$ 32,126
Total: Non-GAAP Basis				\$ 269,203			\$ 32,126
Investments in Debt and Equity of Affiliates				\$ 43,582			\$ 5,825
Total: GAAP Basis				\$ 225,621			\$ 26,301

(1) The total borrowings under the term loan is \$103 million, which is shown net of deferred financing costs of \$1.0 million.

The increase in the term loan facility balance from December 31, 2017 to September 30, 2018 is due to the financing incurred to acquire our SFR portfolio in September 2018. The increase in our Revolving facility B balance from December 31, 2017 to September 30, 2018 is due primarily to the financing incurred to purchase certain Re/Non-Performing Loans during the year. The increase in our Revolving facility C balance from December 31, 2017 to September 30, 2018 is due primarily to the financing incurred to purchase certain commercial loans during the quarter. The increase in our Revolving facility D balance from December 31, 2017 to September 30, 2018 is due primarily to the financing incurred by Mortgage Acquisition Trust I LLC (“MATT”) since December 31, 2017 in order to acquire new origination loans.

Other financing transactions

In 2014, we entered into a securitization transaction, pursuant to which we created a special purpose entity (“SPE”) to facilitate the transaction (the “Resecuritization”). We determined that the SPE was a variable interest entity (“VIE”) and that the VIE should be consolidated by us under ASC 810-10 and treated as a secured borrowing (the “Consolidated VIE”). See Note 2 to the Notes to Consolidated Financial Statements (unaudited) for more detail on the Consolidated VIE.

The following table details certain information on the Consolidated VIE as of September 30, 2018 (in thousands):

	Current Face	Fair Value	Weighted Average		
			Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	\$ 11,403	\$ 11,481	3.85%	4.46%	2.46
Retained tranche	8,486	6,548	4.92%	18.65%	8.52
Total resecuritized asset	\$ 19,889	\$ 18,029	4.31%	9.61%	5.04

(1)

Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

- (2) As of September 30, 2018, the fair market value of the consolidated tranche is included on our consolidated balance sheets as “Non-Agency RMBS.” As of September 30, 2018, we have recorded secured financing of \$11.5 million on our consolidated balance sheets in the “Securitized debt, at fair value” line item.

The following table details certain information on the Consolidated VIE as of December 31, 2017 (in thousands):

	Current Face	Fair Value	Weighted Average		
			Coupon	Yield	Life (Years) (1)
Consolidated tranche (2)	\$ 16,355	\$ 16,478	3.11%	3.92%	2.95
Retained tranche	8,618	6,100	4.28%	15.48%	9.04
Total resecured asset	\$ 24,973	\$ 22,578	3.51%	7.04%	5.05

Actual maturities of investments and loans are generally shorter than stated contractual maturities. Maturities are (1) affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

As of December 31, 2017, the fair market value of the consolidated tranche is included on our consolidated balance (2) sheets as “Non-Agency RMBS.” As of December 31, 2017, we have recorded secured financing of \$16.5 million on our consolidated balance sheets in the “Securitized debt, at fair value” line item.

In February 2016, we originated a \$12.0 million commercial loan and, at closing, transferred a 15.0% or \$1.8 million participation interest in the loan (the “Participation Interest”) to an unaffiliated third party. The Participation Interest bore interest at a rate of LIBOR+ 10.00% with a LIBOR floor of 0.25%. We determined that the Participation Interest should be consolidated under ASC 860 due to the fact that the sale of the Participation Interest did not meet the sales criteria established under ASC 860. The commercial loan was paid off in full in February 2017. The principal and interest due on the Participation Interest was paid from these proceeds.

Leverage

We define non-GAAP “at-risk” leverage as the sum of: (i) our GAAP financing arrangements, (ii) financing arrangements held through affiliated entities but exclusive of any financing utilized through AG Arc (iii) the amount payable on purchases that have not yet settled less the financing remaining on sales that have not yet settled, (iv) the consolidated tranche issued by the Consolidated VIE, (v) the Participation Interest and (vi) our net TBA position (at cost). Our calculations of each type of leverage exclude financing arrangements and net receivables/payables on unsettled trades pertaining to U.S. Treasury securities due to the highly liquid and temporary nature of these investments. The calculations in the tables below divide our leverage calculations by our GAAP stockholders’ equity to derive our leverage ratios. The following tables present a reconciliation of our non-GAAP “at-risk” leverage ratio back to GAAP (in thousands).

September 30, 2018	Leverage	Stockholders’ Equity	Leverage Ratio
GAAP Leverage	\$2,872,793	\$ 711,872	4.0x
Financing arrangements through affiliated entities	113,692		
Net TBA receivable/(payable) adjustment	75,223		
Non-GAAP “At Risk” Leverage	\$3,061,708	\$ 711,872	4.3x

December 31, 2017	Leverage	Stockholders’ Equity	Leverage Ratio
GAAP Leverage	\$3,023,293	\$ 714,259	4.2x
Financing arrangements through affiliated entities	7,184		
Net TBA receivable/(payable) adjustment	102,484		
Non-GAAP “At Risk” Leverage	\$3,132,961	\$ 714,259	4.4x

Hedging activities

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize hedging instruments, including interest rate swaps, swaption agreements, futures, and other financial instruments such as short positions in U.S. Treasury securities, in an effort to hedge the interest rate risk associated with the financing of our portfolio. Specifically, we may seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in interest rates. In utilizing leverage and interest rate hedges, our objectives are to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a spread between the yield on our assets and the costs of our financing and hedging. Refer to the tables below for a summary of our hedging instruments.

Our centrally cleared trades require that we post an “initial margin” to our counterparties of an amount determined by the Chicago Mercantile Exchange (“CME”), the central clearinghouse through which those trades are cleared, which is generally intended to be set at a level sufficient to protect the CME from the maximum estimated single-day price movement in that market participant’s contracts. We also exchange cash “variation margin” with our counterparties on our centrally cleared trades based upon daily changes in the fair value as measured by the CME. Beginning in the first quarter of 2017, as a result of an amendment to the CME’s rule book, which governs their central clearing activities, the daily exchange of variation margin associated with a CME instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, we account for the daily receipt or payment of variation margin associated with our centrally cleared interest rate swaps and futures as a direct reduction to the carrying value of the interest rate swap and future derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps and futures reflected in our consolidated balance sheets is equal to the unsettled fair value of such instruments. See Note 9 in the Notes to Consolidated Financial Statements for more information.

The following table presents the fair value of our derivative and other instruments and their balance sheet location at September 30, 2018 and December 31, 2017 (in thousands).

Derivatives and Other Instruments	GAAP Designation	Balance Sheet Location	September 30, 2018	December 31, 2017
Interest rate swaps (1)	Non-Hedge	Derivative assets, at fair value	\$ 3,583	\$ 1,428
Interest rate swaps (1)	Non-Hedge	Derivative liabilities, at fair value	(511)	(450)
Swaptions	Non-Hedge	Derivative assets, at fair value	523	362
Short positions on U.S. Treasury Futures (2)	Non-Hedge	Derivative assets, at fair value	—	110
Short positions on U.S. Treasuries	Non-Hedge	Obligation to return securities borrowed under reverse repurchase agreements, at fair value (3)	(5,730)	(24,379)

(1) As of September 30, 2018, the Company applied a reduction in fair value of \$61.1 million and \$0.4 million to its interest rate swap assets and liabilities, respectively, related to variation margin. As of December 31, 2017, the Company applied a reduction in fair value of \$19.5 million and \$0.6 million to its interest rate swap assets and liabilities, respectively, related to variation margin.

(2) As of September 30, 2018, the Company applied a reduction in fair value of \$0.6 million to its U.S. Treasury Futures assets related to variation margin. As of December 31, 2017, the Company did not apply a fair value reduction to its U.S. Treasury Futures assets and liabilities.

(3) The Company’s obligation to return securities borrowed under reverse repurchase agreements relates to securities borrowed to cover short sales of U.S. Treasury securities. The change in fair value of the borrowed securities is recorded in the “Unrealized gain/(loss) on derivatives and other instruments, net” line item on the Company’s consolidated statement of operations.

The following table summarizes the notional amount of certain of our non-hedge derivatives and other instruments (in thousands):

Non-hedge derivatives and other instruments held long/(short):	September 30, December 31,	
	2018	2017
Notional amount of Pay Fix/Receive Float Interest Rate Swap Agreements	\$ 2,143,000	\$ 2,227,000
Net notional amount of Swaptions	250,000	270,000
Notional amount of short positions on U.S. Treasury Futures (1)	(50,000)	(52,500)
Notional amount of short positions on U.S. Treasuries	(5,750)	(24,668)

(1) Each U.S. Treasury Future contract embodies \$100,000 of notional value.

