

AG Mortgage Investment Trust, Inc.  
Form 424B5  
July 31, 2012  
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Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-182671

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JULY 20, 2012

**1,800,000 Shares**

## **AG Mortgage Investment Trust, Inc.**

**8.25% Series A Cumulative Redeemable Preferred Stock**

**(Liquidation Preference \$25.00 Per Share)**

We are offering to the public 1,800,000 shares of our 8.25% Series A Cumulative Redeemable Preferred Stock, which we refer to in this prospectus supplement as the Series A Preferred Stock. This is an initial issuance of the Series A Preferred Stock. We will pay quarterly cumulative dividends on the Series A Preferred Stock, in arrears, on the 17th day of each March, June, September and December (provided that if any dividend payment date is not a business day, then the dividend that would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day) from, and including, the date of original issuance at 8.25% of the \$25.00 per share liquidation preference per annum (equivalent to \$2.0625 per annum per share). The first dividend on the Series A Preferred Stock sold in this offering will be payable on September 17, 2012 and will be in the amount of \$0.2521 per share.

The Series A Preferred Stock may not be redeemed before August 3, 2017, except under circumstances intended to preserve our qualification as a real estate investment trust, or REIT, for federal income tax purposes and except as described below upon the occurrence of a Change of Control (as defined herein). On or after August 3, 2017, we may, at our option, redeem any or all of the shares of the Series A Preferred Stock at \$25.00 per share plus any accumulated and unpaid dividends to, but not including, the redemption date. In addition, upon the occurrence of a Change of Control, we may, at our option, redeem any or all of the shares of Series A Preferred Stock within 120 days after the first date on which such Change of Control occurred at \$25.00 per share plus any accumulated and unpaid dividends to, but not including, the redemption date. The Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by us or converted into our common stock in connection with a Change of Control by the holders of Series A Preferred Stock.

Upon the occurrence of a Change of Control, each holder of Series A Preferred Stock will have the right (subject to our election to redeem the Series A Preferred Stock in whole or in part, as described above, prior to the Change of Control Conversion Date (as defined herein)) to convert some or all of the Series A Preferred Stock held by such holder on the Change of Control Conversion Date into a number of shares of our common stock per share of Series A Preferred Stock equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of the Series A Preferred Stock plus the amount of any accumulated and unpaid dividends thereon to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date (as defined herein) and prior to the corresponding dividend payment date (as defined herein) for the Series A Preferred Stock, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price (as defined herein); and

2.2810, or the Share Cap, subject to certain adjustments as explained herein; in each case, on the terms and subject to the conditions described in this prospectus supplement, including provisions for the receipt, under specified circumstances, of alternative consideration as described in this prospectus supplement.

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No current market exists for the Series A Preferred Stock. We intend to apply to list the Series A Preferred Stock on the New York Stock Exchange, or the NYSE, under the symbol MITT PrA. If the application is approved, trading of the Series A Preferred Stock on the NYSE is expected to begin within 30 days after the date of initial issuance of the Series A Preferred Stock. Our common stock is traded on the NYSE under the symbol MITT.

To assist us in qualifying and maintaining our qualification as a REIT, among other purposes, shareholders are generally restricted from owning (or being treated as owning under applicable attribution rules) more than 9.8% in value or number of shares, whichever is more restrictive, of our outstanding shares of capital stock or common stock, unless our board of directors waives this limitation. In addition, except under limited circumstances as described in this prospectus supplement, holders of the Series A Preferred Stock generally do not have any voting rights.

The underwriters have an option to purchase up to additional 270,000 shares of Series A Preferred Stock from us to cover over-allotments, if any, on the same terms and conditions set forth above within 30 days of the date of this prospectus supplement.

**Investing in our Series A Preferred Stock involves risk. See Risk Factors beginning on page S-10 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.**

	Per Share	Total <sup>(2)</sup>
Public offering price <sup>(1)</sup>	\$ 25.0000	\$ 45,000,000
Underwriting discount	\$ 0.7875	\$ 1,417,500
Proceeds to us (before expenses)	\$ 24.2125	\$ 43,582,500

<sup>(1)</sup> After the initial offering of the shares, the representatives of the underwriters may change the public offering price and the other selling terms.

<sup>(2)</sup> Assumes no exercise of the underwriters' over-allotment option.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The shares will be ready for delivery on or about August 3, 2012 only in book-entry form through the facilities of The Depository Trust Company.

Stifel Nicolaus Weisel

RBC Capital Markets

Deutsche Bank Securities

Credit Suisse Sterne Agee

Wunderlich Securities

National Securities Corporation

Maxim Group LLC

The date of this prospectus supplement is July 27, 2012.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or SEC or Commission. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. If anyone provides you with additional or different information, you should not rely on it. Neither we nor the underwriters are making an offer to sell the Series A Preferred Stock in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus, any related free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates and except as required by law we are not obligated, and do not intend to, update or revise this document as a result of new information, future events or otherwise.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement is a supplement to the accompanying prospectus that is also a part of this document. This prospectus supplement and the accompanying prospectus are part of a registration statement on Form S-3 that we filed with the SEC using a shelf registration statement. This prospectus supplement contains specific information about us and the terms on which we are offering and selling the Series A Preferred Stock. To the extent that any statement made in this prospectus supplement is inconsistent with statements made in the accompanying prospectus, the statements made in the prospectus will be deemed modified or superseded by those made in this prospectus supplement. To the extent any information or data in any documents filed by us and incorporated by reference herein is inconsistent with prior information or data previously provided by us, the information or data in the previously filed document shall be deemed modified or superseded by the subsequent information or data. Before you purchase shares of the Series A Preferred Stock, you should carefully read this prospectus supplement and the accompanying prospectus, together with the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

In this prospectus, we refer to AG Mortgage Investment Trust, Inc., together with its consolidated subsidiaries, as we, us, Company, or our, unless we specifically state otherwise or the context indicates otherwise. We refer to AG REIT Management, LLC, our external manager, as our Manager, and we refer to Angelo, Gordon & Co., L.P., the parent of our Manager, as Angelo, Gordon. All references in this prospectus to trademarks lacking the symbol are defined terms that reference the products, technologies or businesses bearing the trademark with this symbol. Angelo, Gordon & Co., L.P. licenses the Angelo, Gordon & Co., L.P. name and logo to us and our Manager in perpetuity for use in our business.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this prospectus supplement, the accompanying prospectus and other filings we make with the SEC within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. 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, may or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- the factors referenced in this prospectus, including those set forth under the section captioned Risk Factors ;
- expectations regarding the timing of generating any revenues;
- changes in our investment objective or investment or operational strategy;
- our investment portfolio;
- volatility and deterioration in the broader RMBS, CMBS, residential and commercial mortgage and ABS markets;
- the risk of changes in prepayment rates on the loans underlying RMBS (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) and our other investments;
- the unavailability of real estate financing and related defaults under commercial mortgage loans underlying CMBS;

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changes in interest rates and the market value of RMBS, CMBS, ABS and other real estate-related securities and various other asset classes in which we intend to invest;

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rates of default or decreased recovery rates on our target investments;

volatility in our industry, interest rates and spreads, the debt or equity markets, the general economy or the residential finance and real estate markets specifically, whether the result of market events or otherwise;

events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large depository institutions or other significant corporations, terrorist attacks, natural or man-made disasters, or threatened or actual armed conflicts;

continued declines in residential or commercial real estate;

the availability of attractive risk-adjusted investment opportunities in residential or commercial mortgage and mortgage-related assets that satisfy our investment objective and investment strategies;

the concentration of credit risks to which we are exposed;

the degree and nature of our competition;

the availability, terms and deployment of short-term and long-term capital;

the adequacy of our cash reserves and working capital;

our dependence on Angelo, Gordon and potential conflicts of interest with Angelo, Gordon and its affiliated entities;

changes in personnel and lack of availability of qualified personnel;

the timing of cash flows, if any, from our investments;

our ability to obtain additional financing or the use of proceeds from this offering;

unanticipated increases in financing and other costs;

the performance, financial condition and liquidity of borrowers;

the degree to which our hedging strategies may or may not protect us from interest rate volatility;

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our failure to maintain appropriate internal controls over financial reporting;

estimates relating to our ability to continue to make distributions to our stockholders in the future;

changes in governmental regulations, accounting treatment, tax rates and similar matters;

legislative and regulatory changes (including changes to laws governing the taxation of REITs or the exemptions from registration as an investment company); and

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limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify and remain qualified as a REIT for federal income tax purposes and qualify for an exemption from registration under the Investment Company Act.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

the factors referenced in this prospectus supplement and the accompanying prospectus, including those set forth under the section captioned Risk Factors, and the sections captioned Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and our periodic reports and other information that we file with the SEC;

changes in our investment, financing and hedging strategy;

the adequacy of our cash flow from operations and borrowings to meet our short term liquidity requirements;

the liquidity of our portfolio;

unanticipated changes in our industry, interest rates, the credit markets, the general economy or the real estate market;

changes in interest rates and the market value of our Agency RMBS;

changes in the prepayment rates on the mortgage loans underlying our Agency RMBS;

our ability to borrow to finance our assets;

changes in government regulations affecting our business;

our ability to qualify and maintain our qualification as a REIT for federal income tax purposes;

our ability to maintain our exemption from registration under the Investment Company Act and the availability of such exemption in the future; and

risks associated with investing in real estate assets, including changes in business conditions and the general economy.

These and other risks, uncertainties and factors, including those described elsewhere in the prospectus supplement and the accompanying prospectus, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time, and it is not possible 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.



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**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information about us. It may not contain all the information that may be important to you in deciding whether to invest in the Series A Preferred Stock. You should read this entire prospectus supplement and the accompanying prospectus, together with the information incorporated by reference, including the risk factors, financial data and related notes, before making an investment decision.*

**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 were incorporated in Maryland on March 1, 2011, and commenced operations in July 2011.

As of March 31, 2012, we are 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 U.S. government-sponsored entity 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 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 also have the discretion to invest, and we have invested, in other target assets, including commercial mortgage-backed securities, or CMBS, residential and commercial mortgage loans and asset-backed securities, or ABS.

We are externally managed and advised by our Manager, a subsidiary of Angelo, Gordon. Angelo, Gordon is a privately-held, SEC-registered investment adviser. Pursuant to the terms of our management agreement with our Manager, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is also an officer of our Manager and an employee of Angelo, Gordon. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our board of directors.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for federal income tax purposes, commencing with our taxable year ended December 31, 2011 upon filing our federal income tax return for that year. Accordingly, we generally will not be subject to federal income tax on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We intend to 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 principal executive offices are located at 245 Park Avenue, 26<sup>th</sup> Floor, New York, New York 10167. Our telephone number is (212) 692-2000. Our website is [www.agmit.com](http://www.agmit.com). Our website and the information contained at or connected to our website do not constitute a part of this prospectus or any accompanying prospectus supplement.

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### **Recent Developments**

*Management has made preliminary estimates of our net income per share, net realized gain, gain on linked transactions, net, net interest income on linked transactions, unrealized loss on derivative instruments, net and unrealized gain on real estate securities, net for the quarter ended June 30, 2012 and our book value per share and leverage ratio as of June 30, 2012. The preliminary estimates are subject to revision as we prepare our interim financial statements, including all disclosures required by accounting principles generally accepted in the United States, or GAAP, as of and for the quarter ended June 30, 2012. Factors that could cause final financial results to differ from the preliminary estimates include, but are not limited to: (i) additional adjustments in the calculation of financial results for, or book value as of, the quarter end date, (ii) discovery of new information that alters expectations about second quarter results or impacts valuation methodologies underlying these results, (iii) errors in the assessment of portfolio value, and (iv) accounting changes required by GAAP.*

We estimate that, when finally determined, for the quarter ended June 30, 2012 GAAP net income will be in the range of \$2.80 to \$2.85 per share. GAAP net income for the quarter ended June 30, 2012 included approximately \$0.45 to \$0.50 per share of net realized gains and an aggregate of approximately \$1.48 to \$1.52 per share of unrealized gain/loss on the securities underlying linked transactions, unrealized gain/loss on derivative instruments, net and unrealized gain/loss on real estate securities. We further estimate that, when finally determined, book value per share as of June 30, 2012 will be in the range of \$21.75 to \$21.80 and that our GAAP leverage ratio as of June 30, 2012 will be in the range of 6.0x to 6.2x. The book value per share estimate is after giving effect to the \$0.70 per share quarterly dividend described below. We also estimate our leverage ratio as of June 30, 2012 and inclusive of repurchase agreements accounted for as a component of linked transactions will be in the range of 6.7x to 6.9x.

On June 7, 2012, our board of directors authorized and we declared a dividend of \$0.70 per share of common stock for the second quarter of 2012. The dividend is scheduled to be paid on July 27, 2012 to shareholders of record as of the close of business on June 29, 2012.

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**The Offering**

Issuer	AG Mortgage Investment Trust, Inc.
Securities offered by us	1,800,000 shares of 8.25% Series A Cumulative Redeemable Preferred Stock, plus up to an additional 270,000 shares if the underwriters exercise their over-allotment option in full.
Use of Proceeds	Our net proceeds will be approximately \$43.3 million, after deducting the underwriting discount and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, our net proceeds from the offering will be approximately \$49.9 million, after deducting the underwriting discount and estimated offering expenses. We plan to use all of the net proceeds from this offering as described above to acquire our target assets in accordance with our objectives and strategies described in this prospectus supplement and the accompanying prospectus. Our focus will be on purchasing Agency RMBS, non-Agency RMBS and other real estate-related securities, and for general corporate purposes, in each case subject to our investment guidelines and to the extent consistent with maintaining our REIT qualification. Our Manager will make determinations as to the percentage of our equity that will be invested in each of our target assets. Its determinations will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Prior to the time we have fully used the net proceeds of this offering to acquire our target assets, we may fund our quarterly distributions out of such net proceeds. See "Use of Proceeds" in this prospectus supplement.
Dividends	Holders of the Series A Preferred Stock will be entitled to receive cumulative cash dividends at a rate of 8.25% per annum of the \$25.00 per share liquidation preference (equivalent to \$2.0625 per annum per share).
	Dividends will be payable quarterly in arrears on the 17th day of each March, June, September and December, provided that if any dividend payment date is not a business day, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day. Dividends will accrue and be cumulative from, and including, the date of initial issuance, which is expected to be August 3, 2012. The first dividend will be payable on September 17, 2012 in the amount of \$0.2521 per share will be paid to the persons who are the holders of record of the Series A Preferred Stock at the close of business on the corresponding record date, which will be August 31, 2012.

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No Maturity

The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. Shares of the Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under Description of the Series A Preferred Stock Conversion Rights. We are not required to set aside funds to redeem the Series A Preferred Stock.

Optional Redemption

The Series A Preferred Stock is not redeemable by us prior to August 3, 2017, except under circumstances intended to preserve our qualification as a REIT for federal income tax purposes and except as described below under Description of the Series A Preferred Stock Redemption Special Optional Redemption. On and after August 3, 2017, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price equal to \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date fixed for redemption. See Description of the Series A Preferred Stock Redemption Optional Redemption.

Special Optional Redemption

Upon the occurrence of a Change of Control, we may, at our option, redeem the Series A Preferred Stock for cash, in whole or in part, within 120 days after the first date on which such Change of Control occurred, at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date (as defined herein), we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock (whether pursuant to our optional redemption right described above or this special optional redemption right), the holders of Series A Preferred Stock will not have the conversion right described below under Description of the Series A Preferred Stock Conversion Rights with respect to the shares of Series A Preferred Stock called for redemption. See Description of the Series A Preferred Stock Redemption Special Optional Redemption.

A Change of Control is deemed to occur when, after the original issuance of the Series A Preferred Stock, the following have occurred and are continuing:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions, of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently

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exercisable or is exercisable only upon the occurrence of a subsequent condition); and

following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities listed on the NYSE, the NYSE Amex Equities, or NYSE Amex, or the Nasdaq Stock Market, or Nasdaq, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE Amex or Nasdaq.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series A Preferred Stock will have the right, subject to our election to redeem the Series A Preferred Stock in whole or part, as described above under Description of the Series A Preferred Stock Redemption Optional Redemption or Special Optional Redemption, prior to the Change of Control Conversion Date to convert some or all of the Series A Preferred Stock held by such holder on the Change of Control Conversion Date into a number of shares of our common stock per share of Series A Preferred Stock equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series A Preferred Stock plus the amount of any accumulated and unpaid dividends thereon to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date (as defined herein) and prior to the corresponding dividend payment date (as defined herein) for the Series A Preferred Stock, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price (as defined herein); and

2.2810, or the Share Cap, subject to adjustments to the Share Cap for any splits, subdivisions or combinations of our common stock;

in each case, on the terms and subject to the conditions described in this prospectus supplement, including provisions for the receipt, under specified circumstances, of alternative consideration as described in this prospectus supplement.

For definitions of Change of Control Conversion Right, Change of Control Conversion Date and Common Stock Price and a description of certain adjustments and provisions for the receipt of alternative consideration that may be applicable to the conversion of Series A Preferred Stock in the event of a Change of Control, and for other important information, see Description of the Series A Preferred Stock Conversion Rights.

Liquidation Preference

If we liquidate, dissolve or wind up, holders of the Series A Preferred Stock will have the right to receive \$25.00 per share, plus any accumulated and unpaid dividends to, but not including, the date of payment, before any payment is made to the holders of our common

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stock. See Description of the Series A Preferred Stock Liquidation Preference.

Ranking

The Series A Preferred Stock will rank, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up, (1) senior to all classes or series of our common stock and to all other equity securities issued by us other than equity securities referred to in clauses (2) and (3); (2) on a parity with all equity securities issued by us with terms specifically providing that those equity securities rank on a parity with the Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; (3) junior to all equity securities issued by us with terms specifically providing that those equity securities rank senior to the Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up; and (4) effectively junior to all of our existing and future indebtedness (including indebtedness convertible to our common stock or preferred stock) and to the indebtedness of our existing subsidiaries and any future subsidiaries. See Description of the Series A Preferred Stock Ranking.

Voting Rights

Holders of Series A Preferred Stock will generally have no voting rights. However, if we do not pay dividends on the Series A Preferred Stock for six or more quarterly dividend periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of our preferred stock we may issue upon which like voting rights have been conferred and are exercisable and with which the Series A Preferred Stock is entitled to vote as a class with respect to the election of those two directors) and the holders of the Series A Preferred Stock (voting separately as a class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of those two directors) will be entitled to vote for the election of two additional directors to serve on our board of directors until we pay, or declare and set apart funds for the payment of, all dividends that we owe on the Series A Preferred Stock, subject to certain limitations described in the section entitled Description of the Series A Preferred Stock Voting Rights. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock is required for us to authorize or issue any class or series of stock ranking senior to the Series A Preferred Stock with respect to the payment of dividends or the distribution of assets on liquidation, dissolution or winding up, to amend any provision of our charter so as to materially and adversely affect any rights of the Series A Preferred Stock or to take certain other actions. See Description of the Series A Preferred Stock Voting Rights.

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Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series A Preferred Stock are outstanding, we will use our best efforts to (i) post to our website or transmit by mail (or other permissible means under the Exchange Act) to all holders of Series A Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holder or prospective holder of Series A Preferred Stock, subject to certain exceptions described in this prospectus supplement. We will use our best efforts to post to our website or mail (or otherwise provide) the information to the holders of the Series A Preferred Stock within 15 days after the respective dates by which a report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a non-accelerated filer within the meaning of the Exchange Act.

Listing

No current market exists for the Series A Preferred Stock. We intend to apply to list the Series A Preferred Stock on the NYSE. If approved for listing, we expect that trading on the NYSE will commence within 30 days after the date of initial issuance of the Series A Preferred Stock. The underwriters have advised us that they intend to make a market in the Series A Preferred Stock prior to the commencement of any trading on the NYSE, but they are not obligated to do so and may discontinue market making at any time without notice. We cannot assure you that a market for the Series A Preferred Stock will develop prior to commencement of trading on the NYSE or, if developed, will be maintained or will provide you with adequate liquidity.

Restrictions on Ownership and Transfer

In order to assist us in qualifying and maintaining our qualification as a REIT for federal income tax purposes, among other purposes, our charter provides that no person or entity may beneficially own, or be deemed to own by virtue of applicable attribution provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of either our common stock or our capital stock, including our Series A Preferred Stock, subject to certain exceptions. These provisions may restrict the ability of a holder of Series A Preferred Stock to convert such stock into our common stock and may limit the amount of Series A Preferred Stock that a holder may acquire or otherwise own. See Description of Common Stock Restrictions on Ownership and Transfer in the accompanying prospectus.

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Risk Factors

Investing in our Series A Preferred Stock involves a high degree of risk. You should carefully read and consider the information set forth under **Risk Factors** beginning on page S-10 of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Federal Income Tax Considerations

For a discussion of the federal income tax considerations related to purchasing, owning and disposing of the Series A Preferred Stock and owning and disposing of any common stock received upon conversion of the Series A Preferred Stock, see **Additional Material Federal Income Tax Considerations** below and **Material Federal Income Tax Considerations** in the accompanying prospectus.

Book-Entry and Form

The Series A Preferred Stock will be represented by one or more global certificates in definitive, fully registered form deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company.

