AG Mortgage Investment Trust, Inc.
Form 10-K
March 19, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the annual period ended December 31, 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.

(Exact name of registrant as specified in its charter)

Maryland	**27-5254382**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class:	**Name of exchange on which registered:**
Common Stock, $0.01 par value per share	New York Stock Exchange (NYSE)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, 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

The aggregate market value of the registrant s common stock held by non-affiliates was $170,671,600 based on the closing sales price on the New York Stock Exchange on June 30, 2011.

As of March 1, 2012, there were 15,804,342 outstanding shares of common stock of AG Mortgage Investment Trust, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement with respect to its 2012 Annual Meeting of Shareholders to be filed not later than 120 days after the end of the registrant s fiscal year are incorporated by reference into Part II, Item 5 and Part III, Items 10,11,12,13 and 14 hereof as noted therein.

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Forward-Looking Statements

We make forward-looking statements in this report that are subject to 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 and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, we inter 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 of these factors are described under the caption Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. 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 written or oral forward-looking statements that we make, or that are attributable to us, are expressly qualified by this cautionary notice. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate, except as may otherwise be required by law.

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PART I

ITEM 1. BUSINESS

In this annual report on Form 10-K, 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 indirect parent company of our Manager, Angelo, Gordon & Co., L.P. as Angelo, Gordon.

Our company

We are a Maryland real estate investment trust focused on investing in, acquiring and managing a diversified portfolio of residential mortgage assets, other real estate-related securities and financial assets, which we refer to as our target assets.

We are currently invested substantially in residential mortgage-backed securities, or RMBS, for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally-chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities. We refer to these securities as Agency RMBS. Our Agency RMBS investments include mortgage pass-through securities and may include collateralized mortgage obligations, or CMOs. We expect our portfolio, over time, will include a more significant portion of RMBS that are not issued or guaranteed by a U.S. government agency or a U.S. government-sponsored entity, or non-Agency RMBS. Our non-Agency RMBS investments may include fixed-and floating-rate securities, including investment grade and non-investment grade. We have the discretion to invest in other target assets, including commercial mortgage-backed securities, or CMBS, residential and commercial mortgage loans and asset backed securities, or ABS, which, together with Agency RMBS and non-Agency RMBS, we collectively refer to as real estate securities.

We were incorporated in Maryland on March 1, 2011, and commenced operations in July 2011. In July 2011, we successfully completed our initial public offering, or IPO, pursuant to which we sold 6,300,000 shares of our common stock to the public at a price of $20.00 per share for gross proceeds of $126.0 million. Concurrently with the consummation of our IPO, we completed a private placement in which we sold 3,205,000 units, with each unit consisting of one share of our common stock and one warrant to purchase 0.5 of a share of our common stock, at a price of $20.00 per unit. Each warrant has an exercise price of $20.50 per share. In addition, we sold 500,000 private placement shares of our common stock to AG Funds, an affiliate of Angelo, Gordon, and two of our officers, at a price of $20.00 per share. The gross proceeds to us from the private placement were $74.1 million. Collectively, we received net proceeds from our IPO, the private placement and the exercise of the underwriters over-allotment option of approximately $198.1 million after subtracting expenses incurred in connection with formation of $2.0 million.

The majority of the net proceeds from our IPO and private offering, as well as monies that we have borrowed under repurchase agreements have been deployed to purchase a $1.3 billion investment portfolio as of December 31, 2011, which primarily consisted of $1.26 billion in Agency RMBS, $58.8 million in non-Agency RMBS, $13.5 million in CMBS and $4.5 million in ABS. We have also entered into $793.0 million notional amount of pay-fixed receive-LIBOR swaps.

On January 24, 2012, we completed a follow-on offering of 5,000,000 shares of our common stock and subsequently issued an additional 750,000 shares of common stock pursuant to the underwriters over-allotments at a price of $19.00 per share, for gross proceeds of approximately $109.3 million. Net proceeds to the Company from the offerings were approximately $104.1 million, net of issuance costs of approximately $5.2 million.

We have commenced investing the net proceeds from the follow-on offering to acquire our target assets in accordance with our objectives and strategies described in this report.

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We conduct our operations to qualify and be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our taxable year ending December 31, 2011. 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 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 manager

We are externally managed and advised by AG REIT Management, LLC, a subsidiary of Angelo, Gordon. Angelo, Gordon is an SEC-registered investment adviser with approximately $22 billion under management as of December 31, 2011. Angelo, Gordon s platform is composed of a broad range of alternative investment strategies, including RMBS, CMBS, ABS, commercial real estate, net lease real estate, distressed credit, leveraged loans and private equity.

Pursuant to the terms of our management agreement with AG REIT Management LLC, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is an employee of our Manager. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it. Our Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to our Manager s day-to-day duties and obligations arising under our management agreement.

Current market opportunities

Residential market opportunities

According to the most recent Corelogic data, approximately one out of every four mortgages currently exceeds the value of the related home, and over six million residential mortgages in the U.S. are in some stage of delinquency. As a result, we believe housing prices remain vulnerable to further declines, which we believe will alter the historical relationship between interest rates and refinancing behavior. Although mortgage interest rates remain at historical lows, many borrowers who would otherwise refinance their existing mortgage are not able to do so because of declining home values and negative equity in the home.