The following table summarizes gains/(losses) related to derivatives and other instruments (in thousands):

Non-hedge derivatives and other instruments gain/(loss):	Statement of Operations Location	Three Months Ended		Nine Months Ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest rate swaps, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	\$5,921	\$ 2,955	\$47,783	\$ 6,214
Interest rate swaps, at fair value	Net realized gain/(loss)	7,925	(1,813)	13,787	(9,896)
Eurodollar Futures	Unrealized gain/(loss) on derivative and other instruments, net	—	75	—	75
Eurodollar Futures	Net realized gain/(loss)	—	323	—	323
Swaptions, at fair value	Unrealized gain/(loss) on derivative and other instruments, net	(449)	—	(481)	—
Swaptions, at fair value	Net realized gain/(loss)	—	—	51	—
U.S. Treasury Futures	Unrealized gain/(loss) on derivative and other instruments, net	573	(722)	464	658
U.S. Treasury Futures	Net realized gain/(loss)	(5)	(224)	735	(4,055)
U.S. Treasuries	Unrealized gain/(loss) on derivative and other instruments, net	28	—	(66)	(1,725)
U.S. Treasuries	Net realized gain	—	—	131	1,731

The following table summarizes the weighted average life of our non-hedge derivatives and other instruments:

Weighted Average Life (Years) on non-hedge derivatives and other instruments	September 30, 2018	December 31, 2017
Interest rate swaps	5.41	4.56
Swaptions	0.29	0.59
Short positions on U.S. Treasury Futures	0.22	0.22
Short positions on U.S. Treasuries	2.88	6.86

Interest rate swaps

To help mitigate exposure to increases in interest rates, we use currently-paying and may use forward-starting, one- or three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement helps hedge our exposure to higher interest rates because the variable-rate payments received on the swap agreements help to offset additional interest accruing on the related borrowings due to the higher interest rate, leaving the fixed-rate payments to be paid on the swap agreements as our effective borrowing rate, subject to certain adjustments including changes in spreads between variable rates on the swap agreements and actual borrowing rates.

As of September 30, 2018, our interest rate swap positions consisted of pay-fixed interest rate swaps. The following table presents information about our interest rate swaps as of September 30, 2018 (in thousands):

Maturity	Notional Amount	Weighted Average Pay-Fixed Rate		Weighted Average Receive-Variable Rate		Weighted Average Years to Maturity
2019	\$ 50,000	1.29	%	2.34	%	1.08
2020	250,000	1.63	%	2.34	%	1.52
2021	27,000	2.86	%	2.31	%	2.89
2022	653,000	1.90	%	2.34	%	3.84

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2023	219,000	2.97	%	2.35	%	4.75
2024	230,000	2.06	%	2.34	%	5.75
2025	125,000	2.87	%	2.36	%	6.63
2026	75,000	2.12	%	2.32	%	8.14
2027	264,000	2.35	%	2.34	%	8.94
2028	250,000	2.97	%	2.34	%	9.66
Total/Wtd Avg	\$ 2,143,000	2.24	%	2.34	%	5.41

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As of December 31, 2017, our interest rate swap positions consisted of pay-fixed interest rate swaps. The following table presents information about our interest rate swaps as of December 31, 2017 (in thousands):

Maturity	Notional Amount	Weighted		Weighted		Weighted Average Years to Maturity
		Average Pay-Fixed Rate	%	Average Receive-Variable Rate	%	
2019	\$170,000	1.36	%	1.43	%	1.88
2020	835,000	1.77	%	1.52	%	2.54
2022	653,000	1.90	%	1.51	%	4.59
2024	230,000	2.06	%	1.47	%	6.50
2026	75,000	2.12	%	1.44	%	8.89
2027	264,000	2.35	%	1.50	%	9.69
Total/Wtd Avg	\$2,227,000	1.89	%	1.50	%	4.56

Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock if and to the extent authorized by our board of directors. Federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT ordinary taxable income, without regard to the deduction for dividends paid and excluding net capital gains and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our financing arrangements and other debt payable. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, prior to the time we have fully deployed the net proceeds of our follow-on offerings to acquire assets in our target asset classes we may fund our quarterly distributions out of such net proceeds.

As mentioned above, our distribution requirements are based on taxable income rather than GAAP net income. The primary differences between taxable income and GAAP net income include (i) unrealized gains and losses associated with investment and derivative portfolios which are marked-to-market in current income for GAAP purposes, but excluded from taxable income until realized or settled, (ii) temporary differences related to amortization of premiums and discounts paid on investments, (iii) the timing and amount of deductions related to stock-based compensation, (iv) temporary differences related to the recognition of realized gains and losses on sold investments and certain terminated derivatives, (v) taxes and (vi) methods of depreciation. Undistributed taxable income is based on current estimates and is not finalized until we file our annual tax return, typically in September of the following year. As of September 30, 2018 the Company had estimated undistributed taxable income of approximately \$1.58 per share.

The following table details our common stock dividends during the nine months ended September 30, 2018 and September 30, 2017:

2018			Dividend
Declaration Date	Record Date	Payment Date	Per Share
3/15/2018	3/29/2018	4/30/2018	0.475
6/18/2018	6/29/2018	7/31/2018	0.500
9/14/2018	9/28/2018	10/31/2018	0.500

2017

Declaration Date	Record Date	Payment Date	Dividend Per Share (1)
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3/10/2017	3/21/2017	4/28/2017	0.475
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6/8/2017	6/19/2017	7/31/2017	0.475
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9/11/2017	9/29/2017	10/31/2017	0.575
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(1) The combined dividend of \$0.575 includes a dividend of \$0.475 per common share and a special cash dividend of \$0.10 per common share.

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The following tables detail our preferred stock dividends during the nine months ended September 30, 2018 and September 30, 2017:

2018

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/16/2018	2/28/2018	3/19/2018	0.51563
8.25% Series A	5/15/2018	5/31/2018	6/18/2018	0.51563
8.25% Series A	8/16/2018	8/31/2018	9/17/2018	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/16/2018	2/28/2018	3/19/2018	0.50
8.00% Series B	5/15/2018	5/31/2018	6/18/2018	0.50
8.00% Series B	8/16/2018	8/31/2018	9/17/2018	0.50

2017

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.25% Series A	2/16/2017	2/28/2017	3/17/2017	0.51563
8.25% Series A	5/15/2017	5/31/2017	6/19/2017	0.51563
8.25% Series A	8/16/2017	8/31/2017	9/18/2017	0.51563

Dividend	Declaration Date	Record Date	Payment Date	Dividend Per Share
8.00% Series B	2/16/2017	2/28/2017	3/17/2017	0.50
8.00% Series B	5/15/2017	5/31/2017	6/19/2017	0.50
8.00% Series B	8/16/2017	8/31/2017	9/18/2017	0.50

Liquidity and capital resources

Our liquidity determines our ability to meet our cash obligations, including commitments to make distributions to our stockholders, pay our expenses, finance our investments and satisfy other general business needs. Our principal sources of cash as of September 30, 2018 consisted of borrowings under financing arrangements, payments of principal and interest we receive on our Agency RMBS and credit portfolio, cash generated from our operating results, and proceeds from capital market transactions. We typically use cash to repay principal and interest on our financing arrangements, to purchase real estate securities, loans and other real estate related assets, to make dividend payments on our capital stock, and to fund our operations. At September 30, 2018, we had \$121.1 million available to support our liquidity needs, comprised of \$30.3 million of cash and \$90.8 million of Agency fixed rate securities and CMOs that have not been pledged as collateral under any of our financing agreements. Refer to the “Contractual obligations” section of this Item 2 for additional obligations that could impact our liquidity.

Leverage

The amount of leverage we may deploy for particular assets depends upon our Manager’s assessment of the credit and other risks of those assets, and also depends on any limitations placed upon us through covenants contained in our

financing agreements. We generate income principally from the yields earned on our investments and, to the extent that leverage is deployed, on the difference between the yields earned on our investments and our cost of borrowing and the cost of any hedging activities. Subject to maintaining both our qualification as a REIT for U.S. federal income tax purposes and our Investment Company Act exemption, to the extent leverage is deployed, we may use a number of sources to finance our investments.

As of September 30, 2018, we had financing arrangements with 41 counterparties, allowing us to utilize leverage in our operations. As of September 30, 2018, we had debt outstanding of \$3.0 billion from 31 counterparties, inclusive of financing arrangements through affiliated entities. The borrowings under financing arrangements have maturities between October 1, 2018 and October 10, 2023. These agreements generally include customary representations, warranties, and covenants, but may also contain more restrictive supplemental terms and conditions. Although specific to each lending agreement, typical supplemental terms include requirements of minimum equity, leverage ratios, performance triggers or other financial ratios. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we would be in default under these agreements and our lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain financing

agreements may contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements could also declare a default.

Under our financing arrangements, we may be required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities or cash. Certain securities that are pledged as collateral under our financing arrangements are in unrealized loss positions.

The following table presents contractual maturity information for our financing arrangements at September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018	December 31, 2017
Overnight	\$126,397	\$128,779
30 days or less	2,353,370	2,106,404
31-60 days	136,189	611,763
61-90 days	47,725	32,445
91-180 days	44,428	1,189
Greater than 180 days	307,421	131,011
Total: Non-GAAP Basis	\$3,015,530	\$3,011,591
Less: Investments in Debt and Equity of Affiliates	\$102,149	\$7,184
Total: GAAP Basis	\$2,913,381	\$3,004,407

As described above in the “Financing activities” section of this Item 2, we entered into the Resecuritization in 2014 that resulted in the consolidation of the VIE created with the SPE. We recorded the proceeds from the issuance of the secured financing in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. See Note 3 to the Notes to Consolidated Financial Statements (unaudited) for more detail.