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**USE OF PROCEEDS**

Our net proceeds will be approximately \$43.3 million, after deducting the underwriting discount and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, our net proceeds from the offering will be approximately \$49.9 million, after deducting the underwriting discount and estimated offering expenses.

We plan to use all of the net proceeds from this offering to acquire our target assets in accordance with our objectives and strategies described in this prospectus supplement and the accompanying prospectus. Our focus will be on purchasing Agency RMBS, non-Agency RMBS and other real estate-related securities, and for general corporate purposes, in each case subject to our investment guidelines and to the extent consistent with qualifying and maintaining our REIT qualification. Our Manager will make determinations as to the percentage of our equity that will be invested in each of our target assets. Its determinations will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. Prior to the time we have fully used the net proceeds of this offering to acquire our target assets, we may fund our quarterly distributions out of such net proceeds.

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**RISK FACTORS**

*In evaluating an investment in the Series A Preferred Stock, you should carefully consider the following risk factors and the risk factors described under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which are incorporated by reference in this prospectus supplement and in the accompanying prospectus, in addition to the other risks and uncertainties described in this prospectus supplement, any other documents incorporated by reference in the accompanying prospectus and, if applicable, any free writing prospectus we may provide you in connection with this offering. The risks and uncertainties discussed below and in the documents referred to above, as well as other matters discussed in this prospectus supplement and in those documents, could materially and adversely affect our business, financial condition, liquidity and results of operations and the market price of the Series A Preferred Stock and the common stock into which the Series A Preferred Stock, in certain circumstances, are convertible. Moreover, the risks and uncertainties discussed below and in the foregoing documents are not the only risks and uncertainties that we face, and our business, financial condition, liquidity and results of operations and the market price of the Series A Preferred Stock and our shares of common stock could be materially adversely affected by other matters that are not known to us or that we currently do not consider to be material risks to our business.*

**Risks Related to the Series A Preferred Stock and this Offering**

***The Series A Preferred Stock ranks junior to all of our indebtedness and other liabilities and is effectively junior to all indebtedness and other liabilities of our subsidiaries.***

In the event of our bankruptcy, liquidation, dissolution or winding-up of our affairs, our assets will be available to pay obligations on the Series A Preferred Stock only after all of our indebtedness and other liabilities have been paid. The rights of holders of the Series A Preferred Stock to participate in the distribution of our assets will rank junior to the prior claims of our current and future creditors and any future series or class of preferred stock we may issue that ranks senior to the Series A Preferred Stock. In addition, the Series A Preferred Stock effectively ranks junior to all existing and future indebtedness and other liabilities of (as well as any preferred equity interests held by others in) our existing subsidiaries and any future subsidiaries. Our existing subsidiaries are and any future subsidiaries would be separate legal entities and have no legal obligation to pay any amounts to us in respect of dividends due on the Series A Preferred Stock. If we are forced to liquidate our assets to pay our creditors, we may not have sufficient assets to pay amounts due on any or all of the Series A Preferred Stock then outstanding. We and our subsidiaries have incurred and may in the future incur substantial amounts of debt and other obligations that will rank senior to the Series A Preferred Stock. At June 30, 2012, we had approximately \$2.5 billion of indebtedness and other liabilities ranking senior to the Series A Preferred Stock, substantially all of which consisted of borrowings under our repurchase agreements. Certain of our existing or future debt instruments may restrict the authorization, payment or setting apart of dividends on the Series A Preferred Stock.

Future offerings of debt or senior equity securities may adversely affect the market price of the Series A Preferred Stock. If we decide to issue debt or senior equity securities in the future, it is possible that these securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of the Series A Preferred Stock and may result in dilution to owners of the Series A Preferred Stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of the Series A Preferred Stock will bear the risk of our future offerings reducing the market price of the Series A Preferred Stock and diluting the value of their holdings in us.

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***We may issue additional shares of Series A Preferred Stock and additional series of preferred stock that rank on parity with the Series A Preferred Stock as to dividend rights, rights upon liquidation or voting rights.***

We are allowed to issue additional shares of Series A Preferred Stock and additional series of preferred stock that would rank equally to the Series A Preferred Stock as to dividend payments and rights upon our liquidation, dissolution or winding up of our affairs pursuant to our charter, including the articles supplementary for the Series A Preferred Stock, without any vote of the holders of the Series A Preferred Stock. The issuance of additional shares of Series A Preferred Stock and additional series of parity preferred stock could have the effect of reducing the amounts available to the holders of the Series A Preferred Stock issued in this offering upon our liquidation or dissolution or the winding up of our affairs. It also may reduce dividend payments on the Series A Preferred Stock issued in this offering if we do not have sufficient funds to pay dividends on all Series A Preferred Stock outstanding and other classes of stock with equal priority with respect to dividends.

In addition, although holders of Series A Preferred Stock are entitled to limited voting rights, as described in Description of the Series A Preferred Stock Voting Rights, with respect to such matters, the Series A Preferred Stock will vote separately as a class along with all other classes or series of our preferred stock that we may issue upon which like voting rights have been conferred and are exercisable. As a result, the voting rights of holders of Series A Preferred Stock may be significantly diluted, and the holders of such other series of preferred stock that we may issue may be able to control or significantly influence the outcome of any vote.

Future issuances and sales of parity preferred stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for the Series A Preferred Stock and our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us.

***Our ability to pay dividends is limited by the requirements of Maryland law.***

Our ability to pay dividends on the Series A Preferred Stock is limited by the laws of Maryland. Under applicable Maryland law, a Maryland corporation may not make a distribution if, after giving effect to the distribution, the corporation would not be able to pay its debts as the debts become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus, unless the charter provides otherwise, the amount that would be needed, if the corporation were dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. Accordingly, we may not make a distribution on our Series A Preferred Stock if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus, unless the charter provides otherwise, the amount that would be needed to satisfy the preferential rights upon dissolution of the holders of shares of any class or series of preferred stock then outstanding, if any, with preferences senior to those of our Series A Preferred Stock.

***You may not be able to exercise conversion rights upon a Change of Control. If exercisable, the change of control conversion rights described in this prospectus supplement may not adequately compensate you. These change of control conversion rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.***

Upon the occurrence of a Change of Control, each holder of the Series A Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock held by such holder as described under Description of the Series A Preferred Stock Redemption Optional Redemption or Special Optional Redemption, in which case such holder will have the right only with respect to shares of Series A Preferred Stock that are not called for redemption) to convert some or all of such holder's Series A Preferred Stock into our shares of common stock (or under specified circumstances certain alternative consideration). Notwithstanding that we generally may not

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redeem the Series A Preferred Stock prior to August 3, 2017, we have a special optional redemption right to redeem the Series A Preferred Stock in the event of a Change of Control, and holders of the Series A Preferred Stock will not have the right to convert any shares that we have elected to redeem prior to the Change of Control Conversion Date. See Description of the Series A Preferred Stock Redemption Special Optional Redemption and Description of the Series A Preferred Stock Conversion Rights.

If we do not elect to redeem the Series A Preferred Stock prior to the Change of Control Conversion Date, then upon an exercise of the conversion rights described in this prospectus supplement, the holders of Series A Preferred Stock will be limited to a maximum number of shares of our common stock (or, if applicable, the Alternative Conversion Consideration (as defined herein)) equal to the Share Cap (as defined herein) multiplied by the number of shares of Series A Preferred Stock converted. If the Common Stock Price is less than \$10.96 (which is 50% of the per share closing sale price of our common stock reported on the NYSE on July 26, 2012), subject to adjustment in certain circumstances, the holders of the Series A Preferred Stock will receive a maximum of 2.2810 shares of our common stock per share of Series A Preferred Stock, which may result in a holder receiving shares of common stock (or Alternative Conversion Consideration, as applicable) with a value that is less than the liquidation preference of the Series A Preferred Stock plus any accumulated and unpaid dividends.

In addition, the Change of Control conversion feature of the Series A Preferred Stock may have the effect of discouraging a third party from making an acquisition proposal for us or of delaying, deferring or preventing certain of our change of control transactions under circumstances that otherwise could provide the holders of our common stock and Series A Preferred Stock with the opportunity to realize a premium over the then-current market price of such stock or that stockholders may otherwise believe is in their best interests.

*The trading price of the Series A Preferred Stock could be substantially affected by various factors.*

If the Series A Preferred Stock is approved for listing, the trading price of the Series A Preferred Stock will depend on many factors, which may change from time to time, including:

prevailing interest rates, increases in which may have an adverse effect on the market price of the Series A Preferred Stock;

market prices of common and preferred equity securities issued by REITs and other real estate companies;

the annual yield from distributions on the Series A Preferred Stock as compared to yields on other financial instruments;

general economic and financial market conditions;

government action or regulation;

the financial condition, performance and prospects of us and our competitors;

changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;

our issuance of additional common equity or debt securities;

our issuance of additional series or classes of preferred securities; and

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actual or anticipated variations in quarterly operating results of us and our competitors.

As a result of these and other factors, investors who purchase the Series A Preferred Stock in this offering may experience a decrease, which could be substantial and rapid, in the trading price of the Series A Preferred Stock, including decreases unrelated to our operating performance or prospects.

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***Our charter, including the articles supplementary establishing the terms of the Series A Preferred Stock, contains restrictions upon ownership and transfer of the Series A Preferred Stock, which may impair the ability of holders to convert Series A Preferred Stock into our common stock.***

Our charter, including the articles supplementary establishing the terms of the Series A Preferred Stock, contains restrictions on ownership and transfer of the Series A Preferred Stock intended to assist us in qualifying and maintaining our qualification as a REIT for federal income tax purposes. For example, our charter provides that no person or entity may beneficially own, or be deemed to own by virtue of applicable attribution provisions of the Internal Revenue Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of either our common stock or our capital stock, subject to certain exceptions. See [Description of Common Stock Restrictions on Ownership and Transfer](#) in the accompanying prospectus. Given that shares of the Series A Preferred Stock owned or treated as owned by you will be counted as our capital stock for purposes of the 9.8% ownership limitation applicable to our capital stock, you should consider this ownership limitation prior to your purchase of the Series A Preferred Stock. Notwithstanding any other provision of the Series A Preferred Stock, no holder of Series A Preferred Stock will be entitled to convert such stock into our common stock to the extent that receipt of our common stock would cause the holder to exceed the ownership limitations contained in our charter, including the articles supplementary for the Series A Preferred Stock. In addition, these restrictions could have takeover defense effects and could reduce the possibility that a third party will attempt to acquire control of us, which could adversely affect the market price of the Series A Preferred Stock.

***As a holder of Series A Preferred Stock, you will have extremely limited voting rights.***

Your voting rights as a holder of Series A Preferred Stock will be limited. Our shares of common stock are the only class of our securities that carry full voting rights. Voting rights for holders of Series A Preferred Stock exist primarily with respect to the ability to elect, voting together with the holders of any other class or series of our preferred stock having similar voting rights, two additional directors to our board of directors, in the event that six quarterly dividends (whether or not consecutive) payable on the Series A Preferred Stock are in arrears, and with respect to voting on amendments to our charter, including the articles supplementary relating to the Series A Preferred Stock, that materially and adversely affect the rights of the holders of Series A Preferred Stock or authorize, increase or create additional classes or series of our stock that are senior to the Series A Preferred Stock. Other than the limited circumstances described in this prospectus supplement, holders of Series A Preferred Stock will not have any voting rights. See [Description of the Series A Preferred Stock Voting Rights](#).

***Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of the Series A Preferred Stock.***

Over the last several years, the U.S. stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. More recently, the financial crisis in Europe (which relates primarily to concerns that certain European countries may be unable to pay their national debt) has had a similar, although less pronounced, effect. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at reasonable terms, which may negatively affect our ability to purchase agency securities at the times, in the volumes, on the terms and with the leverage that we desire. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our investment strategy accordingly. In addition, these factors may make it more difficult for us to sell mortgage-backed securities, or MBS, or may adversely affect the price we receive for MBS that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These types of events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common stock, preferred stock

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or debt securities. The potential disruptions in the financial markets may have a material adverse effect on the market value of our common stock and preferred stock, including the Series A Preferred Stock offered pursuant to this prospectus supplement, the return we receive on our investments, as well as other unknown adverse effects on us or the economy in general.

***The Series A Preferred Stock is a new issue of securities and does not have an established trading market, which may negatively affect its value and your ability to transfer and sell your shares.***

The Series A Preferred Stock is a new issue of securities and currently no market exists for the Series A Preferred Stock. We intend to apply to list the Series A Preferred Stock on the NYSE. However, we cannot assure you that the Series A Preferred Stock will be approved for listing on the NYSE. Even if so approved, trading of the Series A Preferred Stock on the NYSE is not expected to begin until sometime during the period ending 30 days after the date of initial issuance of the Series A Preferred Stock and, in any event, a trading market on the NYSE for the Series A Preferred Stock may never develop or, even if one develops, may not be maintained and may not provide you with adequate liquidity. The underwriters have advised us that they intend to make a market in the Series A Preferred Stock prior to the commencement of any trading on the NYSE, but are not obligated to do so and may discontinue market making at any time without notice. The liquidity of any market for the Series A Preferred Stock that may develop will depend on a number of factors, including prevailing interest rates, the dividend rate on our common stock, our financial condition and operating results, the number of holders of the Series A Preferred Stock, the market for similar securities and the interest of securities dealers in making a market in the Series A Preferred Stock. As a result, the ability to transfer or sell the Series A Preferred Stock and the amount you receive upon any sale or transfer of the Series A Preferred Stock could be adversely affected.

***If our common stock is delisted, your ability to transfer or sell your shares of the Series A Preferred Stock may be limited and the market value of the Series A Preferred Stock will likely be materially adversely affected.***

Other than in connection with a Change of Control, the Series A Preferred Stock does not contain provisions that are intended to protect you if our common stock is delisted from the NYSE. Since the Series A Preferred Stock has no stated maturity date, you may be forced to hold your shares of the Series A Preferred Stock and receive stated dividends on the Series A Preferred Stock when, as and if authorized by our board of directors and paid by us with no assurance as to ever receiving the liquidation value thereof. In addition, if our common stock is delisted from the NYSE, it is likely that the Series A Preferred Stock will be delisted from the NYSE as well. Accordingly, if our common stock is delisted from the NYSE, your ability to transfer or sell your shares of the Series A Preferred Stock may be limited and the market value of the Series A Preferred Stock will likely be materially adversely affected.

***The Series A Preferred Stock has not been rated.***

We have not sought to obtain a rating for the Series A Preferred Stock. No assurance can be given, however, that one or more rating agencies might not independently determine to issue such a rating or that such a rating, if issued, would not adversely affect the market price of the Series A Preferred Stock. In addition, we may elect in the future to obtain a rating for the Series A Preferred Stock, which could adversely affect the market price of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on a watch list or withdrawn entirely at the discretion of the issuing rating agency if in its judgment circumstances so warrant. Any such downward revision, placing on a watch list or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Stock.

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*There are material limitations in estimating our results for prior periods before the completion of our and our auditors' normal review procedures for such period.*

The preliminary estimated results set forth in this prospectus supplement under the heading "Recent Developments" are not a comprehensive statement of our financial results for our second fiscal quarter of 2012 and have not been reviewed or audited by our independent registered public accounting firm. Our consolidated financial statements for the second fiscal quarter of 2012 will not be available until after this offering is completed, and, consequently, will not be available to you prior to investing in this offering. The final financial results for the second fiscal quarter of 2012 may vary from our expectations and may be materially different from the preliminary financial estimates we have provided due to completion of quarterly closing procedures, reviewing adjustments and other developments that may arise between now and the time the financial results for the quarter are finalized. Accordingly, investors should not place undue reliance on such financial information.

**Risks Related to Our Business**

*The value of our investments in interest only securities would be especially negatively affected by changes in prepayment rates.*

Many residential mortgage loans do not contain any restrictions on borrowers' abilities to prepay their loans and therefore actual maturities of Agency RMBS are generally shorter than their stated contractual maturities. Interest only Agency RMBS only entitle the holder to interest payments. Therefore, the yield to maturity of interest only Agency RMBS is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2012 on an actual basis and on a pro forma basis to give effect to the sale of shares of the Series A Preferred Stock at an offering price of \$25.00 per share in this offering after deducting the underwriting discount and estimated offering expenses. You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	<b>As of March 31, 2012</b> <b>(in thousands)</b>	
	<b>Actual</b>	<b>Pro Forma As Adjusted For This Offering<sup>(1)</sup></b>
Cash and cash equivalents	\$ 20,813	\$ 64,146
<b>Debt:</b>		
Repurchase agreements	\$ 2,086,690	\$ 2,086,690
Other liabilities	78,924	78,924
Total liabilities	\$ 2,165,614	\$ 2,165,614
<b>Stockholders' equity:</b>		
Preferred stock: par value \$.01 per share; 50,000,000 shares authorized, none issued and outstanding on an actual basis and 1,800,000 shares issued and outstanding on a pro forma as adjusted basis <sup>(1)</sup>		18
Common stock: par value \$.01 per share; 450,000,000 shares authorized, 15,764,800 shares issued and outstanding on an actual and pro forma adjusted basis	158	158
Additional paid-in capital	302,180	345,495
Retained earnings	7,866	7,866
Total stockholders' equity	\$ 310,204	\$ 353,537
Total capitalization	\$ 2,475,818	\$ 2,519,151

(1) Assumes no exercise of the underwriters' over-allotment option to purchase up to an additional 270,000 shares of the Series A Preferred Stock.

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**DESCRIPTION OF THE SERIES A PREFERRED STOCK**

*This description of certain terms of the Series A Preferred Stock supplements, and, to the extent inconsistent therewith, replaces, the description of the general terms and provisions of our preferred stock set forth in the accompanying prospectus. The description of certain terms of the Series A Preferred Stock in this prospectus supplement does not purport to be complete and is in all respects subject to, and qualified in its entirety by references to the relevant provisions of our charter, including the articles supplementary classifying and designating the Series A Preferred Stock, our bylaws and Maryland law. Copies of our charter and our bylaws are available from us upon request.*

**General**

Pursuant to our charter, we are currently authorized to classify, designate and issue up to 50,000,000 shares of preferred stock, par value \$0.01 per share, in one or more classes or series and, subject to the limitations prescribed by our charter and Maryland law, with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications, or terms or conditions of redemption and the number of shares constituting any class or series as our board of directors may determine, without any vote or action by our stockholders. As of the date of this prospectus supplement, we have no preferred stock issued and outstanding. In connection with this offering, our board of directors or a committee of the board will, as permitted by our charter, classify authorized but unissued shares of preferred stock into a new series of preferred stock with the rights set forth herein consisting of up to 3,000,000 shares designated as 8.25% Series A Cumulative Redeemable Preferred Stock, which we refer to herein as the Series A Preferred Stock, and adopt articles supplementary setting forth the terms of the Series A Preferred Stock. Subsequent to the completion of this offering, we will have available for issuance 1,200,000 authorized but unissued shares of preferred stock (or 930,000 shares if the underwriters exercise their over-allotment option in full). Our board of directors may, without the approval of holders of the Series A Preferred Stock or our common stock, designate additional classes or series of authorized preferred stock ranking junior to or on parity with the Series A Preferred Stock or designate additional shares of the Series A Preferred Stock and authorize the issuance of such shares. Our board of directors may, with the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series A Preferred Stock outstanding at the time, classify and designate equity securities ranking senior to the Series A Preferred Stock.

We intend to apply to list the shares of the Series A Preferred Stock on the NYSE under the symbol MITT PrA. If listing is approved, we expect trading to commence within 30 days after the initial delivery of the shares of Series A Preferred Stock.

The registrar, transfer agent and dividend and redemption price disbursing agent in respect of the Series A Preferred Stock will be American Stock Transfer & Trust Company, LLC ( AST ). The principal business address for AST is 6201 4<sup>th</sup> Avenue, Brooklyn, NY, 11219. The articles supplementary classifying and designating the Series A Preferred Stock provide that we will maintain an office or agency where shares of Series A Preferred Stock may be surrendered for payment (including redemption), registration of transfer or exchange.

**Maturity**

The Series A Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. Shares of the Series A Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under Conversion Rights. We are not required to set aside funds to redeem the Series A Preferred Stock.

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### **Ranking**

The Series A Preferred Stock will rank, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

(1) senior to all classes or series of our common stock and to all other equity securities issued by us other than equity securities referred to in clauses (2) and (3) below;

(2) on a parity with all equity securities issued by us with terms specifically providing that those equity securities rank on a parity with the Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up;

(3) junior to all equity securities issued by us with terms specifically providing that those equity securities rank senior to the Series A Preferred Stock with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (see [Voting Rights](#) below); and

(4) effectively junior to all of our existing and future indebtedness (including indebtedness convertible to our common stock or preferred stock), and to the indebtedness of our existing subsidiaries and any future subsidiaries.

