AG Mortgage Investment Trust, Inc.
Form 10-Q
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
245 Park Avenue, 26th Floor	
New York, New York	**10167**
(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 x No ¨

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

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

Large Accelerated filer	¨	Accelerated filer	¨
Non-Accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of November 14, 2011, there were 10,052,854 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

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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)

	September 30. 2011	April 1, 2011
Assets		
Real Estate securities, at fair value		
Agency - $1,127,762,195 pledged as collateral	$ 1,207,272,751	$
Non-Agency - $29,911,229 pledged as collateral	58,376,699	
CMBS - $6,444,820 pledged as collateral	12,741,260	
ABS - $4,999,405 pledged as collateral	4,999,405	
Linked transactions, net, at fair value	10,691,262	
Cash and cash equivalents	61,458,348	1,000
Restricted cash	4,299,047	
Interest receivable	4,112,253	
Derivative assets, at fair value	1,742,156	
Prepaid expenses	527,217	
Total Assets	1,366,220,398	1,000
Liabilities		
Repurchase agreements	$ 1,088,735,885	$
Payable on unsettled trades	54,740,684	
Interest payable	1,032,158	
Derivative liabilities, at fair value	8,491,027	
Dividend payable	4,004,400	
Due to affiliates	1,295,090	
Accrued expenses	507,451	
Total Liabilities	1,158,806,695	
Stockholders Equity (Deficit)		
Common stock, par value $0.01 per share; 450,000,000 shares of common stock authorized and 10,005,000 shares issued and outstanding	100,050	1
Additional paid-in capital	198,116,829	999
Retained earnings	9,196,824	
	207,413,703	1,000
Total Liabilities & Equity	$ 1,366,220,398	$ 1,000

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)

	Three Months Ended September 30, 2011	Period from March 7, 2011 to September 30, 2011
Net Interest Income		
Interest income	$ 8,726,394	$ 8,726,394
Interest expense	590,247	590,247
	8,136,147	8,136,147
Other Income (Loss)		
Net realized gain	4,291,139	4,291,139
Gain (loss) on linked transactions, net	204,727	204,727
Realized loss on periodic interest settlements of interest rate swaps, net	(986,502)	(986,502)
Unrealized gain (loss) on derivative instruments, net	(6,562,093)	(6,562,093)
Unrealized gain (loss) on real estate securities	9,694,455	9,694,455
	6,641,726	6,641,726
Expenses		
Management fee to affiliate	742,557	742,557
Other operating expenses	818,274	834,092
	1,560,831	1,576,649
Net income (loss)	$ 13,217,042	$ 13,201,224
Earnings Per Share of Common Stock		
Basic	$ 1.42	$ 3.20
Diluted	$ 1.41	$ 3.18
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	9,339,516	4,130,940
Diluted	9,383,253	4,150,285
Dividends Declared per Share of Common Stock	$ 0.40	

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AG Mortgage Investment Trust Inc. and Subsidiaries

Consolidated Statement of Stockholders Equity

For the period from March 7, 2011 to September 30, 2011

(Unaudited)

	Common Stock		Preferred Stock		Additional	Retained	
	Shares	Amount	Shares	Amount	Paid-in-Capital	Earnings	Total
Balance at March 7, 2011		$		$	$	$	$
Issuance of common stock	10,005,100	100,051			200,000,949		200,101,000
Offering costs					(1,985,394)		(1,985,394)
Repurchase of shares at issue price	(100)	(1)			(999)		(1,000)
Dividends declared						(4,004,400)	(4,004,400)
Amortization of equity based compensation					102,273		102,273
Net income (loss)						13,201,224	13,201,224
Balance at September 30, 2011	10,005,000	100,050			198,116,829	9,196,824	207,413,703

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

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AG Mortgage Investment Trust Inc. and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

	Period from March 7, 2011 to September 30, 2011
Cash Flows from Operating Activities	
Net income (loss)	$ 13,201,224
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Realized Gains	(4,291,139)
Net accretion of premium related to real estate securities	1,218,969
Unrealized losses (gains) on linked transactions, net	141,183
Unrealized losses (gains) on derivative instruments, net	6,562,093
Unrealized losses (gains) on real estate securities	(9,694,455)
Equity based compensation expense	102,273
Increase/decrease in operating assets/liabilities:	
Increase in prepaid expense	(527,217)
Increase in interest receivable	(4,112,253)
Increase in interest payable	1,032,158
Increase in due to affiliates	742,557
Increase in other liabilities	507,451
Net cash provided by (used in) operating activities	4,882,844
Cash Flows from Investing Activities	
Purchase of real estate securities	(1,551,839,634)
Purchase of securities underlying linked transactions	(50,394,201)
Proceeds from sale of real estate securities	316,603,583
Principal repayments on securities	19,338,127
Principal repayments on securities underlying linked transactions	1,418,165
Purchase of credit derivatives	204,133
Payments received from credit derivatives	17,355
Restricted cash provided by (used in) investment activities	(3,397,127)
Net cash provided by (used in) investing activities	(1,268,049,599)
Cash Flows from Financing Activities	
Proceeds from issuance of common stock	200,101,000
Repurchase of shares	(1,000)
Payment of offering costs	(1,432,862)
Borrowings under repurchase agreements	2,220,836,797
Borrowings under repurchase agreements underlying linked transactions	38,932,000
Repayments of repurchase agreements	(1,132,100,912)
Repayments of repurchase agreements underlying linked transactions	(808,000)
Collateral held by derivative counterparty	(631,920)
Collateral held by repurchase counterparty	(270,000)
Net cash provided by (used in) financing activities	1,324,625,103