As described above in the “Financing activities” section of this Item 2, we originated a \$12.0 million commercial loan and transferred the Participation Interest to an unaffiliated third party. We recorded proceeds from the transfer in the “Cash Flows from Financing Activities” section of the consolidated statement of cash flows. The commercial loan was paid off in full in February 2017. The principal and interest due on the loan participation was paid from these proceeds.

The following table presents information at September 30, 2018 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders’ equity at risk with a reconciliation back to GAAP (in thousands).

Counterparty	Stockholders’ Equity at Risk	Weighted Percentage Average Maturity (days)	of Stockholders’ Equity
Credit Suisse Securities, LLC - Non-GAAP	\$ 56,721	131	8 %
Non-GAAP Adjustments	(44,021) (109) (6)%
Credit Suisse Securities, LLC - GAAP	\$ 12,700	22	2 %

The following table presents information at December 31, 2017 with respect to each counterparty that provides us with financing for which we had greater than 5% of our stockholders’ equity at risk (in thousands).

Counterparty	Stockholders’ Equity	Weighted	Percentage of
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	at Risk	Average Maturity (days)	Stockholders' Equity	
RBC (Barbados) Trading Bank Corporation	\$ 45,239	26	6	%
Barclays Capital Inc	39,358	13	6	%

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Margin requirements

The fair value of our real estate securities and loans fluctuate according to market conditions. When the fair value of the assets pledged as collateral to secure a financing arrangement decreases to the point where the difference between the collateral fair value and the financing arrangement amount is less than the haircut, our lenders may issue a “margin call,” which requires us to post additional collateral to the lender in the form of additional assets or cash. Under our repurchase facilities, our lenders have full discretion to determine the fair value of the securities we pledge to them. Our lenders typically value assets 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 paydowns are announced monthly. We experience margin calls in the ordinary course of our business. In seeking to manage effectively the margin requirements established by our lenders, we maintain a position of cash and unpledged Agency RMBS. 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 or if credit spreads widen, then the prices of our collateral (and our unpledged assets that constitute our liquidity) will decline, we will experience margin calls, and we will need to 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 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 potentially unfavorable market conditions and harm our results of operations and financial condition. Further, an unexpected rise in interest rates and a corresponding fall in the fair value of our securities may also force us to liquidate assets under difficult market conditions, thereby harming our results of operations and financial condition, in an effort to maintain sufficient liquidity to meet increased margin calls. Refer to the “Liquidity risk – derivatives” section of Item 3 below for a further discussion on margin.

Similar to the margin calls that we receive on our borrowing agreements, we may also receive margin calls on our derivative instruments when their fair values decline. This typically occurs when prevailing market rates change adversely, with the severity of the change also dependent on the terms of the derivatives involved. Our posting of collateral with our counterparties can be done in cash or securities, and is generally bilateral, which means that if the fair value of our interest rate hedges increases, our counterparty will be required to post collateral with us.

Equity distribution agreement

On May 5, 2017, we entered into an equity distribution agreement with each of Credit Suisse Securities (USA) LLC and JMP Securities LLC (collectively, the “Sales Agents”), which we refer to as the “Equity Distribution Agreements,” pursuant to which we may sell up to \$100.0 million aggregate offering price of shares of our common stock from time to time through the Sales Agents, as defined in Rule 415 under the Securities Act of 1933. The Equity Distribution Agreements were amended on May 2, 2018 in conjunction with the filing of our shelf registration statement registering up to \$750.0 million of its securities, including capital stock (the “2018 Registration Statement”). As of September 30, 2018, we have sold 972,738 shares of common stock under the Equity Distribution Agreements for net proceeds of approximately \$18.1 million.

Forward-looking statements regarding liquidity

Based upon our current portfolio, leverage and available borrowing arrangements, we believe that the net proceeds of our common equity offerings, preferred equity offerings, and private placements, combined with cash flow from operations and our available borrowing capacity will be sufficient to enable us to meet our anticipated liquidity requirements, including funding our investment activities, paying fees under our management agreement, funding our

distributions to stockholders and paying general corporate expenses.

Contractual obligations

Management agreement

On June 29, 2011, we entered into an agreement with our Manager pursuant to which our Manager is entitled to receive a management fee and the reimbursement of certain expenses. The management fee is calculated and payable quarterly in arrears in an amount equal to 1.50% of our Stockholders' Equity, per annum.

For purposes of calculating the management fee, "Stockholders' Equity" means the sum of the net proceeds from any issuances of equity securities (including preferred securities) since inception (allocated on a pro rata daily basis for such issuances during

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the fiscal quarter of any such issuance, and excluding any future equity issuance to the Manager), plus our retained earnings at the end of such quarter (without taking into account any non-cash equity compensation expense or other non-cash items described below incurred in current or prior periods), less any amount that we pay for repurchases of our common stock, excluding any unrealized gains, losses or other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP, and certain other non-cash charges after discussions between the Manager and our independent directors and after approval by a majority of our independent directors. Stockholders' Equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our financial statements. For the three and nine months ended September 30, 2018, we incurred management fees of approximately \$2.4 million and \$7.2 million, respectively. For the three and nine months ended September 30, 2017, we incurred management fees of approximately \$2.5 million and \$7.4 million, respectively.

Our Manager uses the proceeds from its management fee in part to pay compensation to its officers and personnel, who, notwithstanding that certain of them also are our officers, receive no compensation directly from us. We are required to reimburse our Manager or its affiliates for operating expenses which are incurred by our Manager or its affiliates on our behalf, including certain salary expenses and other expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any contractual dollar limitation; however, the reimbursement is subject to an annual budget process which combines guidelines from the Management Agreement with oversight by our board of directors and discussions with our Manager. Of the \$3.5 million and \$10.2 million of Other operating expenses for the three and nine months ended September 30, 2018, respectively, we have accrued \$2.0 million and \$5.5 million, respectively, representing a reimbursement of expenses. Of the \$2.6 million and \$8.2 million of Other operating expenses for the three and nine months ended September 30, 2017, respectively, we have accrued \$1.4 million and \$4.7 million, respectively, representing a reimbursement of expenses.

Share-based compensation

Pursuant to the Manager Equity Incentive Plan and the Equity Incentive Plan, we can award up to 277,500 shares of common stock in the form of restricted stock, stock options, restricted stock units or other types of awards to our directors, officers, advisors, consultants and other personnel and to our Manager. As of September 30, 2018, 48,461 shares of common stock were available to be awarded under the equity incentive plans. Awards under the equity incentive plans are forfeitable until they become vested. An award will become vested only if the vesting conditions set forth in the applicable award agreement (as determined by the compensation committee) are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance goals, or a combination of both. The compensation committee also has the authority to provide for accelerated vesting of an award upon the occurrence of certain events in its discretion.

As of September 30, 2018, we have granted an aggregate of 68,789 and 40,250 shares of restricted common stock to our independent directors and Manager, respectively, and 120,000 restricted stock units to our Manager under our equity incentive plans. As of September 30, 2018, all the shares of restricted common stock granted to our Manager and independent directors have vested and 79,993 restricted stock units granted to our Manager have vested. The 40,007 restricted stock units that have not vested as of September 30, 2018 were granted to the Manager on July 1, 2017, and represent the right to receive an equivalent number of shares of our common stock if and when the units vest. Annual vesting of approximately 20,000 units will occur on each of July 1, 2019 and July 1, 2020. The units do not entitle the participant the rights of a holder of our common stock, such as dividend and voting rights, until shares are issued in settlement of the vested units. The vesting of such units is subject to the continuation of the management agreement. If the management agreement terminates, all unvested units then held by the Manager or the Manager's transferee shall be immediately cancelled and forfeited without consideration.

Unfunded commitments - commercial loans

On February 28, 2017, we, alongside a private fund under the management of Angelo Gordon, purchased a mezzanine loan and agreed to fund a commitment of \$21.9 million. Our share of the commitment is \$14.6 million of which we had funded \$10.4 million as of September 30, 2018. As of September 30, 2018, our remaining commitment was \$4.2 million.

On June 8, 2018, we, alongside private funds under the management of Angelo Gordon and other third parties, entered into a commitment to close on a commercial loan, subject to the satisfaction of certain conditions. Our share of the commitment is \$20.0 million. As of September 30, 2018, the conditions had not been met, the loan had not closed and we had not funded any of this commitment.

On July 26, 2018, we purchased a commercial loan and agreed to fund a commitment of \$75.0 million. We had funded \$15.4 million as of September 30, 2018. As of September 30, 2018, our remaining commitment was \$59.6 million.

On September 21, 2018, we purchased a commercial loan and agreed to fund a commitment of \$36.0 million. We had funded \$36.0 as of September 30, 2018. As of September 30, 2018, there was no remaining commitment.