### **Dividends**

Holders of shares of the Series A Preferred Stock are entitled to receive, when, as and if authorized by our board of directors and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 8.25% of the \$25.00 per share liquidation preference per annum (equivalent to \$2.0625 per annum per share). Dividends on the Series A Preferred Stock shall accrue daily and be cumulative from, and including, the date of original issue and shall be payable quarterly in arrears on the 17th day of each March, June, September and December (each, a dividend payment date); provided that if any dividend payment date is not a business day, as defined in the articles supplementary, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day and no interest, additional dividends or other sums will accrue on the amount so payable for the period from and after that dividend payment date to that next succeeding business day. The first dividend on the Series A Preferred Stock is scheduled to be paid on September 17, 2012 in the amount of \$0.2521 per share, and that dividend will be paid to the persons who are the holders of record of the Series A Preferred Stock at the close of business on the corresponding record date, which will be August 31, 2012. Any dividend payable on the Series A Preferred Stock, including dividends payable for any partial dividend period, will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records for the Series A Preferred Stock at the close of business on the applicable record date, which shall be the last business day of the preceding calendar month, in which the applicable dividend payment date falls (each, a dividend record date).

No dividends on shares of Series A Preferred Stock shall be authorized by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment shall be restricted or prohibited by law. You should review the information appearing above under [Risk Factors](#). Our ability to pay dividends is limited by the requirements of Maryland law for information as to, among other things, other circumstances under which we may be unable to pay dividends on the Series A Preferred Stock.

Notwithstanding the foregoing, dividends on the Series A Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of those dividends and whether or not those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend

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payment or payments on the Series A Preferred Stock which may be in arrears, and holders of the Series A Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series A Preferred Stock shall first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future distributions on our common stock and preferred stock, including the Series A Preferred Stock offered pursuant to this prospectus supplement, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, any debt service requirements and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on our preferred stock or what the actual distributions will be for any future period.

Unless full cumulative dividends on the Series A Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, (i) no dividends (other than in shares of common stock or in shares of any classes or series of preferred stock that we may issue ranking junior to the Series A Preferred Stock as to dividends and upon liquidation) shall be declared and paid or set apart for payment upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation; (ii) no other distribution shall be declared and made upon shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation; and (iii) no shares of our common stock or preferred stock that we may issue ranking junior to or on a parity with the Series A Preferred Stock as to dividends or upon liquidation shall be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for our other capital stock that we may issue ranking junior to the Series A Preferred Stock as to dividends and upon liquidation and except for transfers made pursuant to the provisions of our charter relating to restrictions on ownership and transfers of our capital stock).

When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Preferred Stock and the shares of any other classes or series of preferred stock that we may issue ranking on a parity as to dividends with the Series A Preferred Stock, all dividends declared upon the Series A Preferred Stock and any other classes or series of preferred stock ranking on a parity that we may issue as to dividends with the Series A Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series A Preferred Stock and such other classes or series of preferred stock that we may issue shall in all cases bear to each other the same ratio that accrued dividends per share on the Series A Preferred Stock and such other classes or series of preferred stock that we may issue (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series A Preferred Stock which may be in arrears.

## **Liquidation Preference**

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of shares of Series A Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any class or series of our stock we may issue ranking senior to the Series A Preferred Stock with respect to the distribution of assets upon liquidation, dissolution or winding up, a liquidation preference of \$25.00 per share, plus an amount equal to any accumulated and unpaid dividends to, but not including, the date of payment, before any distribution of assets is made to holders of our common stock or any other class or series of our stock we may issue that ranks junior to the Series A Preferred Stock as to liquidation rights.

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In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series A Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our capital stock that we may issue ranking on a parity with the Series A Preferred Stock in the distribution of assets, then the holders of the Series A Preferred Stock and all other such classes or series of capital stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of Series A Preferred Stock will be entitled to written notice of any such liquidation no fewer than 30 days and no more than 60 days prior to the payment date. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series A Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, or the sale, lease, transfer or conveyance of all or substantially all of our property or business, shall not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of our stock or otherwise, is permitted under the Maryland General Corporation Law, amounts that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of holders of shares of the Series A Preferred Stock will not be added to our total liabilities.

### **Redemption**

The Series A Preferred Stock is not redeemable by us prior to August 3, 2017, except as described below under Special Optional Redemption and except that, as provided in our charter, we may purchase or redeem shares of the Series A Preferred Stock prior to that date in order to preserve our qualification as a REIT for federal income tax purposes. See Description of Common Stock Restrictions on Ownership and Transfer in the accompanying prospectus.

*Optional Redemption.* On and after August 3, 2017, we may, at our option, upon not less than 30 nor more than 60 days written notice, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If we elect to redeem any shares of Series A Preferred Stock as described in this paragraph, we may use any available cash to pay the redemption price, and we will not be required to pay the redemption price only out of the proceeds from the issuance of other equity securities or any other specific source.

*Special Optional Redemption.* Upon the occurrence of a Change of Control, we may, at our option, upon not less than 30 nor more than 60 days written notice, redeem the Series A Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon to, but not including, the date fixed for redemption. If, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock (whether pursuant to our optional redemption right described above under Optional Redemption or this special optional redemption right), the holders of Series A Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under Conversion Rights with respect to the shares called for redemption.

A Change of Control is deemed to occur when, after the original issuance of the Series A Preferred Stock, the following have occurred and are continuing:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a

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purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE Amex or Nasdaq, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE Amex or Nasdaq.

*Redemption Procedures.* In the event we elect to redeem Series A Preferred Stock, the notice of redemption will be mailed to each holder of record of Series A Preferred Stock called for redemption at such holder's address as it appears on our stock transfer records and will state the following:

the redemption date;

the number of shares of Series A Preferred Stock to be redeemed;

the redemption price;

the place or places where certificates (if any) for the Series A Preferred Stock are to be surrendered for payment of the redemption price;

that dividends on the shares to be redeemed will cease to accumulate on the redemption date;

whether such redemption is being made pursuant to the provisions described above under *Optional Redemption* or *Special Optional Redemption* ;

if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and

if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series A Preferred Stock being so called for redemption will not be able to tender such shares of Series A Preferred Stock for conversion in connection with the Change of Control and that each share of Series A Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date (as defined below), for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If less than all of the Series A Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series A Preferred Stock held by such holder to be redeemed. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series A Preferred Stock except as to the holder to whom notice was defective or not given.

Holders of Series A Preferred Stock to be redeemed shall surrender the Series A Preferred Stock at the place designated in the notice of redemption and shall be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender. If notice of redemption of any shares of Series A Preferred Stock has been given and if we have irrevocably set apart the funds necessary for redemption in trust for the benefit of the holders of the shares of Series A Preferred Stock so called for redemption, then from and after the redemption date (unless default shall be made by us in providing for the payment of the redemption price plus accumulated and unpaid

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dividends, if any), dividends will cease to accrue on those shares of Series A Preferred Stock, those shares of Series A Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption. If any redemption date is not a business day, then the

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redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accrue on the amount payable for the period from and after that redemption date to that next business day. If less than all of the outstanding Series A Preferred Stock is to be redeemed, the Series A Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method we determine but that will not result in the automatic transfer of any shares of Series A Preferred Stock to a trust as described in the accompanying prospectus under Description of Common Stock Restrictions on Ownership and Transfer.

Immediately prior to any redemption of Series A Preferred Stock, we shall pay, in cash, any accumulated and unpaid dividends through and including the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series A Preferred Stock at the close of business on such dividend record date shall be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series A Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series A Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past dividend periods, no shares of Series A Preferred Stock shall be redeemed unless all outstanding shares of Series A Preferred Stock are simultaneously redeemed and we shall not purchase or otherwise acquire directly or indirectly any shares of Series A Preferred Stock (except by exchanging it for our capital stock ranking junior to the Series A Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase or acquisition by us of shares of Series A Preferred Stock to preserve our REIT status for federal income tax purposes or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series A Preferred Stock.

Notwithstanding the foregoing, subject to applicable law, we may purchase shares of Series A Preferred Stock in the open market, by tender or by private agreement. Any shares of Series A Preferred Stock that we acquire will become authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be reissued as any class or series of preferred stock.

## **Conversion Rights**

Upon the occurrence of a Change of Control, each holder of Series A Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock held by such holder as described above under Optional Redemption or Special Optional Redemption, in which case such holder will have the right only with respect to shares of Series A Preferred Stock that are not called for redemption) to convert some or all of the Series A Preferred Stock held by such holder, or the Change of Control Conversion Right, on the Change of Control Conversion Date into a number of shares of our common stock per share of Series A Preferred Stock, or the Common Stock Conversion Consideration, equal to the lesser of:

the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series A Preferred Stock plus the amount of any accumulated and unpaid dividends thereon to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series A Preferred Stock, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the Conversion Rate); and

2.2810, or the Share Cap, subject to certain adjustments as described below.

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Anything in the articles supplementary to the contrary notwithstanding and except as otherwise required by law, the persons who are the holders of record of shares of Series A Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend shall be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series A Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a Share Split) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed 4,105,800 shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable), subject to proportionate increase to the extent the underwriters' over-allotment option to purchase additional shares of Series A Preferred Stock is exercised, not to exceed 4,721,670 shares of our common stock in total (or equivalent Alternative Conversion Consideration, as applicable), or the Exchange Cap. The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap and will also be increased on a pro rata basis with respect to any additional shares of Series A Preferred Stock designated and authorized for issuance pursuant to any subsequent articles supplementary.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof), or the Alternative Form Consideration, a holder of Series A Preferred Stock will receive upon conversion of such Series A Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control, or the Alternative Conversion Consideration; the Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the Conversion Consideration).

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series A Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

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Within 15 days following the occurrence of a Change of Control, unless we have, prior to the expiration of such 15-day period, provided notice of our election to redeem all shares of Series A Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series A Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. This notice will state the following:

the events constituting the Change of Control;

the date of the Change of Control;

the last date on which the holders of Series A Preferred Stock may exercise their Change of Control Conversion Right;

the method and period for calculating the Common Stock Price;

the Change of Control Conversion Date;

that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series A Preferred Stock, holders will not be able to convert the shares of Series A Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;

if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series A Preferred Stock;

the name and address of the paying agent, transfer agent and conversion agent for the Series A Preferred Stock;

the procedures that the holders of Series A Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and

the last date on which holders of Series A Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we will also issue a press release containing such notice for publication on Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series A Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series A Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series A Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series A Preferred Stock held in book-entry form through a Depositary, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series A Preferred Stock to be converted through the facilities of such Depositary), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

the relevant Change of Control Conversion Date;

the number of shares of Series A Preferred Stock to be converted; and

that the Series A Preferred Stock is to be converted pursuant to the applicable provisions of the Series A Preferred Stock.

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The **Change of Control Conversion Date** is the date the Series A Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series A Preferred Stock.

The **Common Stock Price** is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of Series A Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

the number of withdrawn shares of Series A Preferred Stock;

if certificated Series A Preferred Stock has been surrendered for conversion, the certificate numbers of the withdrawn shares of Series A Preferred Stock; and

the number of shares of Series A Preferred Stock, if any, which remain subject to the holder's conversion notice.

Notwithstanding the foregoing, if any shares of Series A Preferred Stock are held in book-entry form through The Depository Trust Company, or DTC, or a similar depository (each, a **Depository**), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Series A Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series A Preferred Stock, as described above under **Optional Redemption** or **Special Optional Redemption**, in which case only the shares of Series A Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series A Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series A Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under **Optional Redemption** or **Special Optional Redemption**, as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

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In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal and state securities laws and stock exchange rules in connection with any conversion of Series A Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series A Preferred Stock, no holder of Series A Preferred Stock will be entitled to convert such Series A Preferred Stock into shares of our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the applicable share ownership limitations contained in our charter, including the articles supplementary, unless we provide an exemption from this limitation to such holder. See [Restrictions on Ownership and Transfer](#) below and [Description of Common Stock Restrictions on Ownership and Transfers](#) in the accompanying prospectus.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us. See [Risk Factors](#). You may not be able to exercise conversion rights upon a Change of Control. If exercisable, the Change of Control Conversion Right described in this prospectus supplement may not adequately compensate you. The Change of Control Conversion Rights may also make it more difficult for a party to acquire us or discourage a party from acquiring us.

Except as provided above in connection with a Change of Control, the Series A Preferred Stock is not convertible into or exchangeable for any other securities or property.

## **Voting Rights**

Holders of the Series A Preferred Stock will not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series A Preferred Stock are in arrears for six or more quarterly dividend periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of our preferred stock we may issue upon which like voting rights have been conferred and are exercisable and with which the Series A Preferred Stock is entitled to vote as a class with respect to the election of those two directors) and the holders of Series A Preferred Stock (voting separately as a class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of those two directors) will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series A Preferred Stock or by the holders of any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of those two directors (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of stockholders), and at each subsequent annual meeting until all dividends accumulated on the Series A Preferred Stock for all past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment. In that case, the right of holders of the Series A Preferred Stock to elect any directors will cease and, unless there are other classes or series of our preferred stock upon which like voting rights have been conferred and are exercisable, any directors elected by holders of the Series A Preferred Stock shall immediately resign and the number of directors constituting the board of directors shall be reduced accordingly. For the avoidance of doubt, in no event shall the total number of directors elected by holders of the Series A Preferred Class (voting separately as a class with all other classes or series of preferred stock we may issue upon which like voting rights have been conferred and are exercisable and which are entitled to vote as a class with the Series A Preferred Stock in the election of such directors) pursuant to these voting rights exceed two.

If a special meeting is not called by us within 30 days after request from the holders of Series A Preferred Stock as described above, then the holders of record of at least 25% of the outstanding Series A Preferred Stock may designate a holder to call the meeting at our expense.

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On each matter on which holders of Series A Preferred Stock are entitled to vote, each share of Series A Preferred Stock will be entitled to one vote, except that when shares of any other class or series of our preferred stock have the right to vote with the Series A Preferred Stock as a single class on any matter, the Series A Preferred Stock and the shares of each such other class or series will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends).

So long as any shares of Series A Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series A Preferred Stock outstanding at the time and all other classes or series of Series A Preferred Stock upon which like voting rights have been conferred and are exercisable, given in person or by proxy, either in writing or at a meeting, voting together as a class, (a) authorize or create, or increase the number of authorized or issued shares of, any class or series of capital stock ranking senior to the Series A Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any of our authorized capital stock into shares of such class or series, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (b) amend, alter or repeal the provisions of our charter, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series A Preferred Stock, each, an Event; provided, however, with respect to the occurrence of any Event set forth in (b) above, so long as the Series A Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that, upon an occurrence of an Event, we may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of the Series A Preferred Stock and, provided further, that any increase in the number of authorized shares of preferred stock, including the Series A Preferred Stock, or the creation or issuance of any additional Series A Preferred Stock or other class or series of preferred stock that we may issue, or any increase in the number of authorized shares of such class or series, in each case ranking on a parity with or junior to the Series A Preferred Stock that we may issue with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers. Notwithstanding the foregoing, holders of any series of Preferred Stock ranking on a parity with the Series A Preferred Stock that we may issue shall not be entitled to vote together as a class with the holders of Series A Preferred Stock on any amendment, alteration or repeal of any provision of our charter unless such action affects the holders of the Series A Preferred Stock and such other series of Preferred Stock equally, in which event approval of any such amendment, alteration or repeal will require the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series A Preferred Stock outstanding at the time, voting separately as a series.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series A Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Except as expressly stated in the articles supplementary, the Series A Preferred Stock will not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof shall not be required for the taking of any corporate action.

## **Information Rights**

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series A Preferred Stock are outstanding, we will use our best efforts to (i) post to our website or transmit by mail (or other permissible means under the Exchange Act) to all holders of Series A Preferred Stock, as their names and addresses appear on our record books and without cost to such holders, copies of the annual reports on Form 10-K and quarterly reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any holders or prospective holder of Series A Preferred Stock. We will use our best effort to post to our website or mail (or otherwise provide) the information to the holders of the Series A Preferred Stock within 15 days after the respective dates by which a

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report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC, if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a non-accelerated filer within the meaning of the Exchange Act.

### **Preemptive Rights**

No holders of the Series A Preferred Stock or any other of our securities issuable upon a permitted conversion of any Series A Preferred Stock will, as holders of Series A Preferred Stock or any other of our securities issuable upon a permitted conversion of Series A Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any other security.

### **Book-Entry Procedures**

DTC will act as securities depository for the Series A Preferred Stock. We will issue one or more fully registered global securities certificates in the name of DTC's nominee, Cede & Co. These certificates will represent the total aggregate number of shares of Series A Preferred Stock. We will deposit these certificates with DTC or a custodian appointed by DTC. We will not issue certificates to you for the shares of Series A Preferred Stock that you purchase, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series A Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series A Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series A Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants, or Direct Participants, deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, or Indirect Participants. The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of Series A Preferred Stock within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series A Preferred Stock on DTC's records. You will be considered to be the beneficial owner of the Series A Preferred Stock. Your beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of your individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts shares of Series A Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased the Series A Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

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Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as you, desires to take any action which a holder is entitled to take under our amended and restated certificate of incorporation (including the articles supplementary classifying and designating the Series A Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series A Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series A Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of Series A Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series A Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of Series A Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series A Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name. These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series A Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series A Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series A Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series A Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

## **Global Clearance and Settlement Procedures**

Initial settlement for the Series A Preferred Stock will be made in immediately available funds. Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

## **Transfer Agent and Registrar**

The transfer agent and registrar for the Series A Preferred Stock is AST. Its principal business address is 6201 15<sup>th</sup> Avenue, Brooklyn, NY, 11219.

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**ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

This summary supplements the discussion contained under the caption "Material Federal Income Tax Considerations" in the accompanying prospectus, which is incorporated by reference herein, and should be read in conjunction therewith.

**Conversion of the Series A Preferred Stock**

Except as provided below, (i) a U.S. holder generally will not recognize gain or loss upon the conversion of the Series A Preferred Stock into our common stock, and (ii) a stockholder's basis and holding period in our common stock received upon conversion generally will be the same as those of the converted Series A Preferred Stock (but the basis will be reduced by the portion of adjusted tax basis allocated to any fractional share exchanged for cash). Any of our common stock received in a conversion that is attributable to accumulated and unpaid dividends on the converted Series A Preferred Stock will be treated as a distribution that is potentially taxable as a dividend. Cash received upon conversion in lieu of a fractional share generally will be treated as a payment in a taxable exchange for such fractional share, and gain or loss will be recognized on the receipt of cash in an amount equal to the difference between the amount of cash received and the adjusted tax basis allocable to the fractional share deemed exchanged. This gain or loss will be long-term capital gain or loss if the U.S. holder has held the Series A Preferred Stock for more than one year at the time of conversion. Stockholders are urged to consult with their tax advisors regarding the federal income tax consequences of any transaction by which such holder exchanges shares received on a conversion of Series A Preferred Stock for cash or other property.

In addition, if a stockholder receives the Alternative Form Consideration (in lieu of shares of our common stock) in connection with the conversion of the stockholder's shares of Series A Preferred Stock, the tax treatment of the receipt of any such other consideration will depend on a number of factors, including the nature of the consideration and the structure of the transaction that gives rise to the Change of Control, and it may be a taxable exchange. Stockholders converting their shares of Series A Preferred Stock should consult their tax advisors regarding the federal income tax consequences of any such conversion and of the ownership and disposition of the consideration received upon such conversion.

So long as the Series A Preferred Stock does not constitute a United States real property interest, or USRPI, the tax consequences to a non-U.S. holder of the conversion of the Series A Preferred Stock into common stock will generally be the same as those described above for a U.S. holder. The conversion of the Series A Preferred Stock into common stock may be a taxable exchange for a non-U.S. holder if the Series A Preferred Stock constitutes a USRPI. Even if our Series A Preferred Stock does constitute a USRPI, provided our common stock also constitutes a USRPI, a non-U.S. holder generally will not recognize gain or loss upon a conversion of the Series A Preferred Stock into our common stock so long as certain FIRPTA-related reporting requirements are satisfied. If the Series A Preferred Stock does constitute a USRPI and such requirements are not satisfied, however, a conversion will be treated as a taxable exchange of Series A Preferred Stock for common stock. Such a deemed taxable exchange will be subject to tax under FIRPTA at the rate of tax, including any applicable capital gains rates, that would apply to a domestic holder of the same type (e.g., an individual or a corporation, as the case may be) on the excess, if any, of the fair market value of such non-U.S. holder's common stock received over such non-U.S. holder's adjusted basis in its Series A Preferred Stock. Collection of such tax will be enforced by a refundable withholding tax at a rate of 10% of the value of the common stock. It is not currently anticipated that our capital stock will constitute a USRPI. However, we cannot assure you that our capital stock will not become a USRPI. Non-U.S. holders are urged to consult with their tax advisors regarding the federal income tax consequences of any transaction by which such holder exchanges shares received on a conversion of Series A Preferred Stock for cash or other property.

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**Taxation of U.S. Holders on Distributions on Series A Preferred Stock**

In determining the extent to which a distribution will be treated as being made from our earnings and profits, our earnings and profits will be allocated, on a pro rata basis, first to distributions with respect to the Series A Preferred Stock, and then to our common stock. For a discussion of the taxation of distributions on our capital stock generally, see [Material Federal Income Tax Considerations Taxation of U.S. Holders Taxation of U.S. Holders on Distributions on Capital Stock](#) in the accompanying prospectus.

**Redemption of Series A Preferred Stock for Non-U.S. Holders**

For a discussion of the treatment of a redemption of the Series A Preferred Stock, see [Material Federal Income Tax Considerations Taxation of U.S. Holders Redemption of Preferred Stock](#) in the accompanying prospectus.