Net change in cash		61,458,348
Cash, Beginning of Period		
Cash, End of Period	$	61,458,348
Supplemental disclosure of non-cash financing activities:		
Common stock dividends declared but not paid	$	4,004,400

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

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

1. Organization

AG Mortgage Investment Trust, Inc. (the Company) was organized in the state of Maryland on March 1, 2011. The Company is focused on investing in, acquiring and managing a diversified portfolio of residential mortgage-backed securities, or RMBS, issued or guaranteed by a government-sponsored enterprise such as Fannie Mae or Freddie Mac, or any agency of the U.S. Government such as Ginnie Mae (collectively, Agency RMBS), and other real estate-related securities and financial assets, including Non-Agency RMBS, CMBS and ABS.

Non-Agency RMBS represent fixed- and floating-rate residential non-Agency RMBS, including investment grade (AAA through BBB) and non investment grade classes (BB and below). The mortgage loan collateral for residential non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by U.S. government agencies or U.S. government-sponsored entities.

Commercial Mortgage Backed Securities (CMBS) represent investments of fixed- and floating-rate CMBS, including investment grade (AAA through BBB) and non investment grade classes (BB and below). CMBS will be secured by, or evidence ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.

Asset Backed Securities (ABS) investments are securitized investments similar to the aforementioned investments except the underlying assets are diverse, not only representing real estate related assets.

Collectively, we refer to all assets types as Real Estate Securities.

On March 7, 2011, AG Funds, L.P. (AG Funds), a Delaware limited liability company, entered into a subscription agreement with the Company and agreed to purchase 100 shares of common stock for $1,000. The subscription amount was received by the Company on April 1, 2011 making AG Funds the sole stockholder of the Company. The Company subsequently completed an initial public offering on July 6, 2011 and concurrently repurchased the 100 shares from AG Funds at their issue price.

The Company is externally managed by AG REIT Management, LLC (the Manager), a newly formed subsidiary of Angelo, Gordon & Co., L.P. (Angelo, Gordon), a privately-held, SEC-registered investment adviser.

The Company intends to qualify as a real estate investment trust (a REIT) under the Internal Revenue Code commencing with its taxable period ending on December 31, 2011.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, AG MIT, LLC and AG MIT II, LLC. All intercompany balances and transactions have been eliminated.

2. Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments considered necessary for a fair presentation for the interim period of the Company s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year.

Cash and cash equivalents

Cash is comprised of cash on deposit with financial institutions. We classify highly liquid investments with original maturities of three months or less from the date of purchase as cash equivalents. We place our cash and cash equivalents with high credit quality institutions to minimize credit risk exposure.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

Offering and organization costs

The Company incurred offering and organization costs in connection with arranging the Company s initial public offering (the IPO) of its common stock. The offering and other organization costs of the IPO were paid out of the proceeds of the offering. Offering costs have been accounted for as a reduction of additional paid-in-capital. Costs incurred to organize the Company have been expensed as incurred. The Company s obligation to pay for organization and offering expenses incurred is capped at 1% of the total gross proceeds from the IPO and the concurrent private placement, and the Manager paid for such expenses incurred above the cap. See Note 9 for further details.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Net income (loss) per share

In accordance with the provisions of Accounting Standards Codification (ASC) 260, Earnings per Share, the Company calculates basic income per share by dividing net income (loss) for the period by weighted-average shares of the Company s common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as stock options, warrants and unvested restricted stock, 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.

Valuation of financial instruments

The fair value of the financial instruments that we record at fair value will be determined by the Manager, subject to oversight of the board of directors, and in accordance with ASC 820, Fair Value Measurements and Disclosures. When possible, we expect to determine 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. The three levels of the hierarchy under ASC 820 are described below:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level III Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company s assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Accounting for real estate securities

Our investments in real estate securities are recorded in accordance with ASC 320. We have chosen to make a fair value election pursuant to ASC 825 for our Real Estate securities portfolio. The Real Estate securities are recorded at fair market value on our balance sheet and the period change in fair market value is recorded in current period earnings on our consolidated statement of operations as a component of Unrealized gain (loss) on real estate securities .