Unfunded commitments - Mortgage Acquisition Trust I LLC

On August 29, 2017, we, alongside private funds under the management of Angelo Gordon, formed MATH to conduct a residential mortgage investment strategy. MATH in turn sponsored the formation of MATT to purchase predominantly Non-QMs, which are residential mortgage loans that are not deemed “qualified mortgage,” or “QM,” loans under the rules of the CFPB. Non-QMs are not eligible for delivery to Fannie Mae, Freddie Mac, or Ginnie Mae. MATT is expected to make an election to be treated as a real estate investment trust beginning with the 2018 tax year. In furtherance of this business, MATH’s sponsoring funds have agreed to provide up to \$75.0 million of capital to MATH, of which we agreed to provide \$33.4 million for use in this mortgage investment business (net of any return of capital to us). As of September 30, 2018, we had funded \$14.5 million of our total capital commitment and our outstanding commitment was \$18.9 million (net of any return of capital to us).

Unfunded commitments - variable funding note

On March 29, 2018, the Company, alongside private funds under the management of Angelo Gordon, purchased a variable funding note issued pursuant to an indenture. Our share of the total commitment to the variable funding note is \$7.1 million, of which we have funded \$5.1 million as of September 30, 2018. As of September 30, 2018, our remaining commitment was \$2.0 million.

Other

We have presented a table that details the contractual maturity of our financing arrangements at September 30, 2018 in the “Liquidity and capital resources” section for this Item 2. As of September 30, 2018 and December 31, 2017, we are obligated to pay accrued interest on our financing arrangements in the amount of \$5.4 million and \$5.1 million, respectively, inclusive of accrued interest accounted for through investments in debt and equity of affiliates, and exclusive of accrued interest on any financing utilized through AG Arc. The change in accrued interest on our financing arrangements resulted primarily from the increase in one month LIBOR from 1.564 at December 31, 2017 to 2.261 at September 30, 2018. As most of our financing arrangements have maturities of one month or less, the change in one-month LIBOR contributed to the increase in our accrued interest.

Off-balance sheet arrangements

We have entered into TBA positions to facilitate the future purchase or sale of Agency RMBS. We record TBA purchases and sales on the trade date and present the purchase or receipt net of the corresponding payable or receivable until the settlement date of the transaction. As of September 30, 2018, we had a net long TBA position with a net payable amount of \$75.5 million and fair market value of \$75.7 million. We recorded \$0.8 million and \$0.5 million, in the “Derivative assets, at fair value” and “Derivative liabilities, at fair value” line items, respectively, on our consolidated balance sheets.

Our investments in debt and equity of affiliates are primarily comprised of real estate securities, Excess MSR, loans, and our interest in AG Arc. Investments in debt and equity of affiliates are accounted for using the equity method of accounting. As of September 30, 2018, our real estate securities and loans, excess MSR and interest in AG Arc had a fair market value of \$187.9 million, net of any non-recourse securitized debt. As of September 30, 2018, these investments, inclusive of associated financing arrangements and interest receivable/payable had a fair market value of \$79.7 million which is included in the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets.

We have committed to fund a \$14.6 million mezzanine loan. As of September 30, 2018 we have funded \$10.4 million, and our remaining commitment was \$4.2 million.

We have committed to invest up to \$33.4 million in MATT through our ownership of MATH. As of September 30, 2018, we had funded \$14.5 million of our total capital commitment and our outstanding commitment was \$18.9 million (net of any return of capital to us).

We have committed to invest up to \$7.1 million in the variable funding note. As of September 30, 2018, we had funded \$5.1 million of our total commitment and our outstanding commitment was \$2.0 million.

We have entered into a commitment to close on a \$20.0 million commercial loan, subject to the satisfaction of certain conditions. As of September 30, 2018, the conditions had not been met, the loan had not closed and we had not funded any of this commitment.

We have committed to invest up to \$75.0 million in a commercial loan. As of September 30, 2018, we have funded \$15.4 million of our total capital commitment and our outstanding commitment was \$59.6 million.

We have committed to invest up to \$36.0 million in a commercial loan. As of September 30, 2018, we have funded \$36.0 million of our total capital commitment and have no outstanding commitment.

Management views our TBA position and our investments in debt and equity of affiliates as part of our investment portfolio. Exclusive of our TBAs and our investments in debt and equity of affiliates described above, we do not expect these off-balance sheet arrangements, taken as a whole, to be significant to, or have a material impact on, our overall liquidity or capital resources or our operations, given our ability to finance such arrangements.

Certain related person transactions

Our board of directors has adopted a policy regarding the approval of any “related person transaction,” which is any transaction or series of transactions in which (i) we or any of our subsidiaries is or are to be a participant, (ii) the amount involved exceeds \$120,000, and (iii) a “related person” (as defined under SEC rules) has a direct or indirect material interest. Under the policy, a related person would need to promptly disclose to our Secretary or Assistant Secretary any related person transaction and all material facts about the transaction. Our Secretary or Assistant Secretary, in consultation with outside counsel, to the extent appropriate, would then assess and promptly communicate that information to the audit committee of our board of directors. Based on its consideration of all of the relevant facts and circumstances, the audit committee will review, approve or ratify such transactions as appropriate. The audit committee will not approve or ratify a related person transaction unless it shall have determined that such transaction is in, or is not inconsistent with, our best interests and does not create a conflict of interest. If we become aware of an existing related person transaction that has not been approved under this policy, the transaction will be referred to the audit committee which will evaluate all options available, including ratification, revision or termination of such transaction. Our policy requires any director who may be interested in a related person transaction to recuse himself or herself from any consideration of such related person transaction.

Grants of restricted common stock

As of September 30, 2018, we have granted an aggregate of 68,789 and 40,250 shares of restricted common stock to our independent directors and Manager, respectively, and 120,000 shares of restricted stock units to our Manager under our equity incentive plans. As of September 30, 2018, all the shares of restricted common stock granted to our Manager and independent directors have vested and 79,993 restricted stock units granted to our Manager have vested.

Red Creek

In connection with our investments in residential loans and Securitized Whole Loans, we may engage asset managers to provide advisory, consultation, asset management and other services to help our third-party servicers formulate and implement strategic plans to manage, collect and dispose of loans in a manner that is reasonably expected to maximize the amount of proceeds from each loan. Beginning in November 2015, we engaged Red Creek Asset Management LLC (“Asset Manager”), an affiliate of the Manager and a direct subsidiary of Angelo Gordon, as the asset manager for certain of our residential loans and Securitized Whole Loans. The Asset Manager acknowledges that we will at all times have and retain ownership of all loans and that the Asset Manager will not acquire (i) title to any loan, (ii) any security interest in any loan, or (iii) any other rights or interests of any kind or any nature whatsoever in or to any loan. We pay separate arm’s-length asset management fees, as assessed and confirmed periodically by a third-party valuation firm, for (i) non-performing loans and (ii) re-performing loans. For the three and nine months ended September 30, 2018, the fees paid by us to the Asset Manager totaled \$123,050 and \$244,481, respectively. For the three and nine months ended September 30, 2017, the fees paid by us to the Asset Manager totaled \$41,732 and \$137,022, respectively.

Arc Home

On December 9, 2015, we, alongside private funds under the management of Angelo Gordon, through AG Arc, formed Arc Home, a Delaware limited liability company. Arc Home, through its subsidiary, originates conforming, Government, Jumbo and other non-conforming residential mortgage loans, retains the mortgage servicing rights associated with the loans it originates, and purchases additional mortgage servicing rights from third-party sellers. Our investment in Arc Home, which is conducted through AG Arc, one of our indirect subsidiaries, is reflected on the “Investments in debt and equity of affiliates” line item on our consolidated balance sheets and had a fair value of \$23.1 million and \$17.9 million on September 30, 2018 and December 31, 2017, respectively

Arc Home may sell loans to us or to affiliates of our Manager. Arc Home may also enter into agreements with us, third parties, or affiliates of our Manager to sell Excess MSR on the mortgage loans that it either purchases from third parties or originates. We

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have entered into agreements with Arc Home to purchase rights to receive the excess servicing spread related to certain of its MSR's and as of September 30, 2018, these Excess MSR's had fair value of approximately \$29.3 million.

In connection with our investments in Excess MSR's purchased through Arc Home, we pay an administrative fee to Arc Home. For the three and nine months ended September 30, 2018 the administrative fees paid by us to Arc Home totaled \$87,264 and \$164,946, respectively. For the three and nine months ended September 30, 2017 the administrative fees paid by us to Arc Home totaled \$2,921 and \$6,364, respectively.

Mortgage Acquisition Trust I LLC

On August 29, 2017, we, alongside private funds under the management of Angelo Gordon entered into the MATH LLC Agreement, which requires that MATH fund a capital commitment of \$75.0 million to MATT. Our share of MATH's total capital commitment to MATT is \$33.4 million, of which we had funded \$14.5 million as of September 30, 2018. As of September 30, 2018, our remaining commitment was \$18.9 million (net of any return of capital to us).