**Table of Contents****UNDERWRITING**

Stifel, Nicolaus & Company, Incorporated, RBC Capital Markets, LLC and Deutsche Bank Securities Inc. are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of Series A Preferred Stock set forth opposite the underwriter's name.

<b>Underwriter</b>	<b>Number of Shares</b>
Stifel, Nicolaus & Company, Incorporated	576,000
RBC Capital Markets, LLC	450,000
Deutsche Bank Securities Inc.	180,000
Credit Suisse Securities (USA) LLC	180,000
Sterne, Agee & Leach, Inc.	162,000
Wunderlich Securities, Inc.	126,000
National Securities Corporation	72,000
Maxim Group, LLC	54,000
<b>Total</b>	<b>1,800,000</b>

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of Series A Preferred Stock offered hereby are subject to certain conditions precedent and that the underwriters will purchase all of the shares of Series A Preferred Stock offered by this prospectus supplement, other than those covered by the over-allotment option described below, if any of these shares are purchased.

We have been advised by the representatives of the underwriters that the underwriters propose to offer the shares of Series A Preferred Stock to the public at the public offering price set forth on the cover of this prospectus supplement and to dealers at a price that represents a concession not in excess of \$0.50 per share. The underwriters may allow, and such dealers may reallow, a concession not in excess of \$0.45 per share to other dealers. After the initial public offering, the representatives of the underwriters may change the offering price and other selling terms.

We have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus supplement, to purchase up to 270,000 additional shares of Series A Preferred Stock at the public offering price less the underwriting discount set forth on the cover page of this prospectus supplement. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the Series A Preferred Stock offered by this prospectus supplement. To the extent that the underwriters exercise this option, each of the underwriters will become obligated, subject to conditions, to purchase approximately the same percentage of these additional shares of Series A Preferred Stock as the number of shares of Series A Preferred Stock to be purchased by it in the above table bears to the total number of shares of Series A Preferred Stock offered by this prospectus supplement. We will be obligated to sell these additional shares of Series A Preferred Stock to the underwriters to the extent the option is exercised. If any additional shares of Series A Preferred Stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

We intend to apply to list the Series A Preferred Stock on the NYSE under the symbol MITT PrA. If the application is approved, trading of the Series A Preferred Stock on the NYSE is expected to begin within 30 days after the date of initial issuance of the Series A Preferred Stock. The underwriters have informed us that they intend to make a market in the Series A Preferred Stock prior to the commencement of any trading on the NYSE. They will have no obligation to make a market in the Series A Preferred Stock, however, and may cease market-making activities, if commenced, at any time.

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The underwriting discount per share is equal to the public offering price per share of Series A Preferred Stock less the amount paid by the underwriters to us per share of Series A Preferred Stock. We have agreed to pay the underwriters the following discount, assuming either no exercise or full exercise by the underwriters of the underwriters over-allotment option:

	Fee per Share	Without Exercise of Over-Allotment Option	With Full Exercise of Over-Allotment Option
Public offering price	\$ 25.0000	\$ 45,000,000	\$ 51,750,000
Underwriting discount	\$ 0.7875	\$ 1,417,500	\$ 1,630,125
Proceeds, before expenses, to us	\$ 24.2125	\$ 43,582,500	\$ 50,119,875

We estimate that our portion of the total expenses of this offering, not including the underwriting discount, will be \$250,000.

We have agreed that, for a period of 30 days from the date of this prospectus supplement, we will not, without the prior written consent of the representatives, offer, sell or otherwise dispose of any securities substantially similar to or any securities convertible into or exchangeable for shares of the Series A Preferred Stock or such similar securities. The representatives, in their sole discretion, may release any of the securities subject to this lock-up agreement at any time without notice.

In connection with the offering, the underwriters may purchase and sell shares of the Series A Preferred Stock in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares of Series A Preferred Stock from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are any sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if underwriters are concerned that there may be downward pressure on the price of the shares in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of the Series A Preferred Stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the representatives of the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the Series A Preferred Stock. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the Series A Preferred Stock. As a result, the price of our the Series A Preferred Stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NYSE or otherwise.

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Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series A Preferred Stock. In addition, neither we nor the underwriters make any representation that the underwriters will engage in those transactions or that those transactions, once commenced, will not be discontinued without notice.

We have agreed to indemnify the underwriters against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

A prospectus in electronic format may be made available on web sites maintained by one or more underwriters. Other than the prospectus in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by an underwriter is not part of this prospectus supplement or the accompanying prospectus.

In the ordinary course of their businesses, the underwriters and/or their respective affiliates may engage in financial transactions with, and perform investment banking, lending, asset management and/or financial advisory services for us and/or our affiliates (including, but not limited to Angelo, Gordon and our Manager). They receive customary fees and reimbursements of expenses for these transactions and services.

In addition, in the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and instruments of ours or our affiliates. If any of the underwriters or their affiliates has a lending relationship with us, certain of those underwriters or their affiliates routinely hedge, and certain other of those underwriters or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, any of which could adversely affect future trading prices of the Series A Preferred Stock offered hereby. The underwriters and their respective affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may at any time hold, or recommend to clients that they acquire, long or short positions in such securities and instruments.

## **Settlement**

We expect that delivery of the shares of Series A Preferred Stock will be made to investors on August 3, 2012, which will be the fifth business day following the date of this prospectus supplement (such settlement being referred to as T+5). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade shares of Series A Preferred Stock prior to August 3, 2012 will be required, by virtue of the fact that the shares of Series A Preferred Stock initially settle in T+5, to specify an alternative settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the shares of Series A Preferred Stock who wish to trade shares of Series A Preferred Stock prior to their date of delivery hereunder should consult their advisors.

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**LEGAL MATTERS**

Certain legal matters in connection with this offering will be passed upon for us by Hunton & Williams LLP. Saul Ewing LLP will pass upon the validity of the Series A Preferred Stock offered by this prospectus supplement and certain other matters of Maryland law. Certain legal matters in connection with this offering will be passed upon for the underwriters by Skadden, Arps, Slate, Meagher & Flom LLP.

**EXPERTS**

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K for the period ended December 31, 2011 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**WHERE YOU CAN FIND MORE INFORMATION**

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any documents filed by us at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference room. Our filings with the SEC are also available to the public through the SEC's Internet site at [www.sec.gov](http://www.sec.gov). We have filed with the SEC a registration statement on Form S-3 relating to the securities covered by this prospectus. This prospectus is part of the registration statement and does not contain all the information in the registration statement. Wherever a reference is made in this prospectus to a contract or other documents of ours, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington, D.C., as well as through the SEC's Internet site at [www.sec.gov](http://www.sec.gov).

Our Internet address is [www.agmit.com](http://www.agmit.com). We make available free of charge, on or through the SEC Filings section of our website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request to our Investor Relations Department, are the charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, and our Code of Business Conduct and Ethics, which governs our directors, officers and employees. Information on our website is not part of this prospectus.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC, which means that we can disclose important business, financial and other information to you by referring you to other documents separately filed with the SEC. The information incorporated by reference is considered to be part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus and before the date that the offering of the securities by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

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We incorporate by reference the following documents or information filed with the SEC and any subsequent filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of the initial registration statement and prior to completion of the offering of the securities described in this prospectus (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

our Annual Report on Form 10-K for the period ended December 31, 2011;

the information specifically incorporated by reference into our Annual Report on Form 10-K for the period ended December 31, 2011 from our definitive proxy statement on Schedule 14A filed with the SEC on April 3, 2012;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012;

our Current Report on Form 8-K filed on March 16, 2012;

our Current Report on Form 8-K filed on April 10, 2012;

our Current Report on Form 8-K filed on May 23, 2012;

our Current Report on Form 8-K/A filed on June 7, 2012;

our Current Report on Form 8-K filed on July 26, 2012; and

the description of our capital stock in our Registration Statement on Form 8-A filed on April 25, 2011.

All documents that we file (but not those that we furnish) with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and prior to the termination of the offering of shares hereby will be deemed to be incorporated by reference into this prospectus supplement and will automatically update and supersede the information in this prospectus supplement and any previously filed document.

We will provide copies of all documents incorporated into this prospectus by reference, without charge, upon oral request to our Corporate Secretary at the number listed below or in writing by first class mail to the address listed below. Requests for such documents incorporated by reference should be directed to AG Mortgage Investment Trust, Inc., c/o Secretary or Assistant Secretary, 245 Park Avenue, 26<sup>th</sup> Floor, New York, New York 10167 or by calling our Corporate Secretary at (212) 692-2000.

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PROSPECTUS

**AG Mortgage Investment Trust, Inc.**

**\$1,000,000,000**

**Common Stock**

**Preferred Stock**

**Debt Securities**

**Warrants**

**Units**

We may offer and sell, from time to time, in one or more offerings, up to an aggregate of \$1,000,000,000 of the common stock, preferred stock, debt securities, warrants and units described in this prospectus. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be described in one or more supplements to this prospectus. This prospectus may not be used to consummate sales of any of these securities unless it is accompanied by a prospectus supplement. Before investing, you should carefully read this prospectus and any related prospectus supplement.

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol MITT. The last reported sale price of our common stock on the NYSE on July 12, 2012, was \$[ ] per share.

To assist us in qualifying as a real estate investment trust, or REIT, for federal income tax purposes, among other reasons, we impose certain restrictions on the ownership and transfer of our capital stock. See Description of Common Stock Restrictions on Ownership and Transfer, Description of Preferred Stock Restrictions on Ownership and Transfer; Change of Control Provisions, Description of Warrants and Description of Units.

**Investing in our securities involves substantial risks. You should carefully read and consider the information under Risk Factors on page 4 of this prospectus and any prospectus supplement before making a decision to purchase these securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is July 20, 2012.**

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**You should rely only on the information contained in this prospectus and the accompanying prospectus supplement or incorporated by reference in these documents. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or the accompanying prospectus supplement. If anyone provides you with different, inconsistent or unauthorized information or representations, you must not rely on them. This prospectus and the accompanying prospectus supplement are an offer to sell only the securities offered by these documents, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or any prospectus supplement is current only as of the date on the front of those documents.**

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC. Under this shelf registration statement, we may offer and sell any combination of our common stock, preferred stock, debt securities, warrants or units in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we offer to sell securities under this shelf registration statement, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may add, update or change information contained in this prospectus. Before you buy any of our securities, it is important for you to consider the information contained in this prospectus and any prospectus supplement together with additional information described under the headings "Incorporation by Reference of Information Filed with the SEC" and "Where You Can Find More Information."

The SEC allows us to incorporate by reference information that we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. You should rely only on the information incorporated by reference or set forth in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with information different from that contained in this prospectus. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representation. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information in this prospectus or any prospectus supplement is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus, we refer to AG Mortgage Investment Trust, Inc., together with its consolidated subsidiaries, as we, us, Company, or our, unless we specifically state otherwise or the context indicates otherwise. We refer to AG REIT Management, LLC, our external manager, as our Manager, and we refer to Angelo, Gordon & Co., L.P., the parent of our Manager, as Angelo, Gordon. All references in this prospectus to trademarks lacking the symbol are defined terms that reference the products, technologies or businesses bearing the trademark with this symbol. Angelo, Gordon & Co., L.P. licenses the Angelo, Gordon & Co., L.P. name and logo to us and our Manager in perpetuity for use in our business.

**FORWARD-LOOKING INFORMATION**

When used in this prospectus, in future filings with the SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, project, should, will and would or the negative of these terms or other comparable terminology, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, as such, may involve known and unknown risks, uncertainties and assumptions. These forward-looking statements may relate to, among other things, our expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

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 captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most

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recently filed 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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**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 were incorporated in Maryland on March 1, 2011, and commenced operations in July 2011.

As of March 31, 2012, we are 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 U.S. government-sponsored entity 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 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 also have the discretion to invest, and we have invested, in other target assets, including commercial mortgage-backed securities, or CMBS, residential and commercial mortgage loans and asset-backed securities, or ABS.

We are externally managed and advised by our Manager, a subsidiary of Angelo, Gordon. Angelo, Gordon is a privately-held, SEC-registered investment adviser. Pursuant to the terms of our management agreement with our Manager, our Manager provides us with our management team, including our officers, along with appropriate support personnel. Each of our officers is also an officer of our Manager and an employee of Angelo, Gordon. We do not have any employees. Our Manager is at all times subject to the supervision and oversight of our board of directors.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for federal income tax purposes, commencing with our taxable year ended December 31, 2011 upon filing our federal income tax return for that year. Accordingly, we generally will not be subject to federal income tax on our taxable income that we distribute currently to our stockholders as long as we maintain our intended qualification as a REIT. We intend to 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 principal executive offices are located at 245 Park Avenue, 26<sup>th</sup> Floor, New York, New York 10167. Our telephone number is (212) 692-2000. Our website is [www.agmit.com](http://www.agmit.com). Our website and the information contained at or connected to our website do not constitute a part of this prospectus or any accompanying prospectus supplement.

**Table of Contents****RISK FACTORS**

Investing in our securities involves substantial risks, including the risk that you might lose your entire investment. Before making an investment decision, you should carefully read and consider the information set forth under the heading **Risk Factors** in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q (which information is incorporated by reference in this prospectus), as well as the other information contained or incorporated by reference in this prospectus or in any prospectus supplement hereto. See **Where You Can Find More Information** below. Any one of the risks discussed could cause actual results to differ materially from expectations and could adversely affect our business, financial condition and results of operations. Additional risks and uncertainties not presently known to us or not identified may also materially and adversely affect our business, financial condition and results of operations.

**USE OF PROCEEDS**

Unless otherwise indicated in an accompanying prospectus supplement, we intend to use the net proceeds from the sale of securities offered by this prospectus and the accompanying prospectus supplement to acquire our target assets and for general corporate purposes, including the repayment of indebtedness.

**RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends for the periods shown:

	Three Months Ended March 31, 2012	Period Ended December 31, 2011 <sup>(1)</sup>
Ratio of earnings to combined fixed charges and preferred stock dividends <sup>(2)</sup>	3.9	5.6

(1) For the period from March 7, 2011 to December 31, 2011.

(2) Fixed charges consist of interest expense on all indebtedness as reported for GAAP, plus \$0.4 million and \$0.3 million relating to the underlying interest charge on repurchase agreements accounted for as a component of linked transactions, and \$1.5 million and \$2.2 million relating to the net periodic interest settlements of interest rate swaps for the three months ended March 31, 2012 and the period ended December 31, 2011, respectively. No preferred stock was outstanding during the periods presented.

The ratio of earnings to combined fixed charges and preferred stock dividends was computed by dividing our earnings by the aggregate of our fixed charges and preferred dividends. To date, we have not issued preferred stock or paid any preferred stock dividends. Therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges for the periods presented. For this purpose, earnings consist of our net income from continuing operations plus our fixed charges. Fixed charges consist of interest expense on all indebtedness.

**DESCRIPTION OF THE SECURITIES WE MAY OFFER**

This prospectus contains a summary description of the common stock, preferred stock, debt securities, warrants and units that we may offer from time to time. As further described in this prospectus, these summary descriptions are not meant to be complete descriptions of each security. The particular terms of any security will be described in the accompanying prospectus supplement and other offering material. The accompanying prospectus supplement may update, change or add to the terms and conditions of the securities as described in this prospectus.

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**DESCRIPTION OF COMMON STOCK**

*The following summary description of our common stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, our charter and our bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See [Where You Can Find More Information](#).*

**General**

Our charter provides that we may issue up to 450,000,000 shares of common stock, \$0.01 par value per share, and 50,000,000 shares of preferred stock, \$0.01 par value per share. Our charter authorizes our board of directors to amend our charter to increase or decrease the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. Under Maryland law, stockholders are not personally liable for the obligations of a corporation solely as a result of their status as stockholders.

**Voting Rights of Common Stock**

Subject to the provisions of our charter regarding restrictions on the transfer and ownership of shares of common stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of our stock, the holders of our common stock possess the exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all of the directors then standing for election. Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, or engage in a share exchange or engage in similar transactions outside the ordinary course of business unless approved by the affirmative vote of stockholders holding at least two-thirds of the shares entitled to vote on the matter, unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides for approval by a majority of all the votes entitled to be cast on the matter for the matters described in the preceding sentence.

**Dividends, Liquidation and Other Rights**

All of our outstanding shares of common stock are duly authorized, fully paid and nonassessable. Holders of our shares of common stock are entitled to receive dividends when authorized by our board of directors and declared by us out of assets legally available for the payment of dividends. They also are entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock and to the provisions of our charter regarding restrictions on transfer and ownership of our stock.

Holders of our shares of common stock have no appraisal, preference, conversion, exchange, sinking fund or redemption rights and have no preemptive rights to subscribe for any of our securities. Subject to the restrictions on transfer of capital stock contained in our charter and to the ability of the board of directors to create shares of common stock with differing voting rights, all shares of common stock have equal dividend, liquidation and other rights.

**Power to Issue Additional Shares of Common Stock and Preferred Stock**

Our charter also authorizes our board of directors to amend our charter to increase or decrease the aggregate number of shares of capital stock of any class or series that we have the authority to issue, to classify and reclassify any unissued shares of our common stock and preferred stock into any other classes or series of classes of our stock, to establish the number of shares in each class or series and to set the terms, preferences, conversion

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and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series. We believe that the power of our board of directors to take these actions provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as our common stock, are available for issuance without further action by our stockholders, unless stockholder action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors has no intention at the present time of doing so, it could authorize us to issue a class or series that could, depending upon the terms of such class or series, delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of our common stock that our common stockholders or otherwise believe to be in their best interest.

### **Restrictions on Ownership and Transfer**

In order for us to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or Internal Revenue Code, our capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

Our charter contains restrictions on the ownership and transfer of our capital stock. The relevant sections of our charter provide that, subject to the exceptions described below, no person or entity may beneficially own, or be deemed to own, by virtue of the applicable constructive ownership provisions of the Internal Revenue Code, either (i) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding common stock, which we refer to as the common share ownership limit, or (ii) more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding capital stock, which we refer to as the aggregate share ownership limit. We refer to the common share ownership limit and the aggregate share ownership limit collectively as the share ownership limits.

The constructive ownership rules under the Internal Revenue Code are complex and may cause capital stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than 9.8% in value or in number of shares, whichever is more restrictive (or the acquisition of an interest in an entity that owns, actually or constructively, our capital stock by an individual or entity), could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively in excess of 9.8% in value or in number of shares, whichever is more restrictive, and thereby violate the applicable share ownership limit.

Our board of directors may, upon receipt of certain representations and agreements and in its sole discretion, exempt (prospectively or retroactively) any person, in whole or in part, from the above-referenced share ownership limits or establish a different limit, or excepted holder limit, for a particular stockholder if the person's ownership in excess of the share ownership limits will not then or in the future result in our being closely held under Section 856(h) of the Internal Revenue Code (without regard to whether the stockholder's interest is held during the last half of a taxable year) or otherwise jeopardize our qualification as a REIT. As a condition of its exemption or creation of an excepted holder limit, our board of directors may, but is not required to, require an opinion of counsel or Internal Revenue Service, or IRS, ruling satisfactory to our board of directors with respect to our qualification as a REIT.

In connection with an exemption from the share ownership limits, establishing an excepted holder limit or at any other time, our board of directors may from time to time increase or decrease the share ownership limits for all other persons and entities; provided, however, that any decrease in the share ownership limits will not be effective for any person whose percentage ownership of our shares is in excess of such decreased limits until

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such time as such person's percentage ownership of our shares equals or falls below such decreased limits, but any further acquisition of our shares in excess of such person's percentage ownership of our shares will be in violation of the applicable limits (other than a decrease as a result of a retroactive change in existing law, in which case the decrease will be effective immediately); and provided, further, that the share ownership limits may not be increased if, after giving effect to such increase, five or fewer individuals could beneficially own or constructively own in the aggregate more than 49.9% in value of the shares then outstanding. Prior to the modification of the share ownership limits, our board of directors may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure our qualification as a REIT.

Our charter further prohibits:

any person from beneficially or constructively owning, applying certain attribution rules of the Internal Revenue Code, our capital that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the stockholder's interest is held during the last half of a taxable year) or otherwise cause us to fail to qualify as a REIT; and

any person from transferring our capital stock if such transfer would result in our capital stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires, attempts or intends to acquire beneficial or constructive ownership of our capital stock that will or may violate the share ownership limits or any of the other foregoing restrictions on ownership and transfer of our capital stock is required to immediately give written notice to us or, in the case of such a proposed or attempted transaction, give at least 15 days' prior written notice to us, and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. The share ownership limits and the other restrictions on ownership and transfer of our capital stock will not apply if our board of directors determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT.