While we anticipate mortgage loan delinquencies and credit losses may continue to rise and housing conditions may continue to deteriorate in the near term, we believe that current prices for certain non-Agency RMBS offer attractive risk-adjusted returns. Recent U.S. government and central bank actions, such as Government Sponsored Enterprise mortgage-backed securities purchases, the Home Affordable Refinance Program, the Home Affordable Modification Program and the Public-Private Investment Program, designed to lower mortgage rates, stabilize home values and restore credit flows in the financial sector and to the broader economy will positively impact our business. If the U.S. economy continues to heal and consumers de-lever their household balance sheets, we expect credit defaults to decrease. Further, we believe housing markets are in the late stages of bottoming and stabilizing following six years of declining prices. We believe the healing of the housing market will be a long and gradual process. Record low rates, improving labor markets and greater availability of financing should be supportive for the housing markets.

In addition, we believe that the current economic climate, mortgage origination capacity constraints and declining home values, will result in fewer borrowers seeking to voluntarily prepay their existing fixed rate mortgage loans, and we believe that this reduction in borrower voluntary prepayment propensity enhances the value derived from levered Agency RMBS assets.

Involuntary prepayments, also known as borrower defaults, have taken a more significant role in Agency RMBS performance along with government modification initiatives. We believe Angelo, Gordon s granular credit-centric approach and deep understanding of government public policy initiatives will provide our Manager strong insight into Agency RMBS performance drivers.

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Regulatory reform may dramatically transform financing of the housing market and facilitate high quality investment opportunities.

After studying housing finance policies over the last few years, the U.S. Department of Treasury and the Department of Housing and Urban Development on February 11, 2011 presented to Congress a plan to reform the existing housing paradigm. Central to the Administration s plan is a transformation of the role of government in the housing market. In the past, the government s financial and tax policies encouraged housing purchases and real estate investment over other sectors of the economy, allocated profits and public sector subsidies to stockholders of Fannie Mae and Freddie Mac and ultimately left credit risk to the U.S. taxpayers. Sustained housing price declines since 2006 resulted in these government-sponsored enterprises facing catastrophic losses as described by the U.S. Treasury. While the U.S. government continues to stand behind the obligations of these entities, in September 2008 the Federal Housing Finance Agency put Fannie Mae and Freddie Mac into conservatorship, where they remain today.

Based on our interpretation of where policy is headed, we believe the U.S. government s primary role will over time become limited to regulatory oversight, consumer protection, targeted and defined assistance for low- and moderate-income homeowners and renters, and carefully designed support for market stability and crisis response. Private markets will over time become the primary source of mortgage credit and bear the burden for losses. We believe the current framework for financing housing in the U.S. may be restructured as a consequence of (i) the Administration s housing reform plan, (ii) the Dodd-Frank Wall Street and Consumer Protection Act s (Dodd-Frank Act) regulatory overhaul of the financial sector and (iii) broad-based adoption of Basel III regulatory capital requirements for mortgage-related assets. We believe risk retention rules and requirements for regulated institutions to hold more capital to withstand future recessions or significant declines in home prices may impede broker-dealers from engaging in an originate, warehouse and distribute business model through securitization. Should the potential wind down of Fannie Mae and Freddie Mac come to fruition, we believe we will be well positioned to capitalize on available investments in newly originated mortgage assets. We also believe that we may benefit from the Administration s proposal to promote a level playing field for housing finance, and we expect curtailment of government support for housing could begin as early as this year, with a reduction in loans eligible for government-sponsored enterprise guarantees based upon loan size and a gradual rise in guarantee fees. We believe these actions will accelerate the demand for private capital into the housing finance sector, and we expect that we will be well positioned to make attractive risk-adjusted investments in new residential-mortgage assets.

Our strategies

Our investment strategy

We invest in a diversified pool of mortgage assets that generate attractive risk-adjusted returns to our investors over the long-term through a combination of dividends and capital appreciation. Our target assets include Agency RMBS, non-Agency RMBS, CMBS and other real estate-related assets. Since our IPO, the risk-reward profile of investment opportunities supported the deployment of a majority of our capital in Agency RMBS. Current labor, housing and economic fundamentals, together with U.S. monetary policy designed to keep interest rates low, have been supportive of our Agency RMBS investments. Overweighting of these investments was also favored by the relative ease of funding and superior liquidity. We also acquired a limited amount of Non-Agency RMBS, CMBS and ABS assets for our investment portfolio. We expect to gradually and opportunistically allocate more capital among Non-Agency RMBS, CMBS and ABS assets when we are presented with compelling investment returns.

As of December 31, 2011, the fair value of our investment portfolio comprised 94.3% of Agency RMBS, 4.4% of non-Agency RMBS, 1.0% in CMBS and 0.3% of ABS.

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Our financing and hedging strategy

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 any hedging activities. Subject to maintaining 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.

We use leverage to increase potential returns to our stockholders and to fund the acquisition of our assets. Generally, we intend to use, on a debt-to-equity basis, up to 6 to 9 times leverage on our Agency RMBS assets. With respect to our non-Agency RMBS and CMBS assets, we intend to use 2 to 3 times leverage, except in conjunction with securitizations which provide term financings that may be available to us depending upon market conditions. For these asset classes based upon the equity allocation as of December 31, 2011 and on an aggregate debt-to-equity basis, we do not generally expect to exceed, on a debt-to-equity basis, a 9-to-1 leverage ratio. As of December 31, 2011 our aggregate debt-to-equity leverage ratio was 5.67-to-1, which reflects our current mix of Agency RMBS, non-Agency RMBS, CMBS and other assets. A lower leverage ratio reflects our Manager s consideration of a possible European sovereign debt and banking crisis which may subsequently impact U.S. capital funding markets.