Management agreement

On June 29, 2011 we entered into a management agreement with our Manager, which governs the relationship between us and our Manager and describes the services to be provided by our Manager and its compensation for those services. The terms of our management agreement, including the fees payable by us to Angelo Gordon, were not negotiated at arm's length, and its terms may not be as favorable to us as if they had been negotiated with an unaffiliated party. Our Manager, pursuant to the delegation agreement dated as of June 29, 2011, has delegated to Angelo Gordon the overall responsibility of its day-to-day duties and obligations arising under our management agreement. For further detail on the Management Agreement, see the "Contractual obligations—Management agreement" section of this Item 2.

Other transactions with affiliates

Our board of directors has adopted a policy regarding the approval of any "affiliated transaction," which is any transaction or series of transactions in which Angelo Gordon arranges for the purchase and sale of a security or other investment between or among us, on the one hand, and an entity or entities under Angelo Gordon's management, on the other hand (an "Affiliated Transaction"). In order for the Company to enter into an Affiliated Transaction, the Affiliated Transaction must be approved by the Chief Risk Officer of the Company and the Chief Compliance Officer of Angelo Gordon. The price at which the security or investment is traded is the market price or market bid for such security or investment. Independent third-party valuations are used when market prices or bids are not available or prove to be impracticable to acquire. Our Affiliated Transactions are reviewed by our Audit Committee on a quarterly basis to confirm compliance with the policy.

In June 2016, in accordance with our Affiliated Transactions Policy, we executed two trades whereby we acquired real estate securities from two separate affiliates of the Manager (the "June Selling Affiliates"). As of the date of the trades, the securities acquired from the June Selling Affiliates had a total fair value of \$6.9 million. In each case, the June Selling Affiliates sold the real estate securities through a BWIC (Bids Wanted in Competition). Prior to the submission of the BWIC by the June Selling Affiliates, we submitted our bid for the real estate securities to the June Selling Affiliates. The pre-submission of our bid allowed us to confirm third-party market pricing and best execution.

In February 2017, in accordance with our Affiliated Transactions Policy, we executed one trade whereby we acquired a real estate security from an affiliate of the Manager (the "February Selling Affiliate"). As of the date of the trade, the security acquired from the February Selling Affiliate had a total fair value of \$2.0 million. The February Selling

Affiliate sold the real estate security through a BWIC. Prior to the submission of the BWIC by the February Selling Affiliate, we submitted our bid for the real estate security to the February Selling Affiliate. The pre-submission of our bid allowed us to confirm third-party market pricing and best execution.

In July 2017, in accordance with our Affiliated Transactions Policy, we acquired certain real estate securities from an affiliate of the Manager (the “July Selling Affiliate”). As of the date of the trade, the securities acquired from the July Selling Affiliate had a total fair value of \$0.2 million. As procuring market bids for the real estate securities was determined to be impracticable in the Manager’s reasonable judgment, appropriate pricing was based on a valuation prepared by an independent third-party pricing vendor. The third-party pricing vendor allowed us to confirm third-party market pricing and best execution.

In October 2017, in accordance with our Affiliated Transactions Policy, we acquired certain real estate securities and loans from two separate affiliates of the Manager (the “October Selling Affiliates”). As of the date of the trade, the securities and loans acquired from the October Selling Affiliates had a total fair value of \$8.4 million. As procuring market bids for the real estate securities

and loans was determined to be impracticable in the Manager's reasonable judgment, appropriate pricing was based on a valuation prepared by independent third-party pricing vendors. The third-party pricing vendors allowed us to confirm third-party market pricing and best execution.

Critical accounting policies

Our consolidated financial statements are prepared in accordance with GAAP, which requires the use of estimates that involve the exercise of judgment and the use of assumptions as to future uncertainties. Our most critical accounting policies involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our consolidated financial statements are based are reasonable at the time made and based upon information available to us at that time. We rely upon independent pricing of our assets at each quarter end to arrive at what we believe to be reasonable estimates of fair market value, whenever available. For more information on our fair value measurements, see Note 7 to the "Notes to Consolidated Financial Statements (unaudited)." For a review of our significant accounting policies and the recent accounting pronouncements that may impact our results of operations, see Note 2 to the "Notes to Consolidated Financial Statements (unaudited)."

Accounting for single-family rental properties

Purchases of single-family rental properties are treated as asset acquisitions under ASU 2017-01, "Clarifying the Definition of a Business" and are recorded at their purchase price, which is allocated between land, building and improvements, and in-place lease intangibles (when a tenant is in place at the acquisition date) based upon their relative fair values at the date of acquisition. Fair value is determined in accordance with ASC 820 and is primarily based on unobservable data inputs. In making estimates of fair values for purposes of allocating the purchase price, we utilize our own market knowledge and published market data and generally engage a third-party valuation specialist to assist us in the determination of fair value for purposes of allocating price of properties acquired as part of portfolio level transactions. For purposes of this allocation, the purchase price is inclusive of acquisition costs, which include legal costs, as well as other closing costs.

We incur costs to acquire, stabilize and prepare our single-family rental properties to be rented. These costs include renovation and other costs associated with these activities. We capitalize these costs as a component of our investment in each single-family rental property, using specific identification and relative allocation methodologies. The capitalization period associated with our stabilization activities begins at such time that activities commence and concludes at the time that a single-family rental property is available to be leased. Once a property is ready for its intended use, expenditures for ordinary maintenance and repairs are expensed to operations as incurred. We capitalize expenditures that improve or extend the life of a home and for certain furniture and fixtures additions.

The Company records single-family rental properties at purchase price less accumulated depreciation. Costs capitalized in connection with property acquisitions and improvements are depreciated over their estimated useful lives on a straight line basis. For costs capitalized in connection with property acquisitions and improvements, the weighted average useful lives range from 5 years to 30 years. In-place lease intangibles are recorded based on the costs to execute similar leases as well as an estimate of lost rent revenue at in-place rental rates during the estimated time required to lease the property. The in-place lease intangibles are amortized over the remaining life of the leases and are recorded in "Single-family rental properties, net" on the Company's consolidated balance sheets. The weighted average remaining life of the leases is 7.4 months.

We assess impairment in our single-family rental properties at least on a quarterly basis, or whenever events or changes in business circumstances indicate that carrying amounts of the assets may not be fully recoverable. When such trigger events occur, we determine whether there has been impairment by comparing the asset's carrying value with its estimated fair value. Should impairment exist, the asset is written down to its estimated fair value. This

analysis is performed at the property level using estimated cash flows, which are estimated based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property, expected ownership periods and value of the property. If the carrying amount of a property exceeds the sum of its undiscounted future operating and disposition cash flows, an impairment loss is recorded for excess of the carrying amount over the estimated fair value.

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the leases in rental income. Therefore, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental income recognized during the period. Straight-line rental income commences when the customer takes control of the leased premises.

Deal related performance fees

The Company accrues deal related performance fees, payable to Arc Home and third party operators, on certain of its CMBS, Excess MSRs and its single-family rental properties. The deal related performance fees are based on these investments meeting certain performance hurdles. The fees are accrued and expensed during the period for which they are calculated and earned.

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.

Other matters

We intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of the Investment Company Act. If we failed to maintain our exempt status under the Investment Company Act and became regulated as an investment company, our ability to, among other things, use leverage would be substantially reduced and, as a result, we would be unable to conduct our business as described in this report. Accordingly, we monitor our compliance with both the 55% Test and the 80% Test of the Investment Company Act in order to maintain our exempt status. As of December 31, 2017, we determined that we maintained compliance with both the 55% Test and the 80% Test requirements.

We calculate that at least 75% of our assets were real estate assets, cash and cash items and government securities for the year ended December 31, 2017. We also calculate that our revenue qualifies for the 75% gross income test and for the 95% gross income test rules for the year ended December 31, 2017. Overall, we believe that we met the REIT income and asset tests. We also believe that we met all other REIT requirements, including the ownership of our common stock and the distribution of our net income. Therefore, for the year ended December 31, 2017, we believe that we qualified as a REIT under the Code.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary components of our market risk relate to interest rates, liquidity, prepayment rates and credit risk. While we do not seek to avoid risk completely, we seek to assume risk that can be quantified from historical experience and to actively manage that risk, to earn sufficient returns to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest rate risk

Interest rate risk is highly sensitive to many factors, including governmental monetary, fiscal and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with both our investments and the financing under our financing arrangements. We generally seek to manage this risk by monitoring the reset index and the interest rate related to our target assets and our financings; by structuring our financing agreements to have a range of maturity terms, amortizations and interest rate adjustment periods; and by using hedging instruments to adjust interest rate sensitivity of our target assets and borrowings.

Interest rate effects on net interest income

Our operating results depend in large part upon differences between the yields earned on our investments and our cost of borrowing and upon the effectiveness of our interest rate hedging activities. The majority of our financing arrangements are short term in nature with an initial term of between 30 and 90 days. The financing rate on these agreements will generally be determined at the outset of each transaction by reference to prevailing rates plus a spread. As a result, our borrowing costs will tend to increase during periods of rising interest rates as we renew, or “roll”, maturing transactions at the higher prevailing rates. When combined with the fact that the income we earn on our fixed interest rate investments will remain substantially unchanged, this will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. We have obtained term financing on certain borrowing arrangements. The financing on term facilities generally are fixed at the outset of each transaction by reference to a pre-determined interest rate plus a spread.