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

These investments generally meet the requirements to be classified as available for sale under ASC 320-10-25, Debt and Equity Securities, which requires the securities to be carried at fair value on the Consolidated Balance Sheet with changes in fair value charged to other comprehensive income, a component of Stockholders Equity. Electing the fair value option allows the Company to record changes in fair value in the Statement of Operations, which, in management s view, more appropriately reflects the results of our operations for a particular reporting period as all securities activities will be recorded in a similar manner.

The cost of positions sold is calculated using a FIFO basis. Realized gains and losses on sales of Real Estate securities are recorded in earnings at the time of disposition.

Investment consolidation

For each investment we make, we will evaluate the underlying entity that issued the securities we acquired or to which we make a loan to determine the appropriate accounting. A similar analysis will be performed for each entity with which we enter into an agreement for management, servicing or related services. In performing our analysis, we will refer to guidance in ASC 810-10, Consolidation. In situations where we are the transferor of financial assets, we will refer to the guidance in ASC 860-10 Transfers and Servicing.

In variable interest entities, or VIEs, an entity is subject to consolidation under ASC 810-10 if the equity investors either do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity s activities or are not exposed to the entity s losses or entitled to its residual returns. VIEs within the scope of ASC 810-10 are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This determination can sometimes involve complex and subjective analyses. Further, ASC 810-10 also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. In accordance with ASC 810-10, all transferees, including variable interest entities, must be evaluated for consolidation. If we were to treat securitizations as sales in the future, we will analyze the transactions under the guidelines of ASC 810-10 for consolidation.

We may periodically enter into transactions in which we sell assets. Upon a transfer of financial assets, we will sometimes retain or acquire senior or subordinated interests in the related assets. Pursuant to ASC 860-10, a determination must be made as to whether a transferor has surrendered control over transferred financial assets. That determination must consider the transferor s continuing involvement in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. The financial components approach under ASC 860-10 limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. It defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale.

Under ASC 860-10, after a transfer of financial assets that meets the criteria for treatment as a sale legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint and transferred control an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold and derecognizes liabilities when extinguished. The transferor would then determine the gain or loss on sale of mortgage loans by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. When a transfer of financial assets does not qualify for sale accounting, ASC 860-10 requires the transfer to be accounted for as a secured borrowing with a pledge of collateral.

From time to time, we may securitize mortgage loans we hold if such financing is available. These transactions will be recorded in accordance with ASC 860-10 and will be accounted for as either a sale and the loans will be

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

removed from our balance sheet or as a financing and will be classified as securitized loans on our balance sheet, depending upon the structure of the securitization transaction. ASC 860-10 is a complex standard that may require us to exercise significant judgment in determining whether a transaction should be recorded as a sale or a financing.

Interest income recognition

Interest income on our real estate securities portfolio is accrued based on the actual coupon rate and the outstanding principal balance of such securities. Premiums and discounts are amortized or accreted into interest income over the lives of the securities using the effective yield method, as adjusted for actual prepayments in accordance with ASC 310-20 Nonrefundable Fees and Other Costs or ASC 325-40 Beneficial Interests in Securitized Financial Assets, as applicable. Total interest income will flow though the interest income line item on the Consolidated Statement of Operations.

We estimate, at the time of purchase, the future expected cash flows and determine the effective interest rate based on these estimated cash flows and our purchase price. At least quarterly, these estimated cash flows will be assessed and a revised yield is computed based on the current amortized cost of the investment, as needed. In estimating these cash flows, there are a number of assumptions that will be subject to uncertainties and contingencies. These include the rate and timing of principal payments (including prepayments, repurchases, defaults and liquidations), the pass-through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be judgmentally estimated. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact our estimates and, as a result, our interest income.

For pools of whole loans purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that we will be unable to collect all contractually required payments receivable, we will apply the provisions of ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor s estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor s initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

Our accrual of interest, discount and premium for U.S. federal and other tax purposes is likely to differ from the financial accounting treatment of these items as described above.

Repurchase agreements

We finance the acquisition of certain assets within our portfolio through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at primarily their contractual amounts, including accrued interest, as specified in the respective agreements.

We pledge certain of our securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. The amounts available to be borrowed are dependent upon the fair value of the securities pledged as collateral, which fluctuates with changes in interest rates, type of security and liquidity conditions within the banking, mortgage finance and real estate industries. In response to declines in fair value of pledged securities, lenders may require us to post additional collateral or pay down borrowings to re-establish agreed upon collateral requirements, referred to as margin calls. As of September 30, 2011, we have met all margin call requirements.