We finance our investments in real estate securities primarily through short-term borrowings structured as repurchase agreements.

As of December 31, 2011, we had entered into master repurchase agreements, or MRAs, with twenty-one counterparties, under which we have borrowed an aggregate $1.2 billion from sixteen of these counterparties. As of December 31, 2011, the borrowings under repurchase agreements had maturities between January 3, 2012 and March 22, 2012.

Subject to maintaining our qualification as a REIT and our Investment Company Act exemption, to the extent leverage is deployed, we utilize derivative financial instruments (or hedging instruments), including interest rate swap agreements and interest rate cap agreements, 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 short-term 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 cost of our financing. As of December 31, 2011, we had entered into $793.0 million notional of pay-fixed receive-LIBOR swaps that have variable maturities between February 2012 and December 2018.

Risk management strategy

Our overall portfolio strategy is designed to generate attractive returns through various phases of the economic cycle. We believe that our broad approach within the real estate market, which considers all major categories of real estate assets, allows us to invest in a variety of attractive investment opportunities and help insulate our portfolio from some of the risks that arise in a single collateral type or single risk strategy. We believe that Angelo, Gordon has a strong reputation for risk management and compliance. Angelo, Gordon s investment philosophy combines in-depth research, conservative valuation approach and diversification to achieve investment returns.

The components of our risk management strategy are:

Disciplined adherence to risk-adjusted return. Our Manager deploys capital only when it believes that risk-adjusted returns are attractive. In this analysis, our Manager considers the initial net interest spread of the investment, the cost of hedging and our ability to optimize returns over time through rebalancing activities. Our Manager s management team has extensive experience implementing this approach.

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Focus on multiple sectors. Our Manager looks for attractive investment opportunities in all major sectors of the $11 trillion U.S. mortgage market. Our management team evaluates investment opportunities in residential mortgage loans and securities (prime conforming, jumbo, Alt-A and subprime) and across a wide spectrum of commercial property types. We believe this approach enables our Manager to identify attractive investments when it believes certain portions of the market are unattractively priced or when investment opportunities in one or more sectors are scarce. By pursuing a broad investment strategy within the mortgage market, we believe our mortgage portfolio is less likely to suffer from dislocations in specific sectors of the market. We believe a diversified mortgage portfolio outperforms the traditional single strategy portfolios in the REIT market, with returns more resistant to changes in the interest rate and consumer credit environment.

Concurrent evaluation of interest rate and credit risk. Our Manager seeks to balance our portfolio with both credit risk-intensive assets and interest rate risk-intensive assets. Both of these primary risk types are evaluated against a common risk-adjusted return framework.

Active hedging and rebalancing of portfolio. Our Manager evaluates periodically the risk portion of our portfolio against preestablished risk tolerances and will take corrective action through asset sales, asset acquisitions, and dynamic hedging activities to bring the portfolio back within these risk tolerances. We believe this approach generates more attractive long-term returns than an approach that either attempts to hedge away a majority of the interest rate and credit risk in the portfolio at the time of acquisition, on the one end of the risk spectrum, or a highly speculative approach that does not attempt to hedge any of the interest rate or credit risk in the portfolio (so-called carry trade), on the other end of the risk spectrum.

Limiting exposure to single event. Our Manager attempts to reduce our exposure to a single adverse occurrence. These types of idiosyncratic risks, if too large and unmanaged, can result in large swings in profitability and present a significant negative impact on the creditworthiness of the issuer. Our Manager seeks to mitigate this exposure through prescribed risk tolerances that govern, among other things:

establishing geographic concentration limits on all non-Agency and Agency RMBS and loans in our portfolio;

limiting our maximum exposure to a single borrower; and

limiting a portion of our investment portfolio to a single year of interest rate reset.

Opportunistic approach to increased risk. Our Manager s investment strategy is to extend risk taking capacity during periods of changing market fundamentals.

Our investments

Our target asset classes

We have thus far invested the preponderance of the proceeds of our IPO and the follow-on offering in Agency RMBS. We expect our portfolio, over time, will include a more significant portion of non-Agency RMBS. We also have the discretion to invest in other target assets (as described below).

Our target asset classes and the principal investments in which we invest are as follows:

Asset Class	Principal Investments
Agency RMBS	

RMBS for which a U.S. government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally-chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac, guarantees payments of principal and interest on the securities.

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Asset Class	Principal Investments
Non-Agency RMBS	Fixed- and floating-rate residential non-Agency RMBS, including investment grade and non-investment grade classes. 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.
Other real estate-related assets and financial assets	Fixed- and floating-rate CMBS, including investment grade and non-investment grade classes. CMBS will be secured by, or evidence ownership interest in, a single commercial mortgage loan or a pool of commercial mortgage loans.
	Residential mortgage loans secured by residential real property, including prime, Alt-A and subprime mortgage loans.
	First or second lien loans, subordinate interests in first mortgages, bridge loans to be used in the acquisition, construction or redevelopment of a property and mezzanine financing secured by interests in commercial real estate.
	Other real estate structured finance products, mortgage servicing rights, other real estate-related loans and securities and other financial assets.
	Investment grade and non-investment grade debt and equity tranches of securitizations backed by various asset classes including, but not limited to, small balance commercial mortgages, aircraft, automobiles, credit cards, equipment, manufactured housing, franchises, recreational vehicles and student loans. Investments in ABS generally are not qualifying income for purposes of the 75% asset test applicable to REITs and generally do not generate qualifying income for purposes of the 75% income test applicable to REITs. As a result we may be limited in our ability to invest in such assets.