In an attempt to offset the increase in funding costs related to rising interest rates, our Manager enters into hedging transactions structured to provide us with positive cash flow in the event interest rates rise. Our Manager accomplishes this through the use of interest rate derivatives. Some hedging strategies involving the use of derivatives are highly complex, may produce volatile returns and may expose us to increased risks relating to counterparty defaults.

Interest rate effects on fair value

Another component of interest rate risk is the effect that changes in interest rates will have on the market value of the assets that we acquire.

Generally, in a rising interest rate environment, the fair value of our real estate securities and loan portfolios would be expected to decrease, all other factors being held constant. In particular, the portion of our real estate securities and loan portfolios with fixed-rate coupons would be expected to decrease in value more severely than that portion with a floating-rate coupon. This is because fixed-rate coupon assets tend to have significantly more duration or price sensitivity to changes in interest rates, than floating-rate coupon assets. Fixed-rate assets currently comprise a majority of our portfolio.

The fair value of our investment portfolio could change at a different rate than the fair value of our liabilities when interest rates change. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel

shift in the yield curve. In general, our assets have higher duration than our liabilities. In order to reduce this exposure we use hedging instruments to reduce the gap in duration between our assets and liabilities.

We calculate estimated effective duration (i.e., the price sensitivity to changes in risk-free interest rates) to measure the impact of changes in interest rates on portfolio value. We estimate duration based on third-party models. Different models and methodologies can produce different effective duration estimates for the same securities. We allocate the net duration by asset type based on the interest rate sensitivity.

The following chart details information about our duration gap as of September 30, 2018:

Duration (1)(2)	Years
Agency RMBS	3.11
Hedges	(3.03)
Agency RMBS Gap Subtotal	0.08

Credit Investments	1.04
Duration Gap	1.12

(1) Duration related to financing arrangements is netted within its respective Agency RMBS and Credit Investments line items

(2) The calculation of duration does not include our SFR portfolio.

The following table quantifies the estimated changes in net interest income, GAAP equity, and the market value of our assets should interest rates go up or down by 25, 50 and 75 basis points, assuming (i) the yield curves of the rate shocks will be parallel to each other and the current yield curve and (ii) all other market risk factors remain constant. These estimates were compiled using a combination of third-party services and models, market data and internal models. All changes in income and equity are measured as percentage changes from the projected net interest income and GAAP equity from our base interest rate scenario. The base interest rate scenario assumes spot and forward interest rates, which existed as of September 30, 2018. Actual results could differ materially from these estimates.

Agency RMBS assumptions attempt to predict default and prepayment activity at projected interest rate levels. To the extent that these estimates or other assumptions do not hold true, actual results will likely differ materially from projections and could be larger or smaller than the estimates in the table below. Moreover, if different models were employed in the analysis, materially different projections could result. In addition, while the table below reflects the estimated impact of interest rate increases and decreases on a static portfolio as of September 30, 2018, our Manager may from time to time sell any of our investments as a part of the overall management of our investment portfolio.

Change in Interest Rates (basis points) (1)(2)	Change in Market Value as a Percentage of GAAP Equity	Change in Market Value as a Percentage of Assets	Percentage Change in Projected Net Interest Income (3)
75	(4.6)%	(0.8)%	(3.2)%
50	(2.9)%	(0.5)%	(2.1)%
25	(1.4)%	(0.3)%	(1.1)%
(25)	1.3%	0.2%	1.0%
(50)	2.1%	0.4%	2.0%
(75)	2.4%	0.4%	2.9%

(1) Includes investments held through affiliated entities that are reported as “Investments in debt and equity of affiliates” on our consolidated balance sheet, but excludes AG Arc.

(2) Does not include cash investments, which typically have overnight maturities and are not expected to change in value as interest rates change.

(3) Interest income includes trades settled as of September 30, 2018.

The information set forth in the interest rate sensitivity table above and all related disclosures constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Actual results could differ significantly from those estimated in the foregoing interest rate sensitivity table.

Liquidity risk

Our primary liquidity risk arises from financing long-maturity assets with shorter-term borrowing primarily in the form of financing arrangements.

Liquidity risk – financing arrangements

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We pledge real estate securities or mortgage loans and cash as collateral to secure our repurchase transactions. Should the fair value of our real estate securities or mortgage loans pledged as collateral decrease (as a result of rising interest rates, changes in prepayment speeds, widening of credit spreads or otherwise), we will likely be subject to margin calls for additional collateral from our financing counterparties. Should the fair value of our real estate securities or mortgage loans decrease materially and suddenly, margin calls will likely increase causing an adverse change to our liquidity position which could result in substantial losses. In addition, we cannot be assured that we will always be able to roll our repurchase transactions at their scheduled maturities which could cause material additional harm to our liquidity position and result in substantial losses. Further, should funding conditions tighten as they did in 2007 and 2009, our financing arrangement counterparties may increase our margin requirements on new financings, including repurchase transactions that we roll at maturity with the same counterparty, which would require us to post additional collateral and would reduce our ability to use leverage and could potentially cause us to incur substantial losses.

Liquidity risk - derivatives

The terms of our interest rate swaps and futures require us to post collateral in the form of cash or Agency RMBS to our counterparties to satisfy two types of margin requirements: variation margin and initial margin.

We and our swap and futures counterparties are both required to post variation margin to each other depending upon the daily moves in prevailing benchmark interest rates. The amount of this variation margin is derived from the mark to market valuation of our swaps or futures. Hence, as our swaps or futures lose value in a falling interest rate environment, we are required to post additional variation margin to our counterparties on a daily basis; conversely, as our swaps or futures gain value in a rising interest rate environment, we are able to recall variation margin from our counterparties. By recalling variation margin from our swap or futures counterparties, we are able to partially mitigate the liquidity risk created by margin calls on our repurchase transactions during periods of rising interest rates.

Initial margin works differently. Collateral posted to meet initial margin requirements is intended to create a safety buffer to benefit our counterparties if we were to default on our payment obligations under the terms of the swap or futures and our counterparties were forced to unwind the swap or futures. For trades executed on a bilateral basis, the initial margin is set at the outset of each trade as a fixed percentage of the notional amount of the trade. This means that once we post initial margin at the outset of a bilateral trade, we will have no further posting obligations as it pertains to initial margin. However, the initial margin on our centrally cleared trades varies from day to day depending upon various factors, including the absolute level of interest rates and the implied volatility of interest rates. There is a distinctly positive correlation between initial margin, on the one hand, and the absolute level of interest rates and implied volatility of interest rates, on the other hand. As a result, in times of rising interest rates or increasing rate volatility, we anticipate that the initial margin required on our centrally-cleared trades will likewise increase, potentially by a substantial amount. These margin increases will have a negative impact on our liquidity position and will likely impair the intended liquidity risk mitigation effect of our swaps and futures discussed above.

Our TBA dollar roll contracts are also subject to margin requirements governed by the Mortgage-Backed Securities Division ("MBSD") of the Fixed Income Clearing Corporation and by our prime brokerage agreements, which may establish margin levels in excess of the MBSD. Such provisions require that we establish an initial margin based on the notional value of the TBA contract, which is subject to increase if the estimated fair value of our TBA contract or the estimated fair value of our pledged collateral declines. The MBSD has the sole discretion to determine the value of our TBA contracts and of the pledged collateral securing such contracts. In the event of a margin call, we must generally provide additional collateral, either securities or cash, on the same business day.

Our Manager seeks to mitigate our liquidity risks by maintaining a prudent level of leverage, monitoring our liquidity position on a daily basis and maintaining a substantial cushion of cash and unpledged real estate securities and loans in our portfolio in order to meet future margin calls. In addition, our Manager seeks to further mitigate our liquidity risk by (i) diversifying our exposure across a broad number of financing counterparties, (ii) limiting our exposure to

any single financing counterparty and (iii) monitoring the ongoing financial stability of our financing counterparties.

Prepayment risk

Premiums arise when we acquire real estate assets at a price in excess of the principal balance of the mortgages securing such assets (i.e., par value). Conversely, discounts arise when we acquire assets at a price below the principal balance of the mortgages securing such assets. Premiums paid on our assets are amortized against interest income and accretable purchase discounts on our assets are accreted to interest income. Purchase premiums on our assets, which are primarily carried on our Agency RMBS, are amortized against interest income over the life of each respective asset using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the yield or interest income earned on such assets. Generally, if prepayments on our Non-

Agency RMBS or mortgage loans are less than anticipated, we expect that the income recognized on such assets would be reduced due to the slower accretion of purchase discounts, and impairments could result.