Pursuant to our charter, if any transfer of our capital stock would result in our capital stock being beneficially owned by fewer than 100 persons, such transfer will be void *ab initio* and the intended transferee will acquire no rights in such shares. In addition, if any purported transfer of our capital stock or any other event would otherwise result in:

any person violating the share ownership limits or such other limit established by our board of directors; or

our being "closely held" under Section 856(h) of the Internal Revenue Code (without regard to whether the stockholder's interest is held during the last half of a taxable year) or otherwise failing to qualify as a REIT, then that number of shares (rounded up to the nearest whole share) that would cause us to violate such restrictions will be deemed to be transferred to, and held by, a charitable trust for the exclusive benefit of one or more charitable organizations selected by us, and the intended transferee will acquire no rights in such shares. The deemed transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a deemed transfer to the charitable trust. A person who, but for the deemed transfer of the shares to the charitable trust, would have beneficially or constructively owned the shares so transferred is referred to as a "prohibited owner," which, if appropriate in the context, also means any person who would have been the record owner of the shares that the prohibited owner would have so owned.

Any distribution made to the prohibited owner, prior to our discovery that the shares had been deemed to be transferred to the charitable trust as described above, must be repaid to the trustee of the charitable trust upon demand for distribution to the beneficiary by the charitable trust. If the transfer to the charitable trust as described

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above would not be effective, for any reason, to prevent violation of the applicable restriction on ownership and transfer contained in our charter, then our charter provides that the transfer of the shares will be void *ab initio*. These rights will be exercised for the exclusive benefit of the charitable beneficiary. Any distribution authorized but unpaid will be paid when due to the trustee.

Capital stock transferred to the trustee of a charitable trust are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price paid per share in the transaction that resulted in such transfer to the charitable trust (or, if the event that resulted in the transfer to the charitable trust did not involve a purchase of such capital stock at market price, the last reported sales price reported on the NYSE (or other applicable exchange) on the trading day immediately preceding the day of the event which resulted in the transfer of such capital stock to the charitable trust) and (ii) the market price on the date we, or our designee, accepts such offer. We have the right to accept such offer until the trustee has sold the shares held in the charitable trust as discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates, the trustee must distribute the net proceeds of the sale to the charitable beneficiary and the prohibited owner and any distributions held by the trustee with respect to such capital stock will be made to the charitable beneficiary.

If we do not buy the shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the charitable trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the share ownership limits or the other restrictions on ownership and transfer of our shares described above. After that, the trustee must distribute to the prohibited owner an amount equal to the lesser of (i) the price paid by the prohibited owner for the shares in the transaction that resulted in the transfer to the charitable trust (or, if the event which resulted in the transfer to the charitable trust did not involve a purchase of such shares at market price, the last reported sales price reported on the NYSE (or other applicable exchange) on the trading day immediately preceding the relevant date) and (ii) the sales proceeds (net of commissions and other expenses of sale) received by the charitable trust for the shares. Any net sales proceeds in excess of the amount payable to the prohibited owner will be immediately paid to the charitable beneficiary, together with any distributions thereon. In addition, if, prior to discovery by us that capital stock has been transferred to a charitable trust, such capital stock is sold by a prohibited owner, then such shares will be deemed to have been sold on behalf of the charitable trust and to the extent that the prohibited owner received an amount for or in respect of such shares that exceeds the amount that such prohibited owner was entitled to receive, such excess amount will be paid to the director upon demand. The prohibited owner has no rights in the shares held by the charitable trust.

The trustee of the charitable trust will be designated by us and will be unaffiliated with us and with any prohibited owner. Prior to the sale of any shares by the charitable trust, the trustee will receive, in trust for the charitable beneficiary, all distributions made by us with respect to such shares and may also exercise all voting rights with respect to such shares.

Subject to Maryland law, effective as of the date that the shares have been transferred to the charitable trust, the trustee will have the authority, at the trustee's sole discretion:

to rescind as void any vote cast by a purported record transferee prior to our discovery that the shares have been transferred to the charitable trust; and

to recast the vote in accordance with the desires of the trustee acting for the benefit of the beneficiary of the charitable trust. However, if we have already taken irreversible action, then the trustee may not rescind and recast the vote.

If our board of directors determines in good faith that a proposed transfer would violate the restrictions on ownership and transfer of our capital stock set forth in our charter, our board of directors will take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, causing us to redeem capital stock, refusing to give effect to the transfer on our books or instituting proceedings to enjoin the transfer.

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Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of all classes or series of our shares of capital stock is required to give written notice to us within 30 days after the end of each taxable year stating the name and address of such owner, the number of shares of each class and series of shares that the owner beneficially owns and a description of the manner in which such shares are held. Each such owner will be required to provide to us such additional information as we may request in order to determine the effect, if any, of such beneficial ownership on our qualification as a REIT and to ensure compliance with the share ownership limits. In addition, each stockholder is, upon demand, required to provide to us such information as we may request, in good faith, in order to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our shares of common stock is American Stock Transfer & Trust Company, LLC.

### **DESCRIPTION OF PREFERRED STOCK**

*The following summary description of our preferred stock does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, our charter and our bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See Where You Can Find More Information.*

#### **General**

Our charter authorizes our board of directors to issue up to 50,000,000 shares of preferred stock, par value \$0.01 per share, in one or more series and with rights, preferences, privileges and restrictions that our board of directors may fix or designate without any further vote or action by our stockholders.

Our charter authorizes our board of directors to reclassify any unissued shares of common stock into preferred stock, to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series of preferred stock previously authorized by our board of directors. Prior to issuance of shares of each class or series of preferred stock, our board of directors is required by Maryland law and our charter to fix, subject to our charter restrictions on transfer and ownership, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, our board could authorize the issuance of shares of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for you or otherwise be in your best interest.

#### **Terms**

When we issue preferred stock, it will be fully paid and non-assessable. The preferred stock will not have any preemptive rights.

Articles supplementary that will become part of our charter will set forth the specific terms of any new series of preferred stock offered. A prospectus supplement will describe these specific terms, including:

the title and stated value;

the number of shares, liquidation preference and offering price;

the dividend rate, dividend periods and payment dates;

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the date on which dividends begin to accrue or accumulate;

any auction and remarketing procedures;

any retirement or sinking fund requirement;

the price and the terms and conditions of any redemption right;

any listing on any securities exchange;

the price and the terms and conditions of any conversion or exchange right;

any voting rights;

the relative ranking and preferences as to dividends, liquidation, dissolution or winding up;

any limitations on issuing any series of preferred stock ranking senior to or on a parity with the series of preferred stock as to dividends, liquidation, dissolution or winding up;

any limitations on direct or beneficial ownership and restrictions on transfer; and

any other specific terms, preferences, rights, limitations or restrictions.

### **Restrictions on Ownership and Transfer; Change of Control Provisions**

As discussed above under **Description of Common Stock Restrictions on Ownership and Transfer**, our charter contains restrictions on ownership and transfers of our capital stock. In addition, the articles supplementary designating the terms of each series of preferred stock may also contain additional provisions restricting the ownership and transfer of the preferred stock. The prospectus supplement will describe any additional ownership limitation relating to a series of preferred stock.

For a discussion of provisions in our charter that may have the effect of delaying, deferring or preventing a change of control, see **Certain Provisions of Maryland Law and our Charter and Bylaws**.

### **Transfer Agent**

The prospectus supplement will identify the transfer agent and registrar for the preferred stock.

## **DESCRIPTION OF DEBT SECURITIES**

### **General**

The debt securities offered by this prospectus will be our direct unsecured general obligations. This prospectus describes certain general terms of the debt securities offered through this prospectus. In the following discussion, we refer to any of our direct unsecured general obligations as the

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Debt Securities. When we offer to sell a particular series of Debt Securities, we will describe the specific terms of that series in a prospectus supplement or any free writing prospectus. The Debt Securities will be issued under an open-ended Indenture (for Debt Securities) between us and a trustee to be selected by us at or about the time we offer our Debt Securities. The form of open ended Indenture (for Debt Securities) is incorporated by reference into the registration statement of which this prospectus is a part and is filed as an exhibit to the registration statement. In this prospectus we refer to the Indenture (for Debt Securities) as the Debt Securities Indenture. We refer to the trustee under any Debt Securities Indenture as the Debt Securities Trustee.

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The prospectus supplement or any free writing prospectus applicable to a particular series of Debt Securities may state that a particular series of Debt Securities will be our subordinated obligations. The form of Debt Securities Indenture referred to above includes optional provisions (designated by brackets ( [ ] )) that we would expect to appear in a separate indenture for subordinated debt securities in the event we issue subordinated debt securities. In the following discussion, we refer to any of our subordinated obligations as the Subordinated Debt Securities. Unless the applicable prospectus supplement or any free writing prospectus provides otherwise, we will use a separate Debt Securities Indenture for any Subordinated Debt Securities that we may issue. Our Debt Securities Indenture will be qualified under the Trust Indenture Act of 1939, as amended, or the Trust Indenture Act, and you should refer to the Trust Indenture Act for the provisions that apply to the Debt Securities.

We have summarized selected provisions of the Debt Securities Indenture below. Each Debt Securities Indenture will be independent of any other Debt Securities Indenture unless otherwise stated in a prospectus supplement or any free writing prospectus. The summary that follows is not complete and the summary is qualified in its entirety by reference to the provisions of the applicable Debt Securities Indenture. You should consult the applicable Debt Securities, Debt Securities Indenture, any supplemental indentures, officers' certificates and other related documents for more complete information on the Debt Securities. These documents appear as exhibits to, or are incorporated by reference into, the registration statement of which this prospectus is a part, or will appear as exhibits to other documents that we will file with the SEC, which will be incorporated by reference into this prospectus. In the summary below, we have included references to applicable section numbers of the Debt Securities Indenture so that you can easily locate these provisions.

### **Ranking**

Our Debt Securities that are not designated Subordinated Debt Securities will be effectively subordinated to all secured indebtedness that we have outstanding from time to time to the extent of the value of the collateral securing such secured indebtedness. Our Debt Securities that are designated Subordinated Debt Securities will be subordinate to all outstanding secured indebtedness as well as Debt Securities that are not designated Subordinated Debt Securities. We incur indebtedness from time to time to finance many of our assets primarily pursuant to repurchase agreements. This indebtedness is deemed to be secured indebtedness. As a result, we have a significant amount of secured indebtedness at any given time in relation to our total assets. The Debt Securities Indenture does not limit the amount of secured indebtedness that we may issue or incur.

Our ability to meet our financial obligations with respect to any future Debt Securities, and cash needs generally, is dependent on our operating cash flow, our ability to access various sources of short- and long-term liquidity, including repurchase agreements, financing and the capital markets. Holders of our Debt Securities will effectively have a junior position to claims of our creditors, including trade creditors, debt holders, secured creditors, taxing authorities and guarantee holders.

### **Provisions of a Particular Series**

The Debt Securities may from time to time be issued in one or more series. You should consult the prospectus supplement or free writing prospectus relating to any particular series of Debt Securities for the following information:

the title of the Debt Securities;

any limit on the aggregate principal amount of the Debt Securities of the series of which they are a part;

the date(s), or method for determining the date(s), on which the principal of the Debt Securities will be payable;

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the rate, including the method of determination, if applicable, at which the Debt Securities will bear interest, if any, and:

the date from which the interest will accrue;

the dates on which we will pay interest;

to whom the interest is payable, if other than the registered holder;

our ability, if any, to defer interest payments and any related restrictions during any interest deferral period; and

the record date for any interest payable on any interest payment date;

the place where:

the principal of, premium, if any, and interest on the Debt Securities will be payable;

you may register the transfer of the Debt Securities;

you may exchange the Debt Securities; and

you may serve notices and demands upon us regarding the Debt Securities;

the security registrar for the Debt Securities and whether the principal of the Debt Securities is payable without presentment or surrender of them;

the terms and conditions upon which we may elect to redeem any Debt Securities, including any replacement capital or similar covenants limiting our ability to redeem any Subordinated Debt Securities;

the denominations in which we may issue Debt Securities, if other than \$1,000 and integral multiples of \$1,000;

the terms and conditions upon which the Debt Securities must be redeemed or purchased due to our obligations pursuant to any sinking fund or other mandatory redemption or tender provisions, or at the holder's option, including any applicable exceptions to notice requirements;

the currency, if other than United States currency, in which payments on the Debt Securities will be payable;

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the terms according to which elections can be made by us or the holder regarding payments on the Debt Securities in currency other than the currency in which the Debt Securities are stated to be payable;

if any Debt Securities are denominated in a currency other than U.S. dollars or in a composite currency, the obligations or instruments that will be considered eligible obligations with respect to such Debt Securities and any additional provisions for the reimbursement of the Company's indebtedness with respect to such Debt Securities after the satisfaction or discharge thereof;

if payments are to be made on the Debt Securities in securities or other property, the type and amount of the securities and other property or the method by which the amount shall be determined;

the manner in which we will determine any amounts payable on the Debt Securities that are to be determined with reference to an index or other fact or event ascertainable outside of the applicable indenture;

if other than the entire principal amount, the portion of the principal amount of the Debt Securities payable upon declaration of acceleration of their maturity;

any addition to the events of default applicable to any Debt Securities and any addition to our covenants for the benefit of the holders of the Debt Securities;

the terms applicable to any rights to convert Debt Securities into or exchange them for other of our securities or those of any other entity;

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whether we are issuing Debt Securities as global securities, and if so:

the terms and conditions upon which the global securities may be exchanged for certificated Debt Securities;

the depositary for the global securities; and

the form of legend to be set forth on the global securities;

whether we are issuing the Debt Securities as bearer certificates;

any limitations on transfer or exchange of Debt Securities or the right to obtain registration of their transfer, and the terms and amount of any service charge required for registration of transfer or exchange;

any exceptions to the provisions governing payments due on legal holidays, or any variations in the definition of business day with respect to the Debt Securities;

any collateral security, assurance, guarantee or other credit enhancement applicable to the Debt Securities;

any other terms of the Debt Securities not in conflict with the provisions of the applicable Debt Securities Indenture; and

the material federal income tax consequences applicable to the Debt Securities.

For more information, see Section 3.01 of the form of Debt Securities Indenture.

Debt Securities may be sold at a substantial discount below their principal amount. You should consult the applicable prospectus supplement or free writing prospectus for a description of certain material federal income tax considerations that may apply to Debt Securities sold at an original issue discount or denominated in a currency other than U.S. dollars.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, the covenants contained in the applicable indenture will not afford holders of Debt Securities protection in the event we have a change in control or are involved in a highly-leveraged transaction.

**Subordination**

The applicable prospectus supplement or free writing prospectus may provide that a series of Debt Securities will be Subordinated Debt Securities, subordinate and junior in right of payment to all of our Senior Indebtedness, as defined below. If so, we will issue these securities under a separate Debt Securities Indenture for Subordinated Debt Securities. For more information, see Article XV of the form of Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, in the event:

there occur certain acts of bankruptcy, insolvency, liquidation, dissolution or other winding up of our company;

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any Senior Indebtedness is not paid when due;

any applicable grace period with respect to other defaults with respect to any Senior Indebtedness has ended, the default has not been cured or waived and the maturity of such Senior Indebtedness has been accelerated because of the default; or

the maturity of the Subordinated Debt Securities of any series has been accelerated because of a default and Senior Indebtedness is then outstanding;

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then no payment of principal of, including redemption and sinking fund payments, or any premium or interest on, the Subordinated Debt Securities may be made until all amounts due to holders of Senior Indebtedness have been paid in full.

Upon any distribution of our assets to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of, and any premium and interest due or to become due on, all outstanding Senior Indebtedness must be paid in full before the holders of the Subordinated Debt Securities are entitled to payment. For more information, see Section 15.02 of the form of Debt Securities Indenture. The rights of the holders of the Subordinated Debt Securities will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to Senior Indebtedness until all amounts owing on the Subordinated Debt Securities are paid in full. For more information, see Section 15.04 of the form of Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus states otherwise, the term **Senior Indebtedness** means all:

obligations (other than non-recourse obligations and the indebtedness issued under the applicable Subordinated Debt Securities Indenture) of, or guaranteed or assumed by, us:

for borrowed money (including both senior and subordinated indebtedness for borrowed money, but excluding the Subordinated Debt Securities); or

for the payment of money relating to any lease that is capitalized on our consolidated balance sheet in accordance with generally accepted accounting principles;

indebtedness evidenced by bonds, debentures, notes or other similar instruments;

obligations with respect to letters of credit, bankers' acceptances or similar facilities issued for our account;

obligations issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable or accrued liabilities arising in the ordinary course);

obligations for claims, as defined in section 101(5) of the United States Bankruptcy Code of 1978, as amended, in respect of derivative products such as interest and foreign exchange rate contracts, commodity contracts and similar arrangements; and

obligations of another person for which we have guaranteed or assumed direct or indirect responsibility or liability.

In the case of any such indebtedness or obligations, Senior Indebtedness includes amendments, renewals, extensions, modifications and refundings, whether existing as of the date of the Subordinated Debt Securities Indenture or subsequently incurred by us.

The Subordinated Debt Securities Indenture does not limit the aggregate amount of Senior Indebtedness we may issue.

## **Form, Exchange and Transfer**

Unless the applicable prospectus supplement or free writing prospectus states otherwise, we will issue Debt Securities only in fully registered form without coupons and in denominations of \$1,000 and integral multiples of \$1,000. For more information, see Sections 2.01 and 3.02 of the form of Debt Securities Indenture.

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Holders may present Debt Securities for exchange or for registration of transfer, duly endorsed or accompanied by a duly executed instrument of transfer, at the office of the security registrar or at the office of

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any transfer agent we may designate. Exchanges and transfers are subject to the terms of the applicable indenture and applicable limitations for global securities. We may designate ourselves as the security registrar.

No charge will be made for any registration of transfer or exchange of Debt Securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge that the holder must pay in connection with the transaction. Any transfer or exchange will become effective upon the security registrar or transfer agent, as the case may be, being satisfied with the documents of title and identity of the person making the request. For more information, see Section 3.05 of the form of Debt Securities Indenture.

The applicable prospectus supplement or free writing prospectus will state the name of any transfer agent, in addition to the security registrar initially designated by us, for any Debt Securities. We may at any time designate additional transfer agents or withdraw the designation of any transfer agent or make a change in the office through which any transfer agent acts. We must, however, maintain a transfer agent in each place of payment for the Debt Securities of each series. For more information, see Section 6.02 of the form of Debt Securities Indenture.

We will not be required to issue, register the transfer of, or exchange any:

Debt Securities or any tranche of any Debt Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any Debt Securities called for redemption and ending at the close of business on the day of mailing; or

Debt Securities selected for redemption except the unredeemed portion of any Debt Securities being partially redeemed.

For more information, see Section 3.05 of the form of Debt Securities Indenture.

## **Payment and Paying Agents**

Unless the applicable prospectus supplement or free writing prospectus states otherwise, we will pay interest on a Debt Security on any interest payment date to the person in whose name the Debt Security is registered at the close of business on the regular record date for the interest payment. For more information, see Section 3.07 of the form of Debt Securities Indenture.

Unless the applicable prospectus supplement or free writing prospectus provides otherwise, we will pay principal and any premium and interest on Debt Securities at the office of the paying agent whom we will designate for this purpose. Unless the applicable prospectus supplement or free writing prospectus states otherwise, the corporate trust office of the Debt Securities Trustee in New York City will be designated as our sole paying agent for payments with respect to Debt Securities of each series. Any other paying agents initially designated by us for the Debt Securities of a particular series will be named in the applicable prospectus supplement or free writing prospectus. We may at any time add or delete paying agents or change the office through which any paying agent acts. We must, however, maintain a paying agent in each place of payment for the Debt Securities of a particular series. For more information, see Section 6.02 of the form of Debt Securities Indenture.

All money we pay to a paying agent for the payment of the principal and any premium or interest on any Debt Security that remains unclaimed at the end of two years after payment is due will be repaid to us. After that date, the holder of that Debt Security shall be deemed an unsecured general creditor and may look only to us for these payments. For more information, see Section 6.03 of the form of Debt Securities Indenture.

## **Redemption**

You should consult the applicable prospectus supplement or free writing prospectus for any terms regarding optional or mandatory redemption of Debt Securities. Except for any provisions in the applicable prospectus supplement or free writing prospectus regarding Debt Securities redeemable at the holder's option, Debt

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Securities may be redeemed only upon notice by mail not less than 30 nor more than 60 days prior to the redemption date. Further, if less than all of the Debt Securities of a series, or any tranche of a series, are to be redeemed, the Debt Securities to be redeemed will be selected by the Debt Securities Trustee by the method provided for the particular series. In the absence of a selection provision, the Debt Securities Trustee will select a fair and appropriate method of selection. For more information, see Sections 4.02, 4.03 and 4.04 of the form of Debt Securities Indenture.

A notice of redemption we provide may state:

that redemption is conditioned upon receipt by the paying agent on or before the redemption date of money sufficient to pay the principal of and any premium and interest on the Debt Securities; and

that if the money has not been received, the notice will be ineffective and we will not be required to redeem the Debt Securities. For more information, see Section 4.04 of the form of Debt Securities Indenture.

## **Consolidation, Merger and Sale of Assets**

We may not consolidate with or merge into any other corporation, nor may we transfer or lease substantially all of our assets and property to any other person, unless:

the corporation formed by the consolidation or into which we are merged, or the person that acquires by conveyance or transfer, or that leases, substantially all of our property and assets:

is organized and validly existing under the laws of a domestic jurisdiction; and

expressly assumes by supplemental indenture our obligations on the Debt Securities and under the applicable indentures;

immediately after giving effect to the transaction, no event of default, and no event that (after notice or lapse of time or both) would become an event of default, has occurred and is continuing; and

we have delivered to the Debt Securities Trustee an officer's certificate and opinion of counsel as provided in the applicable indentures.