In instances where we acquire assets through repurchase agreements with the same counterparty from whom the assets were purchased, we will evaluate such transactions in accordance with ASC 860-10. This standard requires

AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

the initial transfer of a financial asset and repurchase financing that are entered into contemporaneously with, or in contemplation of, one another to be considered linked unless all of the criteria found in ASC 860-10 are met at the inception of the transaction. If the transaction meets all of the conditions, the initial transfer shall be accounted for separately from the repurchase financing, and we will record the assets and the related financing on a gross basis on our balance sheet with the corresponding interest income and interest expense in our statements of operations. If the transaction is determined to be linked, we will record the initial transfer and repurchase financing on a net basis and record a forward commitment to purchase assets as a derivative instrument with changes in market value being recorded on the statement of operations. Such forward commitments are recorded at fair value with subsequent changes in fair value recognized in income.

Accounting for derivative financial instruments

We may enter into derivative contracts, including interest rate swaps and interest rate caps, as a means of mitigating our interest rate risk. We use interest rate derivative instruments to mitigate interest rate risk rather than to enhance returns. We account for derivative financial instruments in accordance with ASC 815-10, Derivatives and Hedging. ASC 815-10 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either other comprehensive income in stockholders equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument is designated and qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. As of September 30, 2011 none of our interest rate derivatives have been designated as hedges. Such derivatives are recorded at fair value in accordance with ASC 820-10, with corresponding changes in value recognized in the statement of operations.

To-be-announced securities

A to-be-announced security (TBA) is a futures contract for the purchase or sale of Agency securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency securities delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. TBA securities are exempt from ASC 815 and are accounted for under ASC 320 if there is no other way to purchase or sell that security, if delivery of that security and settlement will occur within the shortest period possible for that type of security and if it is probable at inception and throughout the term of the individual contract that physical delivery of the security will occur (referred to as the regular-way exception). Unrealized gains and losses associated with TBA contracts not subject to the regular-way exception or not designated as hedging instruments are recognized in our consolidated statement of operations in the line item unrealized gain (loss) on derivative instruments, net.

Manager compensation

The management agreement provides for the payment to our Manager of a management fee. The management fee is accrued and expensed during the period for which it is calculated and earned. For a more detailed discussion on the fees payable under the management agreement, see Note 9.

Income taxes

We intend to elect and qualify to be taxed as a REIT commencing with our taxable year ending December 31, 2011. Accordingly, we will generally not be subject to corporate U.S. federal or state income tax to the extent that we make qualifying distributions to our stockholders, and provided that we satisfy on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If we fail to qualify as a REIT, and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the four taxable years following the year in which we lost our REIT qualification.

The dividends paid deduction of a REIT for qualifying dividends to its stockholders is computed using our taxable income as opposed to net income reported under GAAP in the financial statements. Taxable income, generally, will differ from net income reported on the financial statements because the determination of taxable income is based on tax provisions and not financial accounting principles.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

We have elected to treat certain of our subsidiaries, including AG MIT II, LLC, as taxable REIT subsidiaries, or TRSs. In general, a TRS of ours may hold assets and engage in activities that we cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes.

While a TRS will generate net income, a TRS can declare dividends to us which will be included in our taxable income and necessitate a distribution to our stockholders. Conversely, if we retain earnings at a TRS level, no distribution is required and we can increase book equity of the consolidated entity.

Our financial results are generally not expected to reflect provisions for current or deferred income taxes, except for any activities conducted through one or more taxable REIT subsidiaries, such as AG MIT II, LLC, that are subject to corporate income taxation. We believe that we will operate in a manner that will allow us to qualify for taxation as a REIT. As a result of our expected REIT qualification, we do not generally expect to pay corporate U.S. federal or state income tax. Many of the REIT requirements, however, are highly technical and complex. If we were to fail to meet the REIT requirements, we would be subject to U.S. federal income taxes and applicable state and local taxes.

Share-based compensation

We will follow ASC 718, Compensation Stock Compensation with regard to our equity incentive plans. ASC 718 covers a wide range of share-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans. ASC 718 requires that compensation cost relating to stock-based payment transactions be recognized in financial statements. The cost is measured based on the fair value of the equity or liability instruments issued.

Compensation cost related to restricted common shares issued to the Company s directors is measured at its estimated fair value at the grant date, and is amortized and expensed over the vesting period on a straight-line basis. Compensation cost related to restricted common shares issued to the Manager is initially measured at estimated fair value at the grant date, and is remeasured on subsequent dates to the extent the awards are unvested. The Company has elected to use the straight-line method to amortize compensation expense for the restricted common shares granted to the Manager.