As further discussed in Note 2 of the “Notes to Consolidated Financial Statements (unaudited),” differences between previously estimated cash flows and current actual and anticipated cash flows caused by changes to prepayment or other assumptions are adjusted retrospectively through a “catch up” adjustment for the impact of the cumulative change in the effective yield through the reporting date for securities accounted for under ASC 320-10 (generally, Agency RMBS) or adjusted prospectively through an adjustment of the yield over the remaining life of the investment for investments accounted for under ASC 325-40 (generally, Non-Agency RMBS, ABS, CMBS, Excess MSR and interest-only securities) and mortgage loans accounted for under ASC 310-30.

In addition, our interest rate hedges are structured in part based upon assumed levels of future prepayments within our real estate securities or mortgage loan portfolio. If prepayments are slower or faster than assumed, the life of the real estate securities or mortgage loans will be longer or shorter than assumed, respectively, which could reduce the effectiveness of our Manager’s hedging strategies and may cause losses on such transactions.

Our Manager seeks to mitigate our prepayment risk by investing in real estate assets with a variety of prepayment characteristics as well as by attempting to maintain in our portfolio a mix of assets purchased at a premium with assets purchased at a discount.

Real estate value risk

Residential and commercial property values are subject to volatility and may be affected adversely by a number of factors outside of our control, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing or commercial real estate); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values reduce the value of the collateral underlying our RMBS and CMBS portfolios as well as the potential sale proceeds available to repay our loans in the event of a default. In addition, substantial decreases in property values can increase the rate of strategic defaults by residential mortgage borrowers which can impact and create significant uncertainty in the recovery of principal and interest on our investments.

Credit risk

Although we expect to encounter only de minimis credit risk in our Agency RMBS portfolio, we are exposed to the risk of potential credit losses from an unanticipated increase in borrower defaults as well as general credit spread widening on any Non-Agency assets in our portfolio, including residential and commercial mortgage loans as well as Non-Agency RMBS, ABS and CMBS. We seek to manage this risk through our Manager’s pre-acquisition due diligence process and, if available, through the use of non-recourse financing, which limits our exposure to credit losses to the specific pool of collateral which is the subject of the non-recourse financing. Our Manager’s pre-acquisition due diligence process includes the evaluation of, among other things, relative valuation, supply and demand trends, the shape of various yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Basis risk

Basis risk refers to the possible decline in our book value triggered by the risk of incurring losses on the fair value of our Agency RMBS as a result of widening market spreads between the yields on our Agency RMBS and the yields on comparable duration Treasury securities. The basis risk associated with fluctuations in fair value of our Agency RMBS may relate to factors impacting the mortgage and fixed income markets other than changes in benchmark

interest rates, such as actual or anticipated monetary policy actions by the Federal Reserve, market liquidity, or changes in required rates of return on different assets. Consequently, while we use interest rate swaps and other hedges to protect against moves in interest rates, such instruments will generally not protect our net book value against basis risk.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to: national, regional and local economic conditions (which may be adversely affected by high rates of unemployment, high interest rates, lack of available financing, industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses.

Seasonality

Our SFR portfolio and related operating results may be impacted by seasonal factors throughout the year. In particular, we may experience higher levels of resident move-outs during the summer months, which may impact both our rental revenues and related turnover costs. Further, our property operating costs can be seasonally impacted in certain markets by increases in expenses such as HVAC repairs, costs to re-resident, and landscaping expenses during the summer season.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the Company is required to disclose in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that the Company's management, including its principal executive officer and principal financial officer, as appropriate, allow for timely decisions regarding required disclosure.

We have evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of September 30, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, which excludes the impact of the acquisition of the SFR portfolio described below, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change occurred in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except as set forth below.

On September 10, 2018, we completed the acquisition of a portfolio of Single-Family Rental Properties ("SFR"). We currently exclude, and are in the process of working to incorporate, the SFR portfolio in our evaluation of internal controls over financial reporting and the related evaluation of the effectiveness of our disclosure controls and procedures, pursuant to SEC guidance that a recently acquired business may be omitted from the scope of such assessment for up to one year from the date of acquisition. For the three and nine months ended September 30, 2018, SFR revenues represented approximately 4.0% and 2.7% of Net Income/(Loss) Available to Common Stockholders, respectively. At September 30, 2018, SFR represented 3.6% of our total assets.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are at times subject to various legal proceedings arising in the ordinary course of business. In addition, in the ordinary course of business, we can be and are involved in governmental and regulatory examinations, information gathering requests, investigations and proceedings. As of the date of this report, we are not party to any litigation or legal proceedings, or to our knowledge, any threatened litigation or legal proceedings, which we believe, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS.

Refer to the risks identified under the caption “Risk Factors”, in our Annual Report on Form 10-K for the year ended December 31, 2017 and our subsequent filings, which are available on the Securities and Exchange Commission’s website at www.sec.gov, and in the “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections herein.

We are employing a business model with a limited track record, which may make our business difficult to evaluate.

Until 2012, the single-family rental business consisted primarily of private and individual investors in local markets and was managed individually or by small, local property managers. Our investment strategy involves purchasing, renovating, maintaining and managing a portfolio of residential properties and leasing them to suitable tenants. Large, well-capitalized investors have only recently entered this business and, as a result, there are not peer companies with an established long-term track record to assist us in predicting whether our investment strategy can be implemented and sustained successfully over time. It will be difficult for you to evaluate our potential future performance without the benefit of established long-term track records from companies implementing a similar business model. We may encounter unanticipated problems implementing our investment strategy, which may adversely affect our results of operations and ability to make distributions to our shareholders and cause our share price to decline significantly. We believe the acquisition, operation and management of multi-family residential real estate is the most comparable established model for our business, but in contrast to multi-family operations, the geographic dispersion of single-family properties (even within a local clustering) creates significantly greater operational and maintenance challenges and, potentially, significantly higher per-unit operating costs. In addition, since each home has unique features, appliances and building materials, renovations, maintenance, marketing and operational tasks will be far more varied and demanding than in a typical multi-family setting. We may be unable to operate a portfolio of single-family rental properties in a cost-effective and profitable manner and our business plan may not succeed.

We face significant competition in the leasing market for quality tenants, which may limit our ability to rent our single-family homes on favorable terms or at all.

We face competition for tenants from other lessors of single-family properties, apartment buildings and condominium units, and the continuing development of single-family properties, apartment buildings and condominium units in many of our markets increases the supply of housing and exacerbates competition for tenants. Competing properties may be newer, better located and more attractive to tenants. Potential competitors may have lower rates of occupancy than we do or may have superior access to capital and other resources than we do, which may result in competitive properties offered at lower rental rates than we might offer. Many of these competitors may successfully attract tenants with better incentives and amenities, which could adversely affect our ability to obtain quality tenants and lease our single-family properties on favorable terms or at all. Additionally, some competing housing options may qualify for government subsidies that may make such options more affordable and therefore more attractive than our properties.

In addition, increases in unemployment levels and other adverse changes in economic conditions in our markets may adversely affect the creditworthiness of potential residents, which may decrease the overall number of qualified residents for our properties within such markets. We could also be adversely affected by the development of competing properties or high vacancy rates of homes in our markets, which could result in an excess supply of homes and reduce occupancy and rental rates.

Improving economic conditions, along with the availability of historically low residential mortgage interest rates and government sponsored programs to promote home ownership, have made home ownership more affordable and more accessible for potential renters who have strong credit. These factors may encourage potential renters to purchase residences rather than lease them, thereby causing a decline in the number and quality of potential tenants available to

us. No assurance can be given that we will be able to attract and retain qualified tenants. Our operating results and ability to make distributions to the Company's shareholders would be adversely affected if we are not able to lease our properties on favorable terms or at all.

Environmentally hazardous conditions may adversely affect our financial condition, cash flows and operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by applicable environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resources or property damage or other costs, including investigation and clean-up costs,

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resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which properties may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, financial condition, results of operations and, consequently, amounts available for distribution to shareholders.

Compliance with new or more stringent environmental laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We may be subject to environmental laws or regulations relating to our properties, such as those concerning lead-based paint, mold, asbestos, proximity to power lines or other issues. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of residents, existing conditions of the land, operations in the vicinity of the properties or the activities of unrelated third parties. In addition, we may be required to comply with various local, state and federal fire, health, life-safety and similar regulations. Failure to comply with applicable laws and regulations could result in fines and/or damages, suspension of personnel, civil liability and/or other sanctions.

We may not be able to effectively control the timing and costs relating to the renovation of properties, which may adversely affect our operating results and our ability to make distributions on our preferred and common shares.

Nearly all of our properties require some level of renovation either immediately upon their acquisition or in the future following expiration of a lease or otherwise. We may acquire properties that we plan to renovate extensively. We also may acquire properties that we expect to be in good condition only to discover unforeseen defects and problems that require extensive renovation and capital expenditures. To the extent properties are leased to existing tenants, renovations may be postponed until the tenant vacates the premises, and we will pay the costs of renovating. In addition, from time to time, in order to reposition properties in the rental market, we will be required to make ongoing capital improvements and replacements and perform significant renovations and repairs that tenant deposits and insurance may not cover.