For more information, see Section 11.01 of the form of Debt Securities Indenture.

## **Events of Default**

Unless the applicable prospectus supplement or free writing prospectus states otherwise, event of default under the applicable indenture with respect to Debt Securities of any series means any of the following:

failure to pay any interest due on any Debt Security of that series within 30 days after it becomes due;

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failure to pay principal or premium, if any, when due on any Debt Security of that series;

failure to make any required sinking fund payment when due on any Debt Securities of that series;

breach of or failure to perform any other covenant or warranty in the applicable indenture with respect to Debt Securities of that series for 60 days (subject to extension under certain circumstances for another 120 days) after we receive notice from the Debt Securities Trustee, or we and the Debt Securities Trustee receive notice from the holders of at least 33% in principal amount of the Debt Securities of that series outstanding under the applicable indenture according to the provisions of the applicable indenture;

certain events of bankruptcy, insolvency or reorganization; and

any other event of default set forth in the applicable prospectus supplement or free writing prospectus.

For more information, see Section 8.01 of the form of Debt Securities Indenture.

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An event of default with respect to a particular series of Debt Securities does not necessarily constitute an event of default with respect to the Debt Securities of any other series issued under the applicable indenture.

If an event of default with respect to a particular series of Debt Securities occurs and is continuing, either the Debt Securities Trustee or the holders of at least 33% in principal amount of the outstanding Debt Securities of that series may declare the principal amount of all of the Debt Securities of that series to be due and payable immediately. If the Debt Securities of that series are discount Debt Securities or similar Debt Securities, only the portion of the principal amount as specified in the applicable prospectus supplement or free writing prospectus may be immediately due and payable. If an event of default occurs and is continuing with respect to all series of Debt Securities issued under a Debt Securities Indenture, including all events of default relating to bankruptcy, insolvency or reorganization, the Debt Securities Trustee or the holders of at least 33% in principal amount of the outstanding Debt Securities of all series issued under that Debt Securities Indenture, considered together, may declare an acceleration of the principal amount of all series of Debt Securities issued under that Debt Securities Indenture. There is no automatic acceleration, even in the event of our bankruptcy or insolvency.

The applicable prospectus supplement or free writing prospectus may provide, with respect to a series of Debt Securities to which a credit enhancement is applicable, that the provider of the credit enhancement may, if a default has occurred and is continuing with respect to the series, have all or any part of the rights with respect to remedies that would otherwise have been exercisable by the holder of that series.

At any time after a declaration of acceleration with respect to the Debt Securities of a particular series, and before a judgment or decree for payment of the money due has been obtained, the event of default giving rise to the declaration of acceleration will, without further action, be deemed to have been waived, and the declaration and its consequences will be deemed to have been rescinded and annulled, if:

we have paid or deposited with the Debt Securities Trustee a sum sufficient to pay:

all overdue interest on all Debt Securities of the particular series;

the principal of and any premium on any Debt Securities of that series that have become due otherwise than by the declaration of acceleration and any interest at the rate prescribed in the Debt Securities;

interest upon overdue interest at the rate prescribed in the Debt Securities, to the extent payment is lawful; and

all amounts due to the Debt Securities Trustee under the applicable indenture; and

any other event of default with respect to the Debt Securities of the particular series, other than the failure to pay the principal of the Debt Securities of that series that has become due solely by the declaration of acceleration, has been cured or waived as provided in the applicable indenture.

For more information, see Section 8.02 of the form of Debt Securities Indenture.

The applicable Debt Securities Indenture likely will include provisions as to the duties of the Debt Securities Trustee in case an event of default occurs and is continuing. Consistent with these provisions, the Debt Securities Trustee will be under no obligation to exercise any of its rights or powers at the request or direction of any of the holders unless those holders have offered to the Debt Securities Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred by it in compliance with such request or direction. For more information, see Section 9.03 of the form of Debt Securities Indenture. Subject to these provisions for indemnification, the holders of a majority in principal amount of the outstanding Debt Securities of any series may direct the time, method and place of conducting any proceeding for any remedy available to the Debt Securities Trustee, or exercising any trust or power conferred on the Debt Securities Trustee, with respect to the Debt Securities of that series. For more information, see Section 8.12 of the form of Debt Securities Indenture.



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No holder of Debt Securities may institute any proceeding regarding the applicable indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the applicable indenture unless:

the holder has previously given to the Debt Securities Trustee written notice of a continuing event of default of that particular series;

the holders of at least a majority in principal amount of the outstanding Debt Securities of all series with respect to which an event of default has occurred and is continuing have made a written request to the Debt Securities Trustee, and have offered reasonable indemnity to the Debt Securities Trustee, to institute the proceeding as trustee; and

the Debt Securities Trustee has failed to institute the proceeding, and has not received from the holders of a majority in principal amount of the outstanding Debt Securities of that series a direction inconsistent with the request, within 60 days after notice, request and offer of reasonable indemnity.

For more information, see Section 8.07 of the form of Debt Securities Indenture.

The preceding limitations do not apply, however, to a suit instituted by a holder of a Debt Security for the enforcement of payment of the principal of or any premium or interest on the Debt Securities on or after the applicable due date stated in the Debt Securities. For more information, see Section 8.08 of the form of Debt Securities Indenture.

We must furnish annually to the Debt Securities Trustee a statement by an appropriate officer as to that officer's knowledge of our compliance with all conditions and covenants under each of the indentures for Debt Securities. Our compliance is to be determined without regard to any grace period or notice requirement under the respective indenture. For more information, see Sections 6.05 and 6.06 of the form of Debt Securities Indenture.

## **Modification and Waiver**

We and the Debt Securities Trustee, without the consent of the holders of the Debt Securities, may enter into one or more supplemental indentures for any of the following purposes:

to evidence the assumption by any permitted successor of our covenants in the applicable indenture and the Debt Securities;

to add one or more covenants or other provisions for the benefit of the holders of outstanding Debt Securities or to surrender any right or power conferred upon us by the applicable indenture;

to add any additional events of default;

to change or eliminate any provision of the applicable indenture or add any new provision to it, but if this action would adversely affect the interests of the holders of any particular series of Debt Securities in any material respect, the action will not become effective with respect to that series while any Debt Securities of that series remain outstanding under the applicable indenture;

to provide collateral security for the Debt Securities;

to establish the form or terms of Debt Securities according to the provisions of the applicable indenture;

to provide for the authentication and delivery of bearer securities (and coupons representing any interest thereon) and for procedures for the registration, exchange and replacement of such bearer securities and for the giving of notice to, and the solicitation of the vote or consent of, the holders of such bearer securities, and for all related incidental matters;

to evidence the acceptance of appointment of a successor Debt Securities Trustee under the applicable indenture with respect to one or more series of the Debt Securities and to add to or change any of the

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provisions of the applicable indenture as necessary to provide for trust administration under the applicable indenture by more than one trustee;

to provide for the procedures required to permit the use of a non-certificated system of registration for any series of Debt Securities;

to change any place where:

the principal of and any premium and interest on any Debt Securities are payable;

any Debt Securities may be surrendered for registration of transfer or exchange;

notices and demands to or upon us regarding Debt Securities and the applicable indentures may be served; or

to cure any ambiguity or inconsistency, but only by means of changes or additions that will not adversely affect the interests of the holders of Debt Securities of any series in any material respect.

For more information, see Section 12.01 of the form of Debt Securities Indenture.

The holders of at least a majority in aggregate principal amount of the outstanding Debt Securities of any series may waive:

compliance by us with certain provisions of the applicable indenture (see Section 6.06 of the form of Debt Securities Indenture); and

any past default under the applicable indenture, except a default in the payment of principal, premium or interest and certain covenants and provisions of the applicable indenture that cannot be modified or amended without consent of the holder of each outstanding Debt Security of the series affected (see Section 8.13 of the form of Debt Securities Indenture).

The Trust Indenture Act of 1939 may be amended after the date of the applicable indenture to require changes to the indenture. In this event, the indenture will be deemed to have been amended so as to effect the changes, and we and the Debt Securities Trustee may, without the consent of any holders, enter into one or more supplemental indentures to evidence or effect the amendment. For more information, see Section 12.01 of the form of Debt Securities Indenture.

Except as provided in this section, the consent of the holders of a majority in aggregate principal amount of the outstanding Debt Securities of all series issued pursuant to a Debt Securities Indenture, considered as one class, is required to change in any manner the Debt Securities Indenture pursuant to one or more supplemental indentures. If there are Debt Securities of more than one series outstanding under a Debt Securities Indenture and less than all of such series are directly affected by a proposed supplemental indenture, however, only the consent of the holders of a majority in aggregate principal amount of the outstanding Debt Securities of all series directly affected, considered as one class, will be required. Furthermore, if the Debt Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the holders of one or more, but not all, tranches, only the consent of the holders of a majority in aggregate principal amount of the outstanding Debt Securities of all tranches directly affected, considered as one class, will be required. In addition, an amendment or modification:

may not, without the consent of the holder of each outstanding Debt Security affected:

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change the maturity of the principal of, or any installment of principal of or interest on, any Debt Securities;

reduce the principal amount or the rate of interest, or the amount of any installment of interest, or change the method of calculating the rate of interest;

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reduce any premium payable upon the redemption of the Debt Securities;

reduce the amount of the principal of any Debt Security originally issued at a discount from the stated principal amount that would be due and payable upon a declaration of acceleration of maturity;

change the currency or other property in which a Debt Security or premium or interest on a Debt Security is payable; or

impair the right to institute suit for the enforcement of any payment on or after the stated maturity, or in the case of redemption, on or after the redemption date, of any Debt Securities;

may not reduce the percentage of principal amount requirement for consent of the holders for any supplemental indenture, or for any waiver of compliance with any provision of or any default under the applicable indenture, or reduce the requirements for quorum or voting, without the consent of the holder of each outstanding Debt Security of each series or tranche affected; and

may not modify provisions of the applicable indenture relating to supplemental indentures, waivers of certain covenants and waivers of past defaults with respect to the Debt Securities of any series, or any tranche of a series, without the consent of the holder of each outstanding Debt Security affected.

A supplemental indenture will be deemed not to affect the rights under the applicable indenture of the holders of any series or tranche of the Debt Securities if the supplemental indenture:

changes or eliminates any covenant or other provision of the applicable indenture expressly included solely for the benefit of one or more other particular series of Debt Securities or tranches thereof; or

modifies the rights of the holders of Debt Securities of any other series or tranches with respect to any covenant or other provision. For more information, see Section 12.02 of the form of Debt Securities Indenture.

If we solicit from holders of the Debt Securities any type of action, we may at our option by board resolution fix in advance a record date for the determination of the holders entitled to vote on the action. We shall have no obligation, however, to do so. If we fix a record date, the action may be taken before or after the record date, but only the holders of record at the close of business on the record date shall be deemed to be holders for the purposes of determining whether holders of the requisite proportion of the outstanding Debt Securities have authorized the action. For that purpose, the outstanding Debt Securities shall be computed as of the record date. Any holder action shall bind every future holder of the same security and the holder of every security issued upon the registration of transfer of or in exchange for or in lieu of the security in respect of anything done or permitted by the Debt Securities Trustee or us in reliance on that action, whether or not notation of the action is made upon the security. For more information, see Section 1.04 of the form of Debt Securities Indenture.

**Defeasance**

Unless the applicable prospectus supplement or free writing prospectus provides otherwise, any Debt Security, or portion of the principal amount of a Debt Security, will be deemed to have been paid for purposes of the applicable indenture, and, at our election, our entire indebtedness in respect of the Debt Security, or portion thereof, will be deemed to have been satisfied and discharged, if we have irrevocably deposited with the Debt Securities Trustee or any paying agent other than us, in trust money, certain eligible obligations, as defined in the applicable indenture, or a combination of the two, sufficient to pay principal of and any premium and interest due and to become due on the Debt Security or portion thereof, and other required documentation. Included among the documentation we are required to deliver to be deemed to have our indebtedness deemed satisfied and discharged with respect to a Debt Security pursuant to the preceding sentence is an opinion of counsel to the effect that, as a result of a change in law occurring after the date of the form of Debt Security Indenture, the



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holders of such Debt Security, or portions thereof, will not recognize income, gain or loss for federal income tax purposes as a result of the satisfaction and discharge of our indebtedness in respect thereof and will be subject to federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected. For more information, see Section 7.01 of the form of Debt Securities Indenture. For this purpose, unless the applicable prospectus supplement or free writing prospectus provides otherwise, eligible obligations include direct obligations of, or obligations unconditionally guaranteed by, the United States, entitled to the benefit of full faith and credit of the United States, and certificates, depository receipts or other instruments that evidence a direct ownership interest in those obligations or in any specific interest or principal payments due in respect of those obligations.

### **Resignation, Removal of Debt Securities Trustee; Appointment of Successor**

The Debt Securities Trustee may resign at any time by giving written notice to us or may be removed at any time by an action of the holders of a majority in principal amount of outstanding Debt Securities delivered to the Debt Securities Trustee and us. No resignation or removal of the Debt Securities Trustee and no appointment of a successor trustee will become effective until a successor trustee accepts appointment in accordance with the requirements of the applicable indenture. So long as no event of default or event that would become an event of default (after notice or lapse of time or both) has occurred and is continuing, and except with respect to a Debt Securities Trustee appointed by an action of the holders, if we have delivered to the Debt Securities Trustee a resolution of our board of directors appointing a successor trustee and the successor trustee has accepted the appointment in accordance with the terms of the applicable indenture, the Debt Securities Trustee will be deemed to have resigned and the successor trustee will be deemed to have been appointed as trustee in accordance with the applicable indenture. For more information, see Section 9.10 of the form of Debt Securities Indenture.

### **Notices**

We will give notices to holders of Debt Securities by mail to their addresses as they appear in the Debt Security Register. For more information, see Section 1.06 of the form of Debt Securities Indenture.

### **Title**

The Debt Securities Trustee and its agents, and we and our agents, may treat the person in whose name a Debt Security is registered as the absolute owner of that Debt Security, whether or not that Debt Security may be overdue, for the purpose of making payment and for all other purposes. For more information, see Section 3.08 of the form of Debt Securities Indenture.

### **Governing Law**

The Debt Securities Indentures and the Debt Securities, including any Subordinated Debt Securities Indentures and Subordinated Debt Securities, will be governed by, and construed in accordance with, the law of the State of New York. For more information, see Section 1.12 of the form of Debt Securities Indenture.

## **DESCRIPTION OF WARRANTS**

We may issue warrants for the purchase of common stock or preferred stock, or any combination of these securities. Warrants may be issued independently or together with any securities and may be attached to or separate from the securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a warrant agent specified in the prospectus supplement governing the offering of any warrants.

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The agent for warrants will act solely for us in connection with warrants of the series and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

The prospectus supplement governing the issuance of any series of warrants will include specific terms relating to the offering, including, if applicable:

the title of the warrants;

the aggregate number of warrants;

the price or prices at which the warrants will be issued;

the currencies in which the price or prices of the warrants may be payable;

the designation, amount and terms of the offered securities purchasable upon exercise of the warrants;

the designation and terms of the other offered securities, if any, with which the warrants are issued and the number of warrants issued with the security;

if applicable, the date on and after which the warrants and the offered securities purchasable upon exercise of the warrants will be separately transferable;

the price or prices at which, and currency or currencies in which, the offered securities purchasable upon exercise of the warrants may be purchased;

the date on which the right to exercise the warrants shall commence and the date on which the right shall expire;

the minimum or maximum amount of the warrants which may be exercised at any one time;

information with respect to book-entry procedures, if any;

any listing of warrants on any securities exchange;

if appropriate, a discussion of federal income tax consequences applicable to the warrants; and

any other material term of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants.

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Additionally, in order to enable us to preserve our qualification as a REIT, we may take certain actions to restrict ownership and transfer of our outstanding securities, including any warrants. The prospectus supplement related to the offering of any warrants will specify any additional ownership limitation relating to the warrants being offered thereby.

### DESCRIPTION OF UNITS

We may issue units consisting of one or more shares of common stock, shares of preferred stock, warrants or any combination of such securities.

The prospectus supplement governing the issuance of any units will specify the following terms in respect of which this prospectus is being delivered:

the terms of the units and of any of the shares of common stock, shares of preferred stock or warrants constituting the units, including whether and under what circumstances the securities comprising the units may be traded separately;

the terms of any unit agreement governing the units;

if appropriate, a discussion of federal income tax consequences applicable to the units; and

the provisions for the payment, settlement, transfer or exchange of the units.

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Additionally, in order to enable us to preserve our qualification as a REIT, we may take certain actions to restrict ownership and transfer of our outstanding securities, including any units. The prospectus supplement related to the offering of any units will specify any additional ownership limitation relating to the units being offered thereby.

**GLOBAL SECURITIES**

We may issue some or all of our securities of any series as global securities. We will register each global security in the name of a depository identified in the applicable prospectus supplement. The global securities will be deposited with a depository or nominee or custodian for the depository and will bear a legend regarding restrictions on exchanges and registration of transfer as discussed below and any other matters to be provided pursuant to the indenture.

As long as the depository or its nominee is the registered holder of a global security, that person will be considered the sole owner and holder of the global security and the securities represented by it for all purposes under the securities and the indenture. Except in limited circumstances, owners of a beneficial interest in a global security:

will not be entitled to have the global security or any securities represented by it registered in their names;

will not receive or be entitled to receive physical delivery of certificated securities in exchange for the global security; and

will not be considered to be the owners or holders of the global security or any securities represented by it for any purposes under the securities or the indenture.

We will make all payments of principal and any premium and interest on a global security to the depository or its nominee as the holder of the global security. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions having accounts with the depository or its nominee, called participants for purposes of this discussion, and to persons that hold beneficial interests through participants. When a global security is issued, the depository will credit on its book-entry, registration and transfer system the principal amounts of securities represented by the global security to the accounts of its participants. Ownership of beneficial interests in a global security will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by:

the depository, with respect to participants' interests; or

any participant, with respect to interests of persons held by the participants on their behalf.

Payments by participants to owners of beneficial interests held through the participants will be the responsibility of the participants. The depository may from time to time adopt various policies and procedures governing payments, transfers, exchanges and other matters relating to beneficial interests in a global security. None of the following will have any responsibility or liability for any aspect of the depository's or any participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising or reviewing any records relating to those beneficial interests:

us or our affiliates;

the trustee under any indenture; or

any agent of any of the above.

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**CERTAIN PROVISIONS OF MARYLAND LAW**

**AND OUR CHARTER AND BYLAWS**

*The following summary of certain provisions of Maryland law and of our charter and bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and our charter and bylaws, copies of which are available from us upon request. See [Where You Can Find More Information](#).*

**Number of directors; vacancies**

Our bylaws and charter provide that the number of our directors may be established by our board of directors but may not be less than the minimum number required by the Maryland General Corporate Law, or MGCL, nor more than ten. Our bylaws currently provide that any vacancy may be filled only by a majority of the remaining directors. Our charter also provides that, at such time as we have (i) at least three directors who are neither officers or employees of the Company nor affiliated with an acquiring person and (ii) a class of our common stock or preferred shares is registered under the Exchange Act, we elect to be subject to the provision of Subtitle 8 of Title 3 of the MGCL regarding the filling of vacancies on our board of directors. Accordingly, at such time, except as may be provided by our board of directors in setting the terms of any class or series of shares, any and all vacancies on our board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any individual elected to fill such vacancy will serve for the remainder of the full term of the class in which the vacancy occurred, and until a successor is duly elected and qualifies.

Each of our directors is elected by our stockholders to serve the applicable term to which he or she was elected, and until his or her successor is duly elected and qualifies. A plurality of all votes cast on the matter at a meeting of stockholders at which a quorum is present is sufficient to elect a director. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at a meeting constitutes a quorum.

**Removal of directors**

Our charter and bylaws provide that, subject to the rights of holders of any series of preferred shares and except as indicated below, a director may be removed only for **cause**, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. For this purpose, **cause** means, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to us through bad faith or active and deliberate dishonesty. These provisions, when coupled with the exclusive power of our board of directors to fill vacancies on our board of directors, generally precludes stockholders from (i) removing incumbent directors except for **cause** and with a substantial affirmative vote and (ii) filling the vacancies created by such removal with their own nominees.