Our board of directors has adopted a set of investment guidelines that outline our target assets and other criteria which are used by our Manager to evaluate specific investment opportunities as well as our overall portfolio composition. Our Manager makes day-to-day determinations as to the timing and percentage of our assets that will be invested in each of the approved asset classes. Our decisions depend upon prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our assets that will be invested in any one of our approved asset classes at any given time. We may change our strategy and policies without a vote of our stockholders. We believe that the diversification of our portfolio of assets and the flexibility of our strategy combined with our Manager s and its affiliates experience will enable us to achieve attractive risk-adjusted returns under a variety of market conditions and economic cycles.

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Investment policies

Investment guidelines

We comply with investment policies and procedures and investment guidelines that are approved by our board of directors and implemented by our Manager. We review our investment portfolio and our compliance with our investment policies, procedures and guidelines at each regularly scheduled meeting of our board of directors. Our independent directors do not review or approve individual investment, leverage or hedging decisions made by our Manager.

Our board of directors has adopted the following guidelines, among others, for our investments and borrowings:

- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us to be regulated as an investment company under the Investment Company Act; and
- our investments will be in our target assets.

These investment guidelines may be changed by our board of directors without the approval of our stockholders.

Distribution policy

On September 19, 2011, we declared a dividend of $0.40 per share of common stock to stockholders of record as of September 30, 2011 and paid such dividend on October 27, 2011. On December 14, 2011, we declared a dividend of $0.70 per share of common stock to stockholders of record as of December 30, 2011 and paid such dividend on January 27, 2012. On March 14, 2012, we declared a dividend of $0.70 per share of common stock to stockholders of record as of March 30, 2012 and will pay such dividend on April 27, 2012.

We intend to continue to make regular quarterly distributions to holders of our common stock. We generally need to distribute at least 90% of our ordinary taxable income each year (subject to certain adjustments) to our stockholders in order to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code. Our ability to make distributions to our stockholders depends, in part, upon the performance of our investment portfolio. Distributions to our stockholders will be generally taxable to our stockholders as ordinary income, although a portion of our distributions may be designated by us as capital gain or qualified dividend income or may constitute a return of capital.

Our competitive advantages

We believe that our competitive advantages include the following:

Investment team with extensive RMBS experience

The experience of Angelo, Gordon investment professionals provides competitive advantages to us. Angelo, Gordon has over 90 investment professionals across its lines of investment disciplines. Of those, over 50 are involved in one of Angelo, Gordon s real estate investment disciplines RMBS, CMBS, commercial real estate and net lease real estate. The insights, experience, and contacts of these professionals are available to us as a resource. Our Manager s dedicated RMBS investment team is led by Jonathan Lieberman and has ten investment professionals, including portfolio managers, traders, analysts, and statisticians. The senior investment professionals have broad experience in managing residential mortgage-related assets through a variety of market cycles and credit and interest rate environments. The RMBS team has oversight from Michael Gordon, John Angelo and David Roberts who have an average of over 35 years of investment experience. Angelo, Gordon is an established leader in the alternative investment field and its overall investment philosophy is credit and value-centric in that its investment process is based on a highly analytical framework and, with respect to RMBS, takes into account factors such as loan-level cash flows, historical and current borrower performance and collateral valuation.

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Breadth of Angelo, Gordon s experience

Although our core investment strategy is focused on RMBS, Angelo, Gordon s expertise in related investment disciplines such as CMBS, ABS, commercial real estate, net lease real estate, distressed credit, leveraged loans and private equity provides our Manager with both (i) valuable investment insights to our RMBS investment selection and strategy and (ii) flexibility to invest in target assets other than RMBS opportunistically as market conditions warrant. As market conditions change and new opportunities are created that are consistent with our strategy and are structurally appropriate for us, we believe Angelo, Gordon s extensive experience can assist our Manager in moving quickly to take advantage of those opportunities on our behalf.

Access to our Manager s relationships

Angelo, Gordon has created a broad network of deal sources, including relationships with major issuers of residential debt securities and the broker-dealers that trade these securities, augmented by ongoing dialogue with a substantial number of smaller, regional firms that tend to find investment opportunities that are often priced and sold on an off-market basis. Our Manager s investment team has extensive industry contacts and client relationships which have generated proprietary deal flow.

Disciplined investment approach and granular credit analysis

We seek to maximize our risk-adjusted returns through our Manager s disciplined investment approach, which relies on rigorous quantitative and qualitative analysis. Our investment thesis is predicated upon in-depth loan-level analysis and our proprietary analytics, which allow us to underwrite loans individually based on updated borrower credit information and property attributes. Our focus on fundamental granular analysis remains the cornerstone of our investment philosophy, and we believe that through this approach we can identify attractive investment opportunities.