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AG Mortgage Investment Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

September 30, 2011

3. Real Estate Securities

The following table presents the current principal balance, amortized cost, gross unrealized gain, gross unrealized loss, and fair market value of the Company s real estate securities portfolio at September 30, 2011. Real estate securities that are accounted for as components of linked transactions are not reflected in the tables set forth in this note. See Note 6 for further details. The Company s Agency RMBS are mortgage pass-through certificates representing interests in or obligations backed by pools of residential mortgage loans issued or guaranteed by Fannie Mae or Freddie Mac. The Non-Agency RMBS, CMBS and ABS portfolios are not issued or guaranteed by Fannie Mae, Freddie Mac and are therefore subject to credit risk. Agency RMBS securities have an explicit government guarantee.

				Gross Unrealized (1)			Weighted Average	
	Current Face	Premium (Discount)	Amortized Cost	Gains	Losses	Fair Value	Coupon	Yield
Agency RMBS:								
15 Year Fixed Rate	$ 878,441,239	$ 27,200,550	$ 905,641,789	$ 13,553,579	$ (309,386)	$ 918,885,982	3.50%	2.76%
20 Year Fixed Rate	82,389,263	2,536,978	84,926,241	2,046,442		86,972,683	4.06%	3.40%
30 Year Fixed Rate	184,581,876	9,247,516	193,829,392	753,370		194,582,762	4.00%	3.25%
Interest Only	46,178,111	(36,137,763)	10,040,348		(3,209,024)	6,831,324	5.50%	6.65%
Non-Agency RMBS	81,815,722	(23,089,388)	58,726,334	597,354	(946,989)	58,376,699	4.20%	7.00%
CMBS	20,000,000	(4,467,852)	15,532,148		(2,790,888)	12,741,260	5.82%	11.28%
ABS	5,000,000	(593)	4,999,407		(2)	4,999,405	3.68%	3.69%
Total	$ 1,298,406,211	$ (24,710,552)	$ 1,273,695,659	$ 16,950,745	$ (7,256,289)	$ 1,283,390,115	3.76%	3.18%

(1) We have chosen to make a fair value election pursuant to ASC 825 for our securities portfolios. Unrealized gains and losses are recognized in current period earnings in the unrealized gain (loss) on real estate securities line item.

The following table details weighted average life by Agency RMBS, Agency IO and Other Securities:

	Agency RMBS			Agency IO			Other Securities (1)		
Weighted Average Life (2)	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon	Fair Value	Amortized Cost	Weighted Average Coupon
Less than or equal to 1 year	$	$		$	$		$ 26,510,418	$ 26,620,178	3.13%
Greater than one year and less than or equal to three years							4,999,405	4,999,407	3.68%
Greater than three years and less than or equal to five years	701,046,296	690,605,740	3.50%	2,879,246	3,655,262	6.00%			
Greater than five years	499,395,131	493,791,682	3.79%	3,952,078	6,385,086	5.23%	44,607,541	47,638,304	5.70%
Total	$ 1,200,441,427	$ 1,184,397,422	3.62%	$ 6,831,324	$ 10,040,348	5.50%	$ 76,117,364	$ 79,257,889	4.52%

(1) For purposes of this table, Other Securities represents Non-Agency RMBS, CMBS and ABS investments held as of September 30, 2011.
(2) Actual maturities of mortgage-backed securities 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.

During the period ended September 30, 2011, the Company sold nine securities for total proceeds of $316.6 million, recording realized gains of $4.6 million and realized losses of $0.3 million.

4. Fair Value Measurements

As described in Note 2, the fair value of financial instruments that we record at fair value will be determined by the Manager, subject to oversight of the board of directors, and in accordance with ASC 820, Fair Value Measurements and Disclosures. When possible, we determine 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. The three levels of the hierarchy under ASC 820 are described below:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

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Level III Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Company s assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available.

Values for the Company s securities and derivatives portfolios are based upon prices obtained from third party pricing services, which are indicative of market activity. The evaluation methodology of the Company s third-party pricing services incorporate 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 security, 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.

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 subject to bilateral collateral arrangements. The Company also has netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by the International Swap and Derivatives Association, or ISDA. Consequently, no credit valuation adjustment was made in determining the fair value of derivatives.

The securities underlying the Company s linked transactions are valued using similar techniques to those used for the Company s securities portfolio. The value of the underlying security is then netted against the carrying amount (which approximates fair value) of the repurchase agreement at the valuation date. Additionally, TBA instruments are similar in form to the Company s Agency securities portfolio, and the Company therefore estimates fair value based on similar methods.