**Business combinations**

A subtitle of the MGCL, known as the Maryland Business Combination Act, addresses certain **business combinations**, including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance, transfer or reclassification of equity securities, between a Maryland corporation and an **interested stockholder**. An **interested stockholder** is, any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's outstanding voting shares or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting shares of the corporation, or an affiliate of such an interested stockholder, in either case after the date or which the corporation had 100 or more beneficial owners of stock. Such business combinations are prohibited for five years after the most recent date on which the interested

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stockholder becomes an interested stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding voting shares of the corporation and (b) two-thirds of the votes entitled to be cast by holders of voting shares of the corporation other than shares held by the interested stockholder who will (or with whose affiliate will) be a party to the business combination or by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation's stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. Under the MGCL, a person is not an interested stockholder if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. A corporation's board of directors may provide that its approval is subject to compliance with any terms and conditions determined by it.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by resolution of the board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person from these provisions of the MGCL, provided that the business combination is first approved by our board of directors and, consequently, the five year prohibition and the supermajority vote requirements will not apply to such business combinations. As a result, any person may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by us with the supermajority vote requirements and other provisions of the statute. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or our board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### **Control share acquisitions**

The MGCL provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding common stock in a corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of such shares in the election of directors: (1) the person who has made or proposed to make the control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. Control shares are voting shares which, if aggregated with all other such shares owned by the acquiring person, or in respect of which the acquiring person is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiring person to exercise voting power in electing directors within one of the following ranges of voting power: (A) one-tenth or more but less than one-third, (B) one-third or more but less than a majority or (C) a majority or more of all voting power. Control shares do not include shares that the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiring person or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other

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stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiring person in the control share acquisition.

The control share acquisition statute does not apply to (a) shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our shares. There is no assurance that such provision will not be amended or eliminated at any time in the future.

### **Subtitle 8**

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three directors who are not officers or employees of the corporation or affiliated with an acquiring person, to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors, and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

that the board of directors may designate by resolution from among its current members three classes of directors to serve for staggered terms;

that the affirmative vote of at least two thirds of all votes entitled to be cast by the stockholders will be required to remove any director;

that the number of directors be fixed only by vote of the board of directors;

that a vacancy on the board that results from an increase in the size of the board or from the death, resignation or removal of a director be filled only by the affirmative vote of a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and that a director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred; and

that a special meeting of stockholders may be called only on the request of the stockholders entitled to cast at least a majority of the votes entitled to be cast at the meeting and only in accordance with certain procedures.

Our charter provides that, at such time as we are eligible to make a Subtitle 8 election, we elect to be subject to the provision of Subtitle 8 that requires that vacancies on our board may be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (1) require the affirmative vote of the holders of not less than two-thirds of all of the votes entitled to be cast on the matter for the removal of any director from the board, which removal will be allowed only for cause, (2) vest in the board the power to alter, within specified limits, the number of directors, (3) permit that a vacancy on the board be filled by the remaining directors and (4) require, unless called by our chairman, chief executive officer, president or the board of directors, the request of stockholders entitled to cast not less than a majority of the votes entitled to be cast at such meeting to call a special meeting of stockholders.

### **Meetings of stockholders**

Pursuant to our bylaws, a meeting of our stockholders for the purpose of the election of directors and the transaction of any business will be held annually on a date and at the time and place set by our board of directors. In addition, our chairman, chief executive officer, president or board of directors may call a special meeting of



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our stockholders. Subject to the provisions of our bylaws, a special meeting of our stockholders will also be called by our secretary upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast at the meeting accompanied by the information required by our bylaws.

**Mergers; extraordinary transactions**

Under the MGCL, the merger, consolidation, share exchange or transfer of all or substantially all of the assets of a Maryland corporation must be advised by resolution of its board of directors and approved by the stockholders by the vote of two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides that the stockholders may approve these transactions by the affirmative vote of a majority of all of the votes entitled to be cast on the matter. However, many of our operating assets will be held by our subsidiaries, and these subsidiaries may be able to sell all or substantially all of their assets or merge or consolidate with one or more entities without the approval of our stockholders.

**Amendment to our charter and bylaws**

Under the MGCL, a Maryland corporation generally cannot amend its charter unless advised by its board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a different percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter.

Except for amendments to the provisions of our charter related to the removal of directors and the vote required to amend the provision regarding amendments to the removal provisions itself (each of which require the affirmative vote of the holders of shares entitled to cast not less than two-thirds of all the votes entitled to be cast on the matter) and certain amendments described in our charter that require only approval by our board of directors, our charter may be amended only with the approval of our board of directors and the affirmative vote of the holders of shares entitled to cast not less than a majority of all of the votes entitled to be cast on the matter.

Our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

**Our dissolution**

Our charter provides for us to have a perpetual existence. Our dissolution must be approved by a majority of our entire board of directors and the affirmative vote of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast on the matter.

**Advance notice of director nominations and new business**

Our bylaws provide that, with respect to an annual meeting of stockholders, nominations of individuals for election to our board of directors at an annual meeting and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our board of directors or (3) by a stockholder of record who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws. Our bylaws currently require the stockholder generally to provide notice to the secretary containing the information required by our bylaws: 65.4% 65.1% 64.1% 61.5% 56.6%

Expense ratio(2)

**31.3** 32.2 30.0 28.0 26.0

Combined ratio(2)

**96.7%** 97.3% 94.1% 89.5% 82.6%

(1) Earnings per share data and number of shares used in computing shares outstanding for years 2006-2008 have been restated to conform to ASC 260, *Participating Securities and the Two Class Method*. Please refer to Financial Statement footnote 2 for additional details.

(2)

The loss ratio is the ratio of losses and loss adjustment expenses to net earned premiums. The expense ratio, when calculated on a GAAP basis is the ratio of underwriting expense to net earned premiums. The combined ratio is the sum of the loss ratio and the expense ratio. Please refer to *Insurance Ratios* under Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion on our GAAP ratios.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with our accompanying consolidated financial statements and notes thereto, which appear elsewhere in this document. In this discussion, all dollar amounts are presented in thousands, except share and per share data.*

*The following discussion contains forward-looking statements. We intend statements which are not historical in nature to be, and are hereby identified as "forward-looking statements" to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, the Company's senior management may make forward-looking statements orally to analysts, investors, the media and others. This safe harbor requires that we specify important factors that could cause actual results to differ materially from those contained in forward-looking statements made by or on behalf of us. We cannot promise that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from and worse than our expectations. See "Forward-Looking Statements" below for specific important factors that could cause actual results to differ materially from those contained in forward-looking statements.*

**Executive Summary and Overview**

In this discussion, "Safety" refers to Safety Insurance Group, Inc. and "our Company," "we," "us" and "our" refer to Safety Insurance Group, Inc. and its consolidated subsidiaries. Our subsidiaries consist of Safety Insurance Company ("Safety Insurance"), Safety Indemnity Insurance Company ("Safety Indemnity"), Safety Property and Casualty Insurance Company ("Safety P&C"), Whiteshirts Asset Management Corporation ("WAMC"), and Whiteshirts Management Corporation, which is WAMC's holding company.

We are a leading provider of private passenger automobile insurance in Massachusetts. In addition to private passenger automobile insurance (which represented 68.7% of our direct written premiums in 2010), we offer a portfolio of other insurance products, including commercial automobile (10.4% of 2010 direct written premiums), homeowners (16.8% of 2010 direct written premiums), dwelling fire, umbrella and business owner policies (totaling 4.1% of 2010 direct written premiums). Operating exclusively in Massachusetts and New Hampshire through our insurance company subsidiaries, Safety Insurance, Safety Indemnity, and Safety P&C (together referred to as the "Insurance Subsidiaries"), we have established strong relationships with independent insurance agents, who numbered 783 in 939 locations throughout Massachusetts and New Hampshire during 2010. We have used these relationships and our extensive knowledge of the Massachusetts market to become the second largest private passenger automobile and the third largest commercial automobile insurance carrier in Massachusetts, capturing an approximate 11.4% and 10.7% share, respectively, of the Massachusetts private passenger and commercial automobile markets in 2010, according to the Commonwealth Automobile Reinsurers ("CAR") Cession Volume Analysis Report of March 3, 2011, based on automobile exposures. These statistics total, for each vehicle insured, the number of months during the year insurance for that vehicle is in effect, to arrive at an aggregate number of car-months for each insurer; this aggregate number, divided by 12, equals the insurer's number of car-years, a measure we refer to in this report as automobile exposures.

Our Insurance Subsidiaries began writing private passenger automobile and homeowners insurance business in New Hampshire during 2008 and personal umbrella business during 2009. During the years ended December 31, 2010 and 2009, the Company wrote \$2,774 and \$978 in direct written premiums, respectively, and approximately 3,300 and 1,250 policies, respectively, in New Hampshire.

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*Massachusetts Automobile Insurance Market*

We have been subject to extensive regulation in the private passenger automobile insurance industry in Massachusetts, which represented 68.7% of our direct written premiums in 2010. Owners of registered automobiles in Massachusetts are required to maintain minimum automobile insurance coverage. Prior to April 1, 2008, the Commissioner of Insurance (the "Commissioner") had fixed and established the maximum rates that could be charged for private passenger automobile insurance. Prior to April 1, 2008, as a servicing carrier of CAR, we were required to issue a policy to all qualified applicants. In addition, based on our market share prior to April 1, 2009, we had been assigned certain licensed producers by CAR that were unable to obtain a voluntary contract with another insurer. We call these agents Exclusive Representative Producers, or ERPs.

On July 16, 2007, the Commissioner issued two decisions that significantly changed how private passenger automobile insurance was regulated in Massachusetts. In the first decision, the Commissioner approved and set a time table for the implementation of new CAR rules pursuant to which the reinsurance program run by CAR was replaced with an assigned risk plan, the Massachusetts Automobile Insurance Plan ("MAIP"). Under these new rules, as of April 1, 2009 we are no longer assigned ERPs and instead, we were assigned individual policies by CAR. The MAIP began with business effective on or after April 1, 2008 for new business and those risks that had 10 or more Safe Driver Points. Beginning April 1, 2009, all business was eligible for MAIP except those risks that have no violations or accidents in the preceding three year period (so called "Clean in three" risks). The last policy effective date on which any risk could be ceded to CAR was March 31, 2009.

In the second decision referenced above, the Commissioner announced that she would not fix and establish the maximum premium rates that can be charged for private passenger automobile insurance policies issued or renewed after April 1, 2008. In a letter accompanying the decision, the Commissioner stated that in place of the "fixed and established" system, the Commissioner would institute a system that introduces competitive pricing to the Massachusetts private passenger automobile insurance market, which the Commissioner described as "managed competition" ("Managed Competition"). On October 5, 2007, the Commissioner issued a Competitive Rating Regulation; 211 CMR 79.00: Private Passenger Motor Vehicle Insurance Rates that describes the technical details of Managed Competition.

The Commissioner has also issued a number of bulletins addressing issues related to the implementation of Managed Competition (the "Rating Bulletins").

On May 27, 2010, the Massachusetts Office of the Attorney General (the "AG") issued proposed regulations that, if adopted, would apply to the sale, marketing, claims processing, rating, and underwriting of private passenger automobile insurance offered or provided in the Commonwealth of Massachusetts. The proposed regulations describe various acts by insurers and insurance producers which would be considered to be unfair trade practices, under Massachusetts' unfair trade practices act, M.G.L. c. 93A. The AG held two public hearings on the proposed regulations in June 2010, and may issue final regulations later in 2011. We are not able at this time to determine what effect these proposed regulations will have on our business over the long term.

CAR runs a reinsurance pool for commercial automobile policies and beginning January 1, 2006, CAR implemented a Limited Servicing Carrier Program ("LSC") for ceded commercial automobile policies. CAR approved Safety Insurance and five other servicing carriers through a Request for Proposal to process ceded commercial automobile business, which was spread equitably among the six servicing carriers. In 2010 CAR reduced the number of servicing carriers to four, and CAR has approved Safety and three other servicing carriers effective July 1, 2011 to continue the program. Subject to the Commissioner's review, CAR sets the premium rates for commercial automobile policies reinsured through CAR and this reinsurance pool can generate an underwriting result that is a profit or deficit based upon CAR's rate level. This underwriting result is allocated among every Massachusetts

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commercial automobile insurance company, including us, based on a company's commercial automobile voluntary market share.

CAR also runs a reinsurance pool for Taxi, Limousine and Car Service risks (the "Taxi/Limo Program"). On April 25, 2007, Safety submitted through a Request for Proposal a bid to process a portion of the Taxi/Limo Program. CAR approved Safety as one of the two servicing carriers for this program beginning January 1, 2008, and CAR has again approved Safety beginning January 1, 2011 as one of the two servicing carriers.

Under Managed Competition, we decreased our rates an average 6.7% in 2008. During 2009, we increased our rates an average of 2.6% in a series of rate filings during the year. We began using three rating tiers effective April 1, 2009. We filed and were approved for a 0.3% rate decrease effective June 1, 2009 and a 2.9% rate increase effective October 1, 2009. We filed and were approved for a rate increase of 0.4% and began using four rating tiers effective January 1, 2010. A Companion Policy Client Tier, which is policyholders who have an other than private passenger automobile policy with us, receives a rate decrease of 2.5% from our filed base rates. A Loyal Automobile Client Tier, which is policyholders who have been insured with Safety two or more years, receives our filed base rates. A New Insurance Client Tier, which is policyholders with twelve or more months of continuous coverage or who qualify for a multi-car discount, receives a rate increase of 2.5% from our filed base rates. A New Policyholder Tier, which is policyholders who do not qualify for the other three tiers, receives MAIP rates. We filed and were approved for a 1.9% increase in our rates effective April 19, 2010 and we also filed and were approved for a 0.5% decrease in our rates effective June 15, 2010. Our rates include a 13.0% commission rate for agents. Our direct written premiums increased by 8.1% in 2010 primarily as a result of increased exposures and average written premium per exposure in our private passenger and homeowner lines of business.

*Statutory Accounting Principles*

Our results are reported in accordance with GAAP, which differ from amounts reported in accordance with statutory accounting principles ("SAP") as prescribed by insurance regulatory authorities, which in general reflect a liquidating, rather than going concern concept of accounting. Specifically, under GAAP:

Policy acquisition costs such as commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned, rather than expensed as incurred, as required by SAP.

Certain assets are included in the consolidated balance sheets whereas, under SAP, such assets are designated as "non admitted assets," and charged directly against statutory surplus. These assets consist primarily of premium receivables that are outstanding over ninety days, federal deferred tax assets in excess of statutory limitations, furniture, equipment, leasehold improvements and prepaid expenses.

Amounts related to ceded reinsurance are shown gross of ceded unearned premiums and reinsurance recoverables, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.

Fixed maturities securities, which are classified as available-for-sale, are reported at current fair values, rather than at amortized cost, or the lower of amortized cost or market, depending on the specific type of security, as required by SAP.

The differing treatment of income and expense items results in a corresponding difference in federal income tax expense. Changes in deferred income taxes are reflected as an item of income tax benefit or expense, rather than recorded directly to surplus as regards policyholders,

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as required by SAP. Admittance testing may result in a charge to unassigned surplus for non-admitted portions of deferred tax assets. Under GAAP reporting, a valuation allowance may be recorded against the deferred tax asset and reflected as an expense.

### *Insurance Ratios*

The property and casualty insurance industry uses the combined ratio as a measure of underwriting profitability. The combined ratio is the sum of the loss ratio (losses and loss adjustment expenses incurred as a percent of net earned premiums) plus the expense ratio (underwriting expenses as a percent of net earned premiums, calculated on a GAAP basis). The combined ratio reflects only underwriting results and does not include income from investments or finance and other service income. Underwriting profitability is subject to significant fluctuations due to competition, catastrophic events, weather, economic and social conditions, and other factors.

Our GAAP insurance ratios are outlined in the following table:

	Years Ended December 31,		
	2010	2009	2008
<b>GAAP Ratios:</b>			
Loss Ratio	<b>65.4%</b>	65.1%	64.1%
Expense Ratio	<b>31.3</b>	32.2	30.0
Combined Ratio	<b>96.7%</b>	97.3%	94.1%

### *Stock-Based Compensation*

On June 25, 2002, the Board of Directors of the Company (the "Board") adopted the 2002 Management Omnibus Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for a variety of awards, including nonqualified stock options ("NQSOs"), stock appreciation rights and restricted stock ("RS") awards.

On March 10, 2006, the Board approved amendments to the Incentive Plan, subject to shareholder approval, to (i) increase the number of shares of common stock available for issuance by 1,250,000 shares, (ii) remove obsolete provisions, and (iii) make other non-material changes. A total of 1,250,000 shares of common stock had previously been authorized for issuance under the Incentive Plan. The Incentive Plan, as amended, was approved by the shareholders at the 2006 Annual Meeting of Shareholders which was held on May 19, 2006. Under the Incentive Plan, as amended, the maximum number of shares of common stock with respect to which awards may be granted is 2,500,000. As of December 31, 2010, there were 813,484 shares available for future grant. The Board and the Compensation Committee intend to issue more awards under the Incentive Plan in the future. Grants outstanding under the Incentive Plan as of December 31, 2010, were comprised of 301,501 restricted shares and 151,003 nonqualified stock options.

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Grants made under the Incentive Plan are as follows:

Type of Equity Awarded	Effective Date	Number of Awards Granted	Exercise Price(1) or Fair Value(2) per Share	Vesting Terms	Expiration Date
NQSOs	November 27, 2002	379,000	\$ 12.00(1)	5 years, 20% annually	November 27, 2012
NQSOs	February 20, 2003	99,000	\$ 13.30(1)	5 years, 20% annually	February 20, 2013
NQSOs	March 31, 2003	292,000	\$ 13.03(1)	3 years, 30%-30%-40%	March 31, 2013
NQSOs	August 21, 2003	10,000	\$ 15.89(1)	5 years, 20% annually	August 21, 2013
NQSOs	March 25, 2004	111,000	\$ 18.50(1)	5 years, 20% annually	March 25, 2014
RS	March 25, 2004	70,271	\$ 18.50(2)	3 years, 30%-30%-40%	N/A
NQSOs	August 30, 2004	10,000	\$ 21.40(1)	5 years, 20% annually	August 30, 2014
NQSOs	March 16, 2005	78,000	\$ 35.23(1)	5 years, 20% annually	March 16, 2015
RS	March 16, 2005	56,770	\$ 35.23(2)	3 years, 30%-30%-40%	N/A
RS	March 16, 2005	4,000	\$ 35.23(2)	No vesting period(3)	N/A
NQSOs	March 10, 2006	126,225	\$ 42.85(1)	5 years, 20% annually	March 10, 2016
RS	March 10, 2006	58,342	\$ 42.85(2)	3 years, 30%-30%-40%	N/A
RS	March 10, 2006	4,000	\$ 42.85(2)	No vesting period(3)	N/A
RS	February 26, 2007	65,760	\$ 45.62(2)	3 years, 30%-30%-40%	N/A
RS	February 26, 2007	4,000	\$ 45.62(2)	No vesting period(3)	N/A
RS	March 22, 2007	49,971	\$ 38.78(2)	5 years, 20% annually	N/A
RS	March 10, 2008	76,816	\$ 35.80(2)	3 years, 30%-30%-40%	N/A
RS	March 10, 2008	4,000	\$ 35.80(2)	No vesting period(3)	N/A
RS	March 20, 2008	45,779	\$ 34.37(2)	5 years, 20% annually	N/A
RS	March 9, 2009	95,953	\$ 28.66(2)	3 years, 30%-30%-40%	N/A
RS	March 9, 2009	4,000	\$ 28.66(2)	No vesting period(3)	N/A
RS	March 19, 2009	38,046	\$ 33.24(2)	5 years, 20% annually	N/A
RS	March 9, 2010	77,360	\$ 38.78(2)	3 years, 30%-30%-40%	N/A
RS	March 9, 2010	4,000	\$ 38.78(2)	No vesting period(3)	N/A
RS	March 23, 2010	25,590	\$ 38.09(2)	5 years, 20% annually	N/A

- (1) The exercise price of the options grant effective on November 27, 2002, is equal to the IPO price of our stock on that same day. The exercise price of the remaining option grants is equal to the closing price of our common stock on the grant date.
- (2) The fair value per share of the restricted stock grant is equal to the closing price of the Company's common stock on the grant date.
- (3) The shares cannot be sold, assigned, pledged, or otherwise transferred, encumbered or disposed of until the recipient is no longer a member of our Board of Directors.

*Reinsurance*

We reinsure with other insurance companies a portion of our potential liability under the policies we have underwritten, thereby protecting us against an unexpectedly large loss or a catastrophic occurrence that could produce large losses, primarily in our homeowners line of business. We use various software products to measure our exposure to catastrophe losses and the probable maximum loss to us for catastrophe losses such as hurricanes. The models include estimates for our share of the catastrophe losses generated in the residual market for property insurance by the Massachusetts Property Insurance Underwriting Association ("FAIR Plan"). In the aftermath of Hurricane Katrina in 2005, the reinsurance market has seen from the various software modelers, increases in the estimate of damage from hurricanes in the southern and northeast portions of the United States due to revised estimations of increased hurricane activity and increases in the estimation of demand surge

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in the periods following a significant event. We continue to adjust our reinsurance programs as a result of the changes to the models and the number of homes we write. As of January 1, 2011, our catastrophe

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reinsurance provides gross per occurrence reinsurance coverage up to \$535,000. As a result of the changes to the models, and our revised reinsurance program, our catastrophe reinsurance in 2011 protects us in the event of a "140-year storm" (that is, a storm of a severity expected to occur once in a 140-year period). Swiss Re, our primary reinsurer, maintains an A.M. Best rating of "A" (Excellent). Most of our other reinsurers have an A.M. Best rating of "A" (Excellent) however in no case is a reinsurer rated below "A-" (Excellent).