Access to Angelo, Gordon s well developed infrastructure and asset management systems

Angelo, Gordon has invested and continues to invest in the technology, analytics and systems that we believe are required to effectively and comprehensively evaluate potential RMBS investments. The Manager s investment team and Angelo, Gordon s technology group have developed proprietary databases, portfolio systems and quantitative models to enhance valuation analytics (pipeline modeling, roll rates and severity of loss). Most recently, Angelo, Gordon selected TransUnion as a data provider for its Consumer Risk Indicator. This product provides borrower information representing what we believe is the next step in loan-level analysis and that we expect will provide a deeper, more current understanding of borrower credit than available before in the RMBS sector. Our Manager s RMBS investment team has developed proprietary prepayment, default, delinquency roll rate and loss severity models to analyze current mark-to-market home values on a loan-by-loan basis using borrower monthly performance statistics, credit characteristics and home price appreciation (or depreciation) by metropolitan statistical area for most of the RMBS market.

Access to Angelo, Gordon s accounting, tax and internal risk control management systems

Our Manager utilizes Angelo, Gordon s well developed accounting, tax and internal control departments, comprising over 35 certified public accountants. Additionally, our Manager has access to Angelo, Gordon s technology, client service, disaster recovery and operational infrastructure to support our operations. We believe that Angelo, Gordon has a strong reputation for risk management and compliance.

Alignment of interests between our stockholders and our Manager

AG Funds, L.P., an affiliate of Angelo, Gordon, purchased 400,000 shares of our common stock in the private placement. These shares and any other shares acquired by AG Funds, L.P. during the two years following the

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consummation of our IPO are subject to a lock-up agreement under which AG Funds has agreed, subject to the terms and conditions of the lock-up agreement, not to sell the shares until June 29, 2013. As a result, the economic interests of our Manager are significantly aligned with those of our stockholders.

Operating and regulatory structure

REIT qualification

We have elected to be treated as a REIT under Sections 856 through 859 of the Code, commencing with our taxable year ending on December 31, 2011. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our manner of operation enables us to meet the requirements for qualification and taxation as a REIT.

As a REIT, we generally are not subject to U.S. federal income tax on our REIT taxable income we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Accordingly, our failure to qualify as a REIT could have a material adverse impact on our results of operations and amounts available for distribution to our stockholders. Even if we qualify for taxation as a REIT, we may be subject to some U.S. federal, state and local taxes on our income or property. In addition, subject to maintaining our qualification as a REIT, a significant portion of our business is expected to be conducted through, and a significant portion of our income may be earned in, one or more taxable REIT subsidiaries, or TRSs, such as AG MIT II, LLC that are subject to corporate income taxation.

Investment Company Act exemption

We conduct our operations so that we and each of our subsidiaries are not investment companies under the Investment Company Act. Under Section 3(a)(1)(A) of the Investment Company Act, a company is an investment company if it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Under Section 3(a)(1)(C) of the Investment Company Act, a company is deemed to be an investment company if it is engaged, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the 40% test). Investment securities do not include (A) U.S. government securities, (B) securities issued by employees securities companies and (C) securities issued by majority-owned subsidiaries that (i) are not investment companies and (ii) are not relying on the exceptions from the definition of investment company provided by Section 3(c)(1) or 3(c)(7) of the Investment Company Act (the so called private investment company exemptions).

While we directly engage to a minor extent in actively investing, reinvesting or trading in securities, we do not do so as our primary activity. Rather, we are primarily engaged in the business of owning or holding the securities of our wholly owned or majority-owned subsidiaries that are in real estate-related businesses. Therefore, we believe that we are not an investment company as defined in Section 3 (a)(1)(A).

We also believe we are not considered an investment company under Section 3(a)(1)(C) of the Investment Company Act. We generally conduct our wholly owned or majority-owned subsidiaries (including AG MIT, LLC s) operations so that they are exempted from investment company status in reliance upon Section 3(c)(5)(C) or Section 3(c)(6) of the Investment Company Act. We describe Sections 3(c)(5)(C) and 3(c)(6) further below. Because entities relying on Section 3(c)(5)(C) or Section 3(c)(6) are not investment companies, our interests in

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those subsidiaries generally do not constitute investment securities. To the extent that our subsidiaries qualify only for either the Section 3(c)(1) or 3(c)(7) exemptions from the Investment Company Act, however, we limit our holdings in those kinds of entities so that, together with other investment securities, we satisfy the 40% test. We continuously monitor our holdings on an ongoing basis to determine our compliance with that test.

As discussed, we generally conduct our wholly owned or majority-owned subsidiaries (including AG MIT, LLC s) operations so that they are exempted from investment company status in reliance upon Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) exempts from the definition of investment company entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. The staff of the Securities and Exchange Commission, or SEC, generally requires an entity relying on Section 3(c)(5)(C) to invest at least 55% of its portfolio in qualifying assets and at least another 25% in additional qualifying assets or in real estate-related assets (with no more than 20% comprised of miscellaneous assets). We take the position that qualifying assets for this purpose include mortgage loans and other assets, such as the entire ownership in whole pool RMBS, that the SEC staff in various no-action letters or other pronouncements has determined are the functional equivalent of whole mortgage loans for purposes of the Investment Company Act. While the SEC staff has issued a no-action letter that permits the treatment of such interests in Agency whole pool RMBS as qualifying assets, no such SEC staff guidance is available with respect to non-Agency whole pool RMBS. Accordingly, we rely on our own judgment and analysis in treating non-Agency whole pool RMBS as qualifying assets by analogy to Agency whole pool RMBS.

We treat as real estate-related assets CMBS, debt and equity securities of companies primarily engaged in real estate businesses, Agency partial pool certificates and non-Agency partial pool RMBS.