The following table presents the Company s financial instruments measured at fair value on a recurring basis as of September 30, 2011:

	Fair Value at September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Agency RMBS:				
15 Year Fixed Rate	$	$ 918,885,982	$	$ 918,885,982
20 Year Fixed Rate		86,972,683		86,972,683
30 Year Fixed Rate		194,582,762		194,582,762
TBA		1,742,156		1,742,156
Interest Only		6,831,324		6,831,324
Non-Agency RMBS		31,866,281	26,510,418	58,376,699
CMBS		12,741,260		12,741,260
ABS			4,999,405	4,999,405
Linked Transactions		5,325,812	5,365,450	10,691,262
Total Assets Carried at Fair Value	$	$ 1,258,948,260	$ 36,875,273	$ 1,295,823,533
Liabilities:				
Swaps	$	$ (7,469,433)	$	$ (7,469,433)
Credit Derivatives		(1,021,594)		(1,021,594)
Total Liabilities Carried at Fair Value	$	$ (8,491,027)	$	$ (8,491,027)

The Company did not have any transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy during the period ended September 30, 2011.

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The following table presents additional information about the Company s investments which are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value:

	Non-Agency RMBS	ABS	Linked Transactions
Beginning balance	$	$	$
Transfers (1):			
Transfers into level 3			
Transfers out of level 3			
Purchases	28,057,466	4,999,406	5,271,730
Proceeds from sales			
Proceeds from settlement	(1,551,383)		
Total net gains/ (losses) (2)			
Included in net income	4,335	(1)	93,720
Included in other comprehensive income (loss)			
Ending Balance	$ 26,510,418	$ 4,999,405	$ 5,365,450
Change in unrealized appreciation/depreciation for level 3 assets still held as of September 30, 2011 (2)	$ 4,335	$ (1)	$ 93,720

(1) Transfers are assumed to occur at the beginning of the quarter.
(2) Gains/(losses) are recorded in the following line items in the consolidated statement of operations:

Gain (loss) on linked transactions	$ 93,720
Unrealized gain (loss) on real estate securities	4,334
Total	$ 98,054

5. Repurchase Agreements

We pledge certain of our real estate securities as collateral under repurchase arrangements with financial institutions, the terms and conditions of which are negotiated on a transaction-by-transaction basis. Repurchase arrangements 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. Repurchase arrangements entered into by the Company are accounted for as financings and require the repurchase of the transferred securities at the end of each arrangement s term, typically 30 to 90 days. The Company maintains the beneficial interest in the specific securities pledged during the term of the repurchase arrangement and receives the related principal and interest payments. 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 repurchase arrangement at which time the Company may enter into a new repurchase 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 securities due to changes in market conditions or the publishing of monthly security paydown factors, lenders typically 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. Under the terms of our master repurchase agreements, the counterparties may, in certain cases, sell or re-hypothecate the pledged collateral.

The following table presents certain information regarding the Company s repurchase agreements as of September 30, 2011:

Repurchase Agreements Maturing Within:	Agency RMBS Balance	Agency RMBS Weighted Average Rate	Non-Agency RMBS / CMBS / ABS Balance	Non-Agency RMBS / CMBS / ABS Weighted Average Rate
30 days or less	$ 806,763,885	0.26%	$ 2,134,000	1.72%
31-60 days	224,086,000	0.30%	15,696,000	1.47%
61-90 days			14,440,000	1.50%
Greater than 90 days	25,616,000	0.33%		
Total / Weighted Average	$ 1,056,465,885	0.27%	$ 32,270,000	1.50%

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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 would require the Company to provide additional collateral or cash to fund margin calls. The following table presents information with respect to the Company s posting of collateral at September 30, 2011:

	September 30, 2011
Repurchase agreements secured by Agency RMBS	$ 1,056,465,885
Fair Value of Agency RMBS pledged as collateral under repurchase agreements	1,113,726,734
Repurchase agreements secured by Non-Agency RMBS, CMBS and ABS	32,270,000
Fair Value of Non-Agency MBS pledged as collateral under repurchase agreements	41,355,454
Cash pledged (i.e., restricted cash) under repurchase agreements	270,000

The Company seeks to transact with several different counterparties in order to reduce the exposure to any single counterparty. The Company entered into master repurchase agreements (MRAs) with 16 counterparties, under which we have outstanding debt with 13 counterparties at September 30, 2011. At September 30, 2011, the Company did not have greater than 10% of stockholders equity at risk with any individual counterparty.

As discussed in Note 2, for any transactions determined to be linked, the initial transfer and repurchase financing will be recorded as a forward commitment to purchase assets. At September 30, 2010, the Company had repurchase agreements of $38.1 million that were accounted for as linked. These linked repurchase agreements are not included in the above tables. See Note 6 for details.

6. Derivatives

The Company s derivatives include interest rate swaps (swaps), credit derivates, to-be-announced forward contracts on specified Agency pools (TBAs), and linked transactions. Derivatives have not been designated as hedging instruments. The Company has also entered into non-derivative instruments to manage interest rate risk, including Agency interest-only securities.