Our properties have infrastructure and appliances of varying ages and conditions. Consequently, we routinely retain independent contractors and trade professionals to perform physical repair work and are exposed to all of the risks inherent in property renovation and maintenance, including potential cost overruns, increases in labor and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits, certificates of occupancy and poor workmanship. If our assumptions regarding the costs or timing of renovation and maintenance across our properties prove to be materially inaccurate, our operating results and ability to make distributions to our shareholders may be adversely affected.

We face significant competition for acquisitions of our single-family rental properties, which may limit our strategic opportunities and increase the cost to acquire those properties.

We face significant competition for attractive acquisition opportunities in our target markets from other large real estate investors, some of which have greater financial resources and a lower cost of capital than we do. We also compete with individual private home buyers and small scale investors. Several REITs and other funds have deployed, and others may in the future deploy, significant amounts of capital to purchase single-family homes and may have investment objectives that overlap and compete with ours, including in our target markets. This activity may adversely impact our level of purchases in certain of our target markets. If our business model or a similar model proves to be

successful, we can expect competition to intensify significantly. As a result, the purchase price of potential acquisition properties may be significantly elevated, or we may be unable to acquire properties on desirable terms or at all.

We may become a target of legal demands, litigation (including class actions) and negative publicity by tenant and consumer rights organizations, which could directly limit and constrain our operations and may result in significant litigation expenses and reputational harm.

Numerous tenant rights and consumer rights organizations exist throughout the country and operate in our markets, and we may attract attention from some of these organizations and become a target of legal demands, litigation and negative publicity. Many such consumer organizations have become more active and better funded in connection with mortgage foreclosure-related issues, and with the increased market for homes arising from displaced homeownership, some of these organizations may shift their

litigation, lobbying, fundraising and grass roots organizing activities to focus on landlord-resident issues. While we intend to conduct our business lawfully and in compliance with applicable landlord-tenant and consumer laws, such organizations might work in conjunction with trial and pro bono lawyers in one or multiple states to attempt to bring claims against us on a class action basis for damages or injunctive relief and to seek to publicize our activities in a negative light. We cannot anticipate what form such legal actions might take, or what remedies they may seek.

Additionally, such organizations may lobby local county and municipal attorneys or state attorneys general to pursue enforcement or litigation against us, may lobby state and local legislatures to pass new laws and regulations to constrain or limit our business operations, adversely impact our business or may generate negative publicity for our business and harm our reputation. If they are successful in any such endeavors, they could directly limit and constrain our operations and may impose on us significant litigation expenses, including settlements to avoid continued litigation or judgments for damages or injunctions.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
<u>*3.1</u>	<u>Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Amendment No. 2 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 18, 2011 (“Pre-Effective Amendment No. 2”).</u>
<u>*3.2</u>	<u>Articles of Amendment to Articles of Amendment and Restatement of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on May 5, 2017.</u>
<u>*3.3</u>	<u>Amended and Restated Bylaws of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 3.1 of Pre-Effective Amendment No. 2.</u>
<u>*3.4</u>	<u>Articles Supplementary of 8.25% Series A Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.</u>
<u>*3.5</u>	<u>Articles Supplementary of 8.00% Series B Cumulative Redeemable Preferred Stock, incorporated by reference to Exhibit 3.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u>
<u>*4.1</u>	<u>Specimen Stock Certificate of AG Mortgage Investment Trust, Inc., incorporated by reference to Exhibit 4.1 of Pre-Effective Amendment No. 2.</u>
<u>*4.2</u>	<u>Specimen 8.25% Series A Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on August 2, 2012.</u>
<u>*4.3</u>	<u>Specimen 8.00% Series B Cumulative Redeemable Preferred Stock Certificate, incorporated by reference to Exhibit 4.1 of Form 8-K, filed with the Securities and Exchange Commission on September 24, 2012.</u>
<u>*10.1</u>	<u>Form of Registration Rights Agreement by and between the Company and the purchasers of units and shares in the private placement, dated June 29, 2011, incorporated by reference to Exhibit 10.1 of Amendment No. 7 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on June 29, 2011 (“Pre-Effective Amendment No. 7”).</u>
<u>*10.2</u>	<u>Form of Management Agreement, dated June 29, 2011 by and between the Company and AG REIT Management, LLC, incorporated by reference to Exhibit 10.3 of Amendment No. 3 to our Registration Statement on Form S-11, filed with the Securities and Exchange Commission on April 25, 2011.**</u>
<u>*10.3</u>	<u>Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.4 of Pre-Effective Amendment No. 2.**</u>
<u>*10.4</u>	<u>Manager Equity Incentive Plan, dated July 6, 2011, incorporated by reference to Exhibit 10.5 of Pre-Effective Amendment No. 2.**</u>
<u>*10.5</u>	<u>Form of Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.6 of Pre-Effective Amendment No. 2.**</u>
<u>*10.6</u>	

Form of Manager Equity Incentive Plan Restricted Stock Award Agreement, dated July 6, 2011, incorporated by reference to Exhibit 10.7 of Pre-Effective Amendment No. 2.**

*10.7 Form of Indemnification Agreement, dated July 6, 2011, by and between the Company and the Company's directors and officers, incorporated by reference to Exhibit 10.10 of Pre-Effective Amendment No. 7.

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- *10.8 Amended and Restated Master Repurchase and Securities Contract dated as of April 12, 2013 between AG MIT, LLC, AG Mortgage Investment Trust, Inc. and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on April 15, 2013.
- *10.9 Guarantee Agreement dated as of April 9, 2012 by AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on April 10, 2012.
- *10.10 Amended and Restated Master Repurchase and Securities Contract dated as of February 11, 2014 between AG MIT WFB1 2014 LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on February 21, 2014.
- *10.11 Guarantee Agreement dated as of February 11, 2014 by AG MIT, LLC and AG Mortgage Invest Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on February 21, 2014.
- *10.12 Master Repurchase and Securities Contract dated as of September 17, 2014, as amended by Omnibus Amendment No.1, dated as of August 4, 2015, between AG MIT CREL LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.1 of Form 8-K, filed with the Securities and Exchange Commission on September 18, 2014.
- *10.13 Guarantee Agreement dated as of September 17, 2014 as amended by Omnibus Amendment No.1, dated as of August 4, 2015, by AG MIT, LLC and AG Mortgage Investment Trust, Inc. in favor of Wells Fargo Bank, National Association, incorporated by reference to Exhibit 99.2 of Form 8-K, filed with the Securities and Exchange Commission on September 18, 2014.
- *10.14 Form of Restricted Stock Unit Award Agreement, dated July 1, 2014, incorporated by reference to Exhibit 10.14 on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2014.**
- *10.15 Omnibus Amendment No.1 to Master Repurchase and Securities Contract, Guarantee Agreement and Fee and Pricing Letter dated as of August 4, 2015 between AG MIT CREL, LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.15 of Form 10-Q, filed with the Securities and Exchange Commission on August 6, 2015.
- *10.16 Form of Restricted Stock Unit Award Agreement, dated July 1, 2017, incorporated by reference to Exhibit 10.14 on Form 10-Q, filed with the Securities and Exchange Commission on August 9, 2017.**
- *10.17 Amendment No. 1 to the Equity Distribution Agreement, dated May 22, 2018, by and among the Company and JMP Securities LLC, incorporated by reference to Exhibit 1.1 of Form 8-K, filed with the Securities and Exchange Commission on May 22, 2018.
- *10.18 Amendment No. 1 to the Equity Distribution Agreement, dated May 22, 2018, by and among the Company and Credit Suisse Securities (USA) LLC, incorporated by reference to Exhibit 1.2 of Form 8-K, filed with the Securities and Exchange Commission on May 22, 2018.
- *10.19 Amendment Number 7 to the Master Repurchase and Securities Contract dated as of and effective as of February 18, 2014 between AG MIT WFB1 2014 LLC and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.1 of Form 8-K, filed with the Securities and Exchange Commission on June 25, 2018.

10.20 Purchase and Sale Agreement, dated August 31, 2018, by and among Conrex Residential Property Group 2012-2, LLC, Conrex Residential Property Group 2012-2 Operating Company, LLC, Conrex Residential Property Group 2012-2 (B2R-1) Operating Company, LLC, Conrex Residential Property Group 2012-2 (B2R-2) Operating Company, LLC, Ovation Properties, LLC, and SFR MT LLC.

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<u>10.21</u>	<u>Loan Agreement, dated as of September 10, 2018, by and between SFR MT LLC and Metropolitan Life Insurance Company.</u>
<u>31.1</u>	<u>Certification of David N. Roberts pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of Brian C. Sigman pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of David N. Roberts pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification of Brian C. Sigman pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Fully or partly previously filed.
** Management contract or compensatory plan or arrangement.

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.

AG MORTGAGE
INVESTMENT TRUST,
INC.

November 9, 2018 By: /s/ David N. Roberts
David N. Roberts
Chief Executive Officer
(principal executive
officer)

November 9, 2018 By: /s/ Brian C. Sigman
Brian C. Sigman
Chief Financial Officer
and Treasurer (principal
financial
officer and principal
accounting officer)