As noted above, certain of our subsidiaries may rely on the exemption provided by Section 3(c)(6) to the extent that they hold mortgage assets through wholly owned or majority-owned subsidiaries that rely on Section 3(c)(5)(C). Section 3(c)(6) exempts entities (among others) that primarily engage, directly or through majority-owned subsidiaries, in the businesses described in Section 3(c)(5)(C). We refer to a subsidiary that relies on Section 3(c)(6) as a 3(c)(6) subsidiary. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6), and any guidance published by the staff could require us to adjust our strategy to reflect that advice. Although the SEC staff has issued little Section 3(c)(6) interpretive guidance, we believe that our 3(c)(6) subsidiaries may rely on Section 3(c)(6) if, among other things, at least 55% of a 3(c)(6) subsidiary s assets consist of, and at least 55% of a 3(c)(6) subsidiary s income are derived from, qualifying assets owned by a 3(c)(6) subsidiary s wholly owned or majority-owned subsidiaries. We note that if we inadvertently fall within one of the definitions of investment company in Section 3(a)(1) of the Investment Company Act, we also may ourselves rely on the exclusion provided by Section 3(c)(6) of the Investment Company Act.

The method we use to classify our and our subsidiaries assets for purposes of the Investment Company Act is based in large measure upon no-action positions taken by the SEC staff. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued decades ago. No assurance can be given that the SEC or its staff will concur with our classification of our or our subsidiaries assets or that the SEC or its staff will not, in the future, issue further guidance that may require us to reclassify those assets for purposes of qualifying for an exclusion from regulation under the Investment Company Act. For example, in August 2011 the SEC issued a concept release seeking, among other things, comments on the SEC s staff s historical interpretive positions concerning the application of Section 3(c)(5)(C). In that release the SEC requested comments about how Section 3(c)(5)(C) is interpreted by, and affects investors in, REITs, whether the SEC should take action to provide greater clarity, consistency or regulatory certainty regarding the application of Section 3(c)(5)(C) and whether it would be advisable for the SEC to engage in rulemaking with regard to Section 3(c)(5)(C) (such as by defining terms or establishing a safe harbor), to issue an interpretive release concerning the application of Section 3(c)(5)(C) to REITs, to provide exemptive relief or to engage in no further action at this time. To the extent that the SEC or its staff provides more specific guidance regarding Section 3(c)(5)(C) or any of the other matters bearing upon the definition of investment company and the exceptions to that definition, we may be required to adjust our investment strategy accordingly. Additional guidance from the SEC or its staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the investment strategy we have chosen.

Qualification for exemption from the definition of investment company under the Investment Company Act limits our ability to make certain investments. For example, these restrictions limit our and our subsidiaries ability to invest directly in mortgage-related securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations, certain real estate companies or assets not related to real estate. Although we monitor our and our subsidiaries portfolios, there can be no assurance that we will be able to maintain the exemptions from registration for us and each of our subsidiaries.

Restrictions on ownership and transfer of shares

Our charter, subject to certain exceptions, prohibits any person from directly or indirectly owning more than 9.8% by vote or value, whichever is more restrictive, of our outstanding common stock, referred to in this report collectively as the share ownership limits. Our articles of incorporation also prohibit any person from directly or indirectly owning our common stock of any class if such ownership would result in us being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT.

Our charter generally provides that any common stock owned or transferred in violation of the foregoing restrictions will be deemed to be transferred to a charitable trust for the benefit of a charitable beneficiary, and the purported owner or transferee will acquire no rights in such shares. If the foregoing is ineffective for any reason to prevent a violation of these restrictions, then the transfer of such shares will be void *ab initio*.

No person may transfer our common stock or any interest in our common stock if the transfer would result in our common stock being owned by fewer than 100 persons. Any attempt to transfer our common stock in violation of this minimum will be void *ab initio*.

Competition

Our net income depends, in large part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring our investments, we compete with other REITs, specialty finance companies, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Market conditions. In addition, there are numerous REITs with similar asset acquisition objectives. These other REITs increase competition for the available supply of mortgage assets suitable for purchase. Many of our competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we can. Current market conditions may attract more competitors, which may increase the competition for sources of financing. An increase in the competition for sources of financing could adversely affect the availability and cost of financing.

We have access to our Manager s professionals and their industry expertise, which we believe provides us with a competitive advantage. These professionals help us assess investment risks and determine appropriate pricing for certain potential investments. These relationships enable us to compete more effectively for attractive investment opportunities. Despite certain competitive advantages, we may not be able to achieve our business goals or expectations due to the competitive risks that we face.

Staffing

We are managed by our Manager pursuant to the management agreement. Our Manager, pursuant to a delegation agreement dated as of June 29, 2011, has delegated to Angelo, Gordon the overall responsibility with respect to our Manager s day-to-day duties and obligations arising under our management agreement. In addition, all of our officers are employees of Angelo, Gordon or its affiliates. We have no employees. Angelo, Gordon has over 250 employees.

Available Information

Our principal executive offices are located at 245 Park Avenue, 26th Floor, New York, New York 10167. Our telephone number is (212) 692-2000. Our website can be found at www.agmit.com . We make available free of charge on, or through the SEC filings section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as are filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as our proxy statements with respect to our annual meetings of stockholders, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Exchange Act reports filed with, or furnished to, the SEC are also available at the SEC s website at www.sec.gov . The content of any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

ITEM 1A. RISK FACTORS

If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and stockholders may lose some or all of their investment.