The following table presents the fair value of the Company s derivative instruments and their balance sheet location at September 30, 2011.

Derivative Instrument	Designation	Balance Sheet Location	September 30, 2011
Interest Rate Swaps, at fair value	Non-Hedge	Derivative Liabilities	$ (7,469,433)
Credit Derivatives, at fair value	Non-Hedge	Derivative Liabilities	(1,021,594)
TBAs, at fair value	Non-Hedge	Derivative Assets	1,742,156
Linked transactions, at fair value	Non-Hedge	Linked transactions, net, at fair value	10,691,262

The following table summarizes information related to derivatives:

	September 30, 2011
Non-hedge derivatives	

Notional amount of Interest Rate Swap Agreements	$ 728,025,000
Notional amount of Credit Derivatives	23,142,046
Notional amount of TBAs	150,000,000
Notional amount of Linked Transactions (1)	53,288,835

(1) This represents the current face of the securities comprising linked transactions.

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The following table summarizes gains (losses) related to derivatives:

	Income Statement Location	September 30, 2011
Non-hedge derivatives gain (loss):		
Interest Rate Swaps	Gain (loss) on derivative instruments, net	$ (7,469,434)
Credit Derivatives	Gain (loss) on derivative instruments, net	(834,815)
TBAs	Gain (loss) on derivative instruments, net	1,742,156
Linked transactions	Gain (loss) on linked transactions, net	204,727

Interest Rate Swaps

To help mitigate exposure to higher short-term interest rates, the Company uses currently-paying and forward-starting, one- and three-month LIBOR-indexed, pay-fixed, receive-variable, interest rate swap agreements. This arrangement establishes a relatively stable fixed rate on related borrowings because the variable-rate payments received on the swap agreements largely offset interest accruing on the related borrowings, 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.

The following table presents information about the Company s interest rate swaps as follows:

Interest Rate Swaps

Maturity	Notional Amount	Weighted Average Pay Rate	Weighted Average Receive Rate	Weighted Average Years to Maturity
2012	$ 100,000,000	0.354%	0.230%	0.39
2013	182,000,000 *	0.535%	0.231%	2.06
2014	204,500,000 *	1.000%	0.248%	2.83
2015	174,025,000	1.436%	0.243%	3.84
2016	67,500,000 *	1.738%	0.233%	4.88
Total/Wtd Avg	$ 728,025,000	0.968%	0.239%	2.74

* These figures include forward starting swaps with a total notional of $130.0 million and a weighted average start date of December 9, 2011. Weighted average rates shown are inclusive of rates corresponding to the terms of the swap as if the swap were effective as of September 30, 2011.

Credit Derivatives

The Company utilizes credit derivatives to provide credit event protection based on a financial index or specific security in exchange for receiving a fixed-rate premium over the term of the contract. These instruments enable the Company to synthetically assume the credit risk of a reference security, portfolio of securities or index of securities. The counterparty pays a premium to the Company and the Company agrees to make a payment to compensate the counterparty for losses upon the occurrence of a specified credit event. The maximum payouts for these credit derivatives are limited to the current notional amount of each swap contract. The Company currently holds credit default swaps where the Company is a seller of credit protection on an index of Non-Agency RMBS. The credit derivatives mature in 2037 and pay a monthly fixed-rate premium of 4.58%.

The following table presents information about the Company s credit derivatives as follows:

	September 30, 2011
Fair value amount	$ (1,021,594)
Notional amount (1)	23,142,046
Collateral held by counterparty (2)	3,759,848

(1) Represents the Company s maximum exposure.
(2) Collateral held is in the form of cash and securities.

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TBAs

The Company has entered into TBA positions to facilitate the future purchase of Agency securities. Pursuant to these TBAs, the Company agrees to purchase, for future delivery, Agency securities with certain principal and interest terms and certain types of underlying collateral, but the particular Agency securities to be delivered would not be identified until shortly, generally two days, before the TBA settlement date. The Company records TBA purchases on the trade date and it presents the purchase net of the corresponding payable until the settlement date of the transaction. The Company generally intends to take delivery of TBA positions. Contracts for the purchase or sale of specified Agency securities are accounted for as derivatives if the delivery of the specified Agency security and settlement extends beyond the shortest period possible for that type of security.