Risks associated with our management and relationship with our Manager and its affiliates

We are dependent upon our Manager, its affiliates and their key personnel and may not find a suitable replacement if the management agreement with our Manager is terminated or such key personnel are no longer available to us, which would materially and adversely affect us.

In accordance with our management agreement, we are externally advised by our Manager, and all of our officers are employees of our Manager or its affiliates. We have no separate facilities and we have no employees. Pursuant to our management agreement, our Manager is obligated to supply us with our senior management team, and the members of that team may have conflicts in allocating their time and services between us and other entities or accounts managed by our Manager, now or in the future, including other Angelo, Gordon funds. Substantially all of our investment, financing and risk management decisions are made by our Manager and not by us, and our Manager also has significant discretion as to the implementation of our operating policies and strategies. Furthermore, our Manager has the sole discretion to hire and fire its employees, and our board of directors and stockholders have no authority over the individual employees of our Manager, although our board of directors does have authority over our officers who are supplied by our Manager. Accordingly, we are completely reliant upon, and our success depends exclusively on, our Manager s personnel, services, resources, facilities, relationships and contacts. No assurance can be given that our Manager will act in our best interests with respect to the allocation of personnel, services and resources to our business. In addition, the management agreement does not require our Manager to dedicate specific personnel to us or to require personnel servicing our business to allocate a specific amount of time to us. The failure of any of our Manager s key personnel to service our business with the requisite time and dedication, or the departure of such personnel from our Manager, or the failure of our Manager to attract and retain key personnel, would materially and adversely affect our ability to execute our business plan. Further, when there are turbulent conditions in the real estate industry, distress in the credit markets or other times when we will need focused support and assistance from our Manager, the attention

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of our Manager s personnel and executive officers and the resources of Angelo, Gordon will also be required by the other funds and accounts managed by our Manager and its affiliates, placing our Manager s resources in high demand. In such situations, we may not receive the level of support and assistance that we may receive if we were internally managed or if our Manager did not act as a manager for other entities. If the management agreement is terminated and a suitable replacement is not secured in a timely manner or at all, we would likely be unable to execute our business plan, which would materially and adversely affect us.

The management agreement was not negotiated on an arm s length basis and the terms, including the fees payable to our Manager, may not be as favorable to us as if the agreement was negotiated with unaffiliated third parties.

All of our officers and our non-independent directors are employees of our Manager, Angelo, Gordon or its affiliates. The management agreement was negotiated between related parties, and we did not have the benefit of arm s length negotiations of the type normally conducted with an unaffiliated third party and the terms, including the fees payable to our Manager, may not be as favorable to us. We may choose not to enforce, or to enforce less vigorously, our rights under the management agreement because of our desire to maintain our ongoing relationship with our Manager.

We expect that our Manager will source all of our investments, and existing or future entities or accounts managed by our Manager may compete with us for, or may participate in, some of those investments, which could result in conflicts of interest.

Although we are subject to Angelo, Gordon s allocation policy which specifically addresses some of the conflicts relating to our investment opportunities, which are described under Business Conflicts of Interest, there is no assurance that this policy will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that results in the allocation of a particular investment opportunity to us or is otherwise favorable to us. Our Manager may be precluded from transacting in particular investments in certain situations, including but not limited to situations where Angelo, Gordon or its affiliates may have a prior contractual commitment with other accounts or clients or as to which Angelo, Gordon or any of its affiliates possess material, non-public information. Consistent with Angelo, Gordon s fiduciary duty to all of its clients, it may give priority in the allocation of investment opportunities to certain clients to the extent necessary to apply regulatory requirements, client guidelines and/or contractual obligations. Angelo, Gordon or our Manager may determine that an investment opportunity is appropriate for a particular account, but not for another. In addition, Angelo, Gordon or its employees may invest in opportunities declined by our Manager for us. The investment allocation policy may be amended by Angelo, Gordon at any time without our consent. As the investment programs of the various entities and accounts managed by Angelo, Gordon change and develop over time, additional issues and considerations may affect Angelo, Gordon s allocation policy and its expectations with respect to the allocation of investment opportunities.

Our Manager and Angelo, Gordon and their employees also may have ongoing relationships with the obligors of investments or the clients counterparties and they or their clients may own equity or other securities or obligations issued by such parties. In addition, Angelo, Gordon, either for its own accounts or for the accounts of other clients, may hold securities or obligations that are senior to, or have interests different from or adverse to, the securities or obligations that are acquired for us. Employees may also invest in other entities managed by other managers which are eligible to purchase target assets. Angelo, Gordon or our Manager and their respective employees may make investment decisions for us that may be different from those undertaken for their personal accounts or on behalf of other clients (including the timing and nature of the action taken). Angelo, Gordon and its affiliates may at certain times be simultaneously seeking to purchase or sell the same or similar investments for clients or for themselves. Likewise, our Manager may on our behalf purchase or sell an investment in which another Angelo, Gordon client or affiliate is already invested or has co-invested. We have not adopted any policy which would allow us to, or prohibit us from, buying or otherwise obtaining assets from any Angelo, Gordon client or selling or transferring any assets to such clients. We are limited in our ability to acquire assets that are

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not qualifying real estate assets and/or real estate-related assets, as described under Business Operating and Regulatory Structure Investment Company Act Exemption, whereas other Angelo, Gordon funds and other entities or accounts that Angelo, Gordon currently manages and may manage in the future are not so limited.