The following table presents information about the Company s TBAs for the three months ended September 30, 2011:

	Beginning Notional Amount	Additions	Sale or Settlement	Ending Notional Amount	Fair Value as of Period End	Payable to Broker	Derivative Asset	Weighted Average Life
Purchases of TBAs	$	$ 150,000,000		$ 150,000,000	$ 154,816,375	$ (153,074,219)	$ 1,742,156	6.34

Linked Transactions

As discussed in Note 2, when the initial transfer of a financial asset and repurchase financing are entered into contemporaneously with, or in contemplation of, one another, the transaction will be considered linked unless all of the criteria found in ASC 860-10 are met at the inception of the transaction. If the transaction is determined to be linked, we will record the initial transfer and repurchase financing on a net basis and record a forward commitment to purchase assets as a derivative instrument with changes in market value being recorded on the statement of operations. The fair value of linked transactions reflects the value of the underlying non-Agency RMBS and linked repurchase agreement borrowings.

The following table presents certain information related to the securities and repurchase agreements comprising linked transactions:

Linked Transactions

Instrument	Current Face	Amortized Cost	Fair Value	Net Interest Income	Unrealized MTM	Amount Included in Statement of Operations	Weighted Average Coupon	Weighted Average Life	Repurchase Agreement	Weighted Average Interest Rate	Weighted Average Years to Maturity
Non-Agency RMBS	$ 31,788,835	$ 27,429,515	$ 27,192,138	$ 271,524	$ (237,378)	$ 34,146	6.04%	4.74	$ 22,862,000	1.66%	0.07
ABS	21,500,000	21,526,930	21,623,124	74,386	96,195	170,581	4.85%	4.17	15,262,000	1.27%	0.08
Total	$ 53,288,835	$ 48,956,445	$ 48,815,262	$ 345,910	$ (141,183)	$ 204,727	5.56%	4.49	$ 38,124,000	1.50%	0.07

At September 30, 2011, the Company had real estate securities with a fair value of $14.1 million and restricted cash of $1.1 million pledged as collateral against its derivatives. The Company reduces credit risk on the majority of its derivative instruments by entering into agreements that permit the closeout and netting of transactions with the same counterparty upon occurrence of certain events.

7. Equity and Earnings per Share

Basic earnings per share (EPS) is calculated by dividing net income (loss) for the period by the weighted- average shares of the Company s common stock outstanding for that period that participate in dividends. Diluted EPS takes into account the effect of dilutive instruments, such as stock options, warrants and unvested restricted stock, 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.

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As of September 30, 2011 the Company s warrants and outstanding shares of restricted common stock are as follows:

Warrants	1,602,500
Restricted stock held by the Manager	40,250
Restricted stock held by the independent directors	6,000

During the quarter ended September 30, 2011, the Company has assumed that no warrants would be exercised as the weighted average market value per share of the Company s common stock was below the strike price of the warrants, and are therefore not included in the Company s diluted weighted average shares outstanding. Shares of restricted stock held by the Manager and independent directors accrue dividends, but are not paid until vested and are therefore not considered to be participating shares. These shares are only included in diluted weighted average shares outstanding.

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted earnings per share, or EPS, for the three months ended September 31, 2011:

	Three Months Ended September 30, 2011
Numerator:	
Net income to common stockholders for basic and diluted earnings per share	$ 13,217,042
Denominator:	
Basic weighted average shares outstanding	9,339,516
Manager and director units	43,737
Diluted weighted average shares outstanding	9,383,253
Basic Earnings Per Share:	$ 1.42
Diluted Earnings Per Share:	$ 1.41

During the quarter ended September 30, 2011, the Company declared a quarterly dividend to common shareholders totaling $4.0 million or $0.40 per share, which was paid in October.

8. 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 recognize REIT status as well. During the quarter ended September 30, 2011, the Company recorded no income tax expense.

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

We have elected to treat certain of our subsidiaries, including AG MIT II, LLC, as taxable REIT subsidiaries, or TRSs. In general, a TRS of ours may hold assets and engage in activities that we cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes.

In general, common stock cash dividends declared by the Company will be considered ordinary income to stockholders for income tax purposes. From time to time, a portion of the Company s dividends may be characterized as capital gains or return of capital. For the year ended December 31, 2011, the Company estimates that all income distributed in the form of dividends will be characterized as ordinary income.

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9. Related Party Transactions

The Company has entered into a management agreement with the Manager, which provides for an initial term through June 30, 2014, and will be deemed renewed automatically each year for an additional one-year period, subject to certain termination rights. The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, effective July 6, 2011 (the consummation of our initial public offering), 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.

Management fee

Our Manager will be 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 months ended September 30, 2011, the Company incurred management fees of approximately $742,557.

Expense reimbursement

The Company will be required to reimburse the Manager for operating expenses related to the Company that are incurred by the Manager, including expenses relating to legal, accounting, due diligence and other services. The Company s reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis following the end of each month. The Company will not reimburse the Manager for the salaries and other compensation of its personnel except that the Company will be responsible for expenses incurred by the Manager in employing our chief financial officer, general counsel and other employees as further described below.

The Company will reimburse the Manage