Our results are dependent upon the efforts of our Manager.

Our Manager s success, which will be largely determinative of our own success, depends on many factors, including the availability of attractive risk-adjusted investment opportunities that satisfy our targeted investment strategies and then identifying and consummating them on favorable terms, the level and volatility of interest rates, its ability to access on our behalf short-term and long-term financing on favorable terms and conditions in the financial markets, real estate market and the economy, as to which no assurance can be given. In addition, our Manager faces substantial competition for attractive investment opportunities. We cannot assure you that our Manager will be able to cause us to make investments with attractive risk-adjusted returns or will not seek on our behalf investments with greater risk to obtain the same level of returns or that the value of our investments in the future will not decline substantially.

Our Manager s senior management team has limited experience operating a REIT or a public company.

Our Manager s senior management team has limited experience operating a REIT or a public company. The REIT provisions of the Code are complex, and any failure to comply with those provisions in a timely manner could prevent us from qualifying as a REIT or force us to pay unexpected taxes and penalties. In such events, our net income would be reduced and we would incur a loss. In addition, our Manager has no experience operating a business in compliance with the numerous requirements and limitations of the Investment Company Act applicable to REITs. Our Manager s lack of experience in managing a portfolio of assets under REIT and Investment Company Act limitations may limit our ability to achieve our investment objectives. Our Manager s senior management team may not operate us successfully or generate sufficient operating cash flows to make or sustain distributions to our stockholders.

Our board of directors has approved very broad investment policies for our Manager and does not review or approve each investment decision made by our Manager.

Our Manager is authorized to follow very broad investment policies and, therefore, has great latitude in determining the types of assets that are proper investments for us, allocations among asset classes and individual investment decisions. In the future, our Manager may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Our board of directors periodically reviews our investment policies and our investment portfolio but does not review or approve each proposed investment by our Manager. In addition, in conducting periodic reviews, our board of directors relies primarily on information provided to it by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors.

The manner of determining the management fee may not provide sufficient incentive to our Manager to maximize risk-adjusted returns on our investment portfolio because it is based on our Stockholders Equity and not on our performance.

Our Manager is entitled to receive a management fee that is based on our Stockholders Equity at the end of each quarter. Accordingly, the possibility exists that significant management fees could be payable to our Manager for a given quarter despite the fact that we could experience a net loss during that quarter. Our Manager s entitlement to such significant non-performance-based compensation may not provide sufficient incentive to our Manager to devote its time and effort to source and maximize risk-adjusted returns on our investment portfolio, which could, in turn, adversely affect our ability to make distributions to our stockholders and the market price of our common stock. The compensation payable to our Manager will increase as a result of any future issuances of our equity securities, even if the issuance are dilutive to existing stockholders.

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Termination of our management agreement would be costly and, in certain cases, not permitted.

It is difficult and costly to terminate the management agreement we have entered into with our Manager without cause. Our independent directors review our Manager s performance and the management fees annually, and following the initial term ending June 30, 2014, the management agreement provides that it may be terminated annually by us without cause upon the affirmative vote of at least two-thirds of our independent directors or by a vote of the holders of at least two-thirds of our outstanding common stock, in each case based upon (i) our Manager s unsatisfactory performance that is materially detrimental to us or (ii) our determination that the management fees payable to our Manager are not fair, subject to our Manager s right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager must be provided 180-days prior notice of any such termination. We may not terminate or elect not to renew the management agreement, even in the event of our Manager s poor performance, without having to pay substantial termination fees. Upon any such termination without cause, the management agreement provides that we will pay our Manager a termination fee equal to three times the average annual management fee earned by our Manager during the prior 24-month period before termination, calculated as of the end of the most recently completed fiscal quarter. While under certain circumstances the obligation to make such a payment might not be enforceable, this provision may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause. These provisions may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause.

Our Manager may terminate the management agreement if we become required to register as an investment company under the Investment Company Act with termination deemed to occur immediately before such event, in which case we would not be required to pay a termination fee to our Manager. Furthermore, our Manager may decline to renew the management agreement by providing us with 180 days written notice, in which case we would not be required to pay a termination fee to our Manager. Our Manager may also terminate the management agreement upon at least 60 days prior written notice if we default in the performance of any material term of the management agreement and the default continues for a period of 30 days after written notice to us, whereupon we would be required to pay to our Manager the termination fee described above. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

Our Manager s liability is limited under the management agreement, and we have agreed to indemnify our Manager against certain liabilities.

The management agreement provides that our Manager does not assume any responsibility other than to provide the services specified in such agreement. The agreement further provides that our Manager is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. In addition, our Manager, Angelo, Gordon and its respective affiliates, managers, officers, directors, directors, employees and members are held harmless from, and indemnified by us against, certain liabilities on customary terms.

Our Manager has waived its right to certain reimbursements pursuant to the management agreement. If our Manager decides in the future not to grant such waiver, our operating expenses would increase.

We are required to reimburse our Manager for operating expenses related to the Company that are incurred by our Manager, including expenses relating to legal, accounting, due diligence and other services. As of December 31, 2011 the Manager had incurred approximately $1.9 million of reimbursable expenses. Currently, our Manager waives its right to request reimbursement from us of these expenses until such time as it determines to rescind the waiver in part or in whole. If our Manager decides to rescind the waiver in part or in whole, our operating expenses would increase and such increase may be substantial.