We are a participant in CAR, a state-established body that runs the residual market reinsurance programs for both private passenger and commercial automobile insurance in Massachusetts under which premiums, expenses, losses and loss adjustment expenses on ceded business are shared by all insurers writing automobile insurance in Massachusetts. We also participate in the FAIR Plan in which premiums, expenses, losses and loss adjustment expenses on homeowners business that cannot be placed in the voluntary market are shared by all insurers writing homeowners insurance in Massachusetts. The FAIR Plan has grown dramatically over the past few years as insurance carriers have reduced their exposure to coastal property. The FAIR Plan's exposure to catastrophe losses increased and as a result, the FAIR Plan decided to buy reinsurance to reduce their exposure to catastrophe losses. On July 1, 2010, the FAIR Plan purchased \$1,000,000 of catastrophe reinsurance for property losses in excess of \$200,000. At December 31, 2010, we had no material amounts recoverable from any reinsurer, excluding \$44,897 recoverable from CAR.

On March 10, 2005, our Board of Directors adopted a resolution that prohibits Safety from purchasing finite reinsurance (reinsurance that transfers only a finite or limited amount of risk to the reinsurer) without approval by the Board. To date, the Company has never purchased a finite reinsurance contract.

*Effects of Inflation*

We do not believe that inflation has had a material effect on our consolidated results of operations, except insofar as inflation may affect interest rates.

**Critical Accounting Policies and Estimates**

*Loss and Loss Adjustment Expense Reserves.*

Significant periods of time can elapse between the occurrence of an insured loss, the reporting to us of that loss and our final payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities. Our reserves represent estimates of amounts needed to pay reported and unreported losses and the expenses of investigating and paying those losses, or loss adjustment expenses. Every quarter, we review our previously established reserves and adjust them, if necessary.

When a claim is reported, claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. The amount of the reserve is primarily based upon an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss. The estimate reflects the informed judgment of such personnel based on general insurance reserving practices and on the experience and knowledge of the claims person. During the loss adjustment period, these estimates are revised as deemed necessary by our claims department based on subsequent developments and periodic reviews of the cases.

In accordance with industry practice, we also maintain reserves for estimated losses incurred but not yet reported ("IBNR"). IBNR reserves are determined in accordance with commonly accepted actuarial reserving techniques on the basis of our historical information and experience. We review and make adjustments to incurred but not yet reported reserves quarterly.

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When reviewing reserves, we analyze historical data and estimate the impact of various loss development factors, such as our historical loss experience and that of the industry, trends in claims frequency and severity, our mix of business, our claims processing procedures, legislative enactments, judicial decisions, legal developments in imposition of damages, and changes and trends in general economic conditions, including the effects of inflation. A change in any of these factors from the assumption implicit in our estimate can cause our actual loss experience to be better or worse than our reserves, and the difference can be material. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, because the eventual development of reserves is affected by many factors.

Management determines our loss and LAE reserves estimate based upon the analysis of our actuaries. A reasonable estimate is derived by selecting a point estimate within a range of indications as calculated by our actuaries using generally accepted actuarial techniques. The key assumption in most actuarial analysis is that past patterns of frequency and severity will repeat in the future, unless a significant change in the factors described above takes place. Our key factors and resulting assumptions are the ultimate frequency and severity of claims, based upon the most recent ten years of claims reported to the Company, and the data CAR reports to us to calculate our share of the residual market, as of the date of the applicable balance sheet. For each accident year and each coverage within a line of business our actuaries calculate the ultimate losses incurred. Our total reserves are the difference between the ultimate losses incurred and the cumulative loss and loss adjustment payments made to date. Our IBNR reserves are calculated as the difference between our total reserves and the outstanding case reserves at the end of the accounting period. To determine ultimate losses, our actuaries calculate a range of indications and select a point estimation using such actuarial techniques as:

*Paid Loss Indications:* This method projects ultimate loss estimates based upon extrapolations of historic paid loss trends. This method tends to be used on short tail lines such as automobile physical damage.

*Incurred Loss Indications:* This method projects ultimate loss estimates based upon extrapolations of historic incurred loss trends. This method tends to be used on long tail lines of business such as automobile liability and homeowner's liability.

*Bornhuetter-Ferguson Indications:* This method projects ultimate loss estimates based upon extrapolations of an expected amount of IBNR, which is added to current incurred losses or paid losses. This method tends to be used on small, immature, or volatile lines of business, such as our BOP and umbrella lines of business.

*Bodily Injury Code Indications:* This method projects ultimate loss estimates for our private passenger and commercial automobile bodily injury coverage based upon extrapolations of the historic number of accidents and the historic number of bodily injury claims per accident. Projected ultimate bodily injury claims are then segregated into expected claims by type of injury (e.g. soft tissue injury vs. hard tissue injury) based on past experience. An ultimate severity, or average paid loss amounts, is estimated based upon extrapolating historic trends. Projected ultimate loss estimates using this method are the aggregate of estimated losses by injury type.

Such techniques assume that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting our ultimate losses, total reserves and resulting IBNR reserves. It is possible that the final outcome may fall above or below these amounts as a result of a number of factors, including immature data, sparse data, or significant growth in a line of business. Using these methodologies, our actuaries established a range of reasonably possible estimations for net reserves of approximately \$311,570 to \$359,802 as of December 31, 2010 compared to a range of \$332,854 to \$378,692 for 2009. In general, the low and high values of the ranges represent reasonable minimum and maximum values of the indications based on the techniques described above. Our

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selected point estimate of net loss and LAE reserves based upon the analysis of our actuaries was \$351,244 as of December 31, 2010 compared to \$374,832 for December 31, 2009. We have recorded reserves closer to the high in the ranges of our projections.

The following tables present the point estimation of the recorded reserves and the range of estimations by line of business for net loss and LAE reserves as of December 31, 2010 and December 31, 2009.

Line of Business	As of December 31, 2010		
	Low	Recorded	High
Private passenger automobile	\$ 213,803	\$ 240,129	\$ 244,749
Commercial automobile	40,413	45,772	46,483
Homeowners	38,814	44,741	47,181
All other	18,540	20,602	21,389
<b>Total</b>	<b>\$ 311,570</b>	<b>\$ 351,244</b>	<b>\$ 359,802</b>

Line of Business	As of December 31, 2009		
	Low	Recorded	High
Private passenger automobile	\$ 228,414	\$ 258,552	\$ 258,843
Commercial automobile	48,556	54,785	55,272
Homeowners	39,967	42,750	44,223
All other	15,917	18,745	20,354
<b>Total</b>	<b>\$ 332,854</b>	<b>\$ 374,832</b>	<b>\$ 378,692</b>

The following tables present our total net reserves and the corresponding case reserves and IBNR reserves for each line of business as of December 31, 2010 and December 31, 2009.

Line of Business	As of December 31, 2010		
	Case	IBNR	Total
Private passenger automobile	\$ 230,330	\$ 50	\$ 230,380
CAR assumed private passenger auto	7,274	2,475	9,749
Commercial automobile	30,424	4,143	34,567
CAR assumed commercial automobile	7,325	3,880	11,205
Homeowners	25,117	8,467	33,584
FAIR Plan assumed homeowners	5,567	5,590	11,157
All other	11,452	9,150	20,602
<b>Total net reserves for losses and LAE</b>	<b>\$ 317,489</b>	<b>\$ 33,755</b>	<b>\$ 351,244</b>

Line of Business	As of December 31, 2009		
	Case	IBNR	Total
Private passenger automobile	\$ 220,907	\$ 16,812	\$ 237,719
CAR assumed private passenger auto	15,402	5,431	20,833
Commercial automobile	32,287	7,867	40,154
CAR assumed commercial automobile	8,063	6,568	14,631
Homeowners	16,268	9,262	25,530
FAIR Plan assumed homeowners	5,218	12,002	17,220
All other	7,967	10,778	18,745
<b>Total net reserves for losses and LAE</b>	<b>\$ 306,112</b>	<b>\$ 68,720</b>	<b>\$ 374,832</b>



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Our IBNR reserves consist of our estimate of the total loss reserves required less our case reserves. The IBNR reserves for CAR assumed private passenger and commercial automobile business are 25.4% and 34.6%, respectively, of our total reserves for CAR assumed private passenger and commercial automobile business as of December 31, 2010 due to the reporting delays in the information we receive from CAR, as described further in the section on *CAR Loss and Loss Adjustment Expense Reserves*. Our IBNR reserves for FAIR Plan assumed homeowners are 51.3% of our total reserves for FAIR Plan assumed homeowners at December 31, 2010 due to similar reporting delays in the information we receive from FAIR Plan.

The following tables present information by line of business for our total net reserves and the corresponding retained (i.e. direct less ceded) reserves and assumed reserves as of December 31, 2010 and December 31, 2009.

Line of Business	As of December 31, 2010		
	Retained	Assumed	Net
Private passenger automobile	\$ 230,380		
CAR assumed private passenger automobile		\$ 9,749	
Net private passenger automobile			\$ 240,129
Commercial automobile	34,567		
CAR assumed commercial automobile		11,205	
Net commercial automobile			45,772
Homeowners	33,584		
FAIR Plan assumed homeowners		11,157	
Net homeowners			44,741
All other	20,602		20,602
<b>Total net reserves for losses and LAE</b>	<b>\$ 319,133</b>	<b>\$ 32,111</b>	<b>\$ 351,244</b>

Line of Business	As of December 31, 2009		
	Retained	Assumed	Net
Private passenger automobile	\$ 237,719		
CAR assumed private passenger automobile		\$ 20,833	
Net private passenger automobile			\$ 258,552
Commercial automobile	40,154		
CAR assumed commercial automobile		14,631	
Net commercial automobile			54,785
Homeowners	25,530		
FAIR Plan assumed homeowners		17,220	
Net homeowners			42,750
All other	18,745		18,745
<b>Total net reserves for losses and LAE</b>	<b>\$ 322,148</b>	<b>\$ 52,684</b>	<b>\$ 374,832</b>

### *CAR Loss and Loss Adjustment Expense Reserves*

We are a participant in CAR and assume a portion of losses and LAE on business ceded by the industry participants to CAR. We estimate reserves for assumed losses and LAE that have not yet been reported to us by CAR. Our estimations are based upon the same factors we use for our own reserves, plus additional factors due to the nature of and the information we receive from CAR. The portion of reserves based upon CAR estimates for private passenger automobile line of business has declined substantially over time as a result of the institution of the MAIP and phase-out of the private passenger automobile CAR reinsurance pool on April 1, 2009, as described elsewhere in this report.

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The CAR deficit, which consists of premium ceded to CAR less CAR losses and LAE, is allocated among every automobile insurance company writing business in Massachusetts based on a complex formula (the "Participation Ratio") that takes into consideration a company's voluntary market share, the amount of business it cedes to CAR and credits the company earns under a system CAR has designed to encourage carriers to voluntarily write business in selected under-priced classes and territories.

We receive a Settlement of Balances report from CAR that reports our share of CAR premium, losses and LAE on a lagged basis, seventy-five days after the end of every quarter. CAR-published financial data is always at least one quarter behind the financial data we report. For example, when we reported our financial results for the year ended December 31, 2009, we had nine months of reported 2009 CAR financial data, and we had to estimate and record as IBNR reserves what CAR would report to us for the last three months of the year.

We receive our final calendar year Participation Ratio report from CAR eight months after the end of that year, and thus we have to estimate for six quarters our share of the CAR deficit. For example, for the year ended December 31, 2009 we had to estimate our 2009 policy year CAR Participation Ratio beginning with the first quarter of 2009 through the second quarter of 2010.

Because of the lag in CAR estimates, and in order to try to validate to the extent possible the information CAR does provide, we must try to estimate the effects of the actions of our competitors in order to establish our Participation Ratio. Before final Participation Ratios are available, we estimate the size of CAR and the resulting deficit based on historical analysis of CAR results and estimations of our competitors' cession strategies. Even after our final Participation Ratio is available from CAR, we must continue to estimate the size of CAR and the resulting deficit based upon data published by CAR and our own continuing analysis. As a result, changes in our reserves for CAR may continue to occur until all claims are finally settled. The Loss Reserving Committee at CAR meets 70 days after the end of each quarter to estimate the CAR deficit for all active policy years and publishes estimations, which we use to estimate our share of the deficit. The estimation that CAR calculates is based on data it collects from 19 servicing carriers which settle, reserve and report claims using a variety of methods. Any delays or errors in the collection of this data could have a significant impact on the accuracy of CAR's estimations.

Although we rely to a significant extent in setting our reserves on the information CAR provides, we are cautious in our use of that information, both because of the delays described above and because the CAR estimates incorporate data CAR receives from all other CAR servicing carriers in Massachusetts. We do not have direct access to that data or firsthand knowledge of how those carriers are currently conducting their operations. As a result, we are cautious in recording CAR reserves for the calendar years for which we have to estimate our Participation Ratio and these reserves are subject to significant judgments and estimates.

*Sensitivity Analysis*

Establishment of appropriate reserves is an inherently uncertain process. There can be no certainty that currently established reserves based on our key assumptions regarding frequency and severity in our lines of business, or our assumptions regarding our share of the CAR loss will prove adequate in light of subsequent actual experience. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period that the deficiency is recognized. To the extent that reserves are redundant and are released, the amount of the release is a credit to earnings in the period the redundancy is recognized. For the year ended December 31, 2010, a 1 percentage-point change in the loss and LAE ratio would result in a change in reserves of \$5,519. Each 1 percentage-point change in the loss and loss expense ratio would have had a \$3,588 effect on net income, or \$0.24 per diluted share.

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Our assumptions consider that past experience, adjusted for the effects of current developments and anticipated trends, are an appropriate basis for establishing our reserves. Our individual key assumptions could each have a reasonable possible range of plus or minus 5 percentage-points for each estimation, although there is no guarantee that our assumptions will not have more than a 5 percentage point variation. The following sensitivity tables present information for each of our primary lines of business on the effect each 1 percentage-point change in each of our key assumptions on unpaid frequency and severity could have on our retained (i.e., direct minus ceded) loss and LAE reserves and net income for the year ended December 31, 2010. In evaluating the information in the table, it should be noted that a 1 percentage-point change in a single assumption would change estimated reserves by 1 percentage-point. A 1 percentage-point change in both our key assumptions would change estimated reserves within a range of plus or minus 2 percentage-points.

	-1 Percent Change in Frequency	No Change in Frequency	+1 Percent Change in Frequency
<b>Private passenger automobile direct minus ceded loss and LAE reserves</b>			
<b>-1 Percent Change in Severity</b>			
Estimated decrease in reserves	\$ (4,608)	\$ (2,304)	\$
Estimated increase in net income	2,995	1,498	
<b>No Change in Severity</b>			
Estimated (decrease) increase in reserves	(2,304)		2,304
Estimated increase (decrease) in net income	1,498		(1,498)
<b>+1 Percent Change in Severity</b>			
Estimated increase in reserves		2,304	4,608
Estimated decrease in net income		(1,498)	(2,995)
<b>Commercial automobile direct minus ceded loss and LAE reserves</b>			
<b>-1 Percent Change in Severity</b>			
Estimated decrease in reserves	(691)	(346)	
Estimated increase in net income	449	225	
<b>No Change in Severity</b>			
Estimated (decrease) increase in reserves	(346)		346
Estimated increase (decrease) in net income	225		(225)
<b>+1 Percent Change in Severity</b>			
Estimated increase in reserves		346	691
Estimated decrease in net income		(225)	(449)
<b>Homeowners direct minus ceded loss and LAE reserves</b>			
<b>-1 Percent Change in Severity</b>			
Estimated decrease in reserves	(672)	(336)	
Estimated increase in net income	437	218	
<b>No Change in Severity</b>			
Estimated (decrease) increase in reserves	(336)		336
Estimated increase (decrease) in net income	218		(218)
<b>+1 Percent Change in Severity</b>			
Estimated increase in reserves		336	672
Estimated decrease in net income		(218)	(437)
<b>All other direct minus ceded loss and LAE reserves</b>			
<b>-1 Percent Change in Severity</b>			
Estimated decrease in reserves	(412)	(206)	
Estimated increase in net income	268	134	
<b>No Change in Severity</b>			
Estimated (decrease) increase in reserves	(206)		206
Estimated increase (decrease) in net income	134		(134)
<b>+1 Percent Change in Severity</b>			
Estimated increase in reserves		206	412
Estimated decrease in net income		(134)	(268)

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Our estimated share of CAR loss and LAE reserves is based on assumptions about our Participation Ratio, the size of CAR, and the resulting deficit (similar assumptions apply with respect to the FAIR Plan). Our assumptions consider that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for establishing our CAR reserves. Each of our assumptions could have a reasonably possible range of plus or minus 5 percentage-points for each estimation.

The following sensitivity table presents information of the effect each 1 percentage-point change in our assumptions on our share of reserves for CAR and other residual markets could have on our assumed loss and LAE reserves and net income for the year ended December 31, 2010. In evaluating the information in the table, it should be noted that a 1 percentage-point change in our assumptions would change estimated reserves by 1 percentage-point.

	-1 Percent Change in Estimation	+1 Percent Change in Estimation
<b>CAR assumed private passenger automobile</b>		
Estimated (decrease) increase in reserves	\$ (97)	\$ 97
Estimated increase (decrease) in net income	63	(63)
<b>CAR assumed commercial automobile</b>		
Estimated (decrease) increase in reserves	(112)	112
Estimated increase (decrease) in net income	73	(73)
<b>FAIR Plan assumed homeowners</b>		
Estimated (decrease) increase in reserves	(112)	112
Estimated increase (decrease) in net income	73	(73)

#### *Reserve Development Summary*

The changes we have recorded in our reserves in the past illustrate the uncertainty of estimating reserves. Our prior year reserves decreased by \$48,157, \$44,065 and \$35,938 for the years ended December 31, 2010, 2009 and 2008, respectively.

The following table presents a comparison of prior year development of our net reserves for losses and LAE for the years ended December 31, 2010, 2009 and 2008. Each accident year represents all claims for an annual accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid. Our financial statements reflect the aggregate results of the current and all prior accident years.

Accident Year	Years Ended December 31,		
	2010	2009	2008
2000 & prior	\$ (600)	\$ (620)	\$ (1,192)
2001	(496)	(1,004)	(958)
2002	(1,031)	(1,431)	(1,973)
2003	(1,669)	(1,385)	(2,507)
2004	(2,147)	(3,827)	(6,619)
2005	(4,488)	(5,999)	(8,258)
2006	(7,996)	(9,829)	(6,714)
2007	(9,662)	(8,079)	(7,717)
2008	(10,992)	(11,891)	
2009	(9,076)		
All prior years	\$ (48,157)	\$ (44,065)	\$ (35,938)

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The decreases in prior years reserves during the 2010, 2009 and 2008 periods resulted from re-estimations of prior year ultimate loss and LAE liabilities. The 2010 decrease is primarily composed of reductions of \$34,248 in our retained automobile reserves, \$7,269 in our retained homeowners and all other reserves and \$5,572 in CAR assumed reserves. The 2009 decrease is primarily composed of reductions of \$24,979 in our retained automobile reserves and \$11,551 in CAR assumed reserves and \$6,103 in our retained homeowners and all other reserves. The 2008 decrease is primarily composed of reductions of \$21,752 in our retained automobile reserves and \$8,905 in CAR assumed reserves.

The following table presents information by line of business for prior year development of our net reserves for losses and LAE for the year ended December 31, 2010.

Accident Year	Private Passenger Automobile	Commercial Automobile	Homeowners	All Other	Total
2000 & prior	\$ (532)	\$ (52)	\$ 13	\$ (29)	\$ (600)
2001	(338)	(26)	(28)	(104)	(496)
2002	(641)	(124)	(56)	(210)	(1,031)
2003	(1,008)	(285)	(27)	(349)	(1,669)
2004	(1,091)	(633)	(51)	(372)	(2,147)
2005	(3,095)	(634)	(389)	(370)	(4,488)
2006	(4,600)	(2,079)	(870)	(447)	(7,996)
2007	(6,426)	(1,267)	(1,417)	(552)	(9,662)
2008	(7,660)	(1,402)	(869)	(1,061)	(10,992)
2009	(6,553)	(1,374)	(831)	(318)	(9,076)
All prior years	\$ (31,944)	\$ (7,876)	\$ (4,525)	\$ (3,812)	\$ (48,157)

To further clarify the effects of changes in our reserve estimates for CAR and other residual markets, the next two tables break out the information in the table above by source of the business (i.e., non-residual market vs. residual market).

The following table presents information by line of business for prior year development of retained reserves for losses and LAE for the year ended December 31, 2010; that is, all our reserves except for business ceded or assumed from CAR and other residual markets.

Accident Year	Retained Private Passenger Automobile	Retained Commercial Automobile	Retained Homeowners	Retained All Other	Total
2000 & prior	\$ (309)	\$ (50)	\$ 13	\$ (29)	\$ (375)
2001	(241)	(17)	(28)	(104)	(390)
2002	(545)	(111)	(56)	(210)	(922)
2003	(962)	(255)	(27)	(349)	(1,593)
2004	(1,073)	(666)	(61)	(372)	(2,172)
2005	(3,047)	(593)	(367)	(370)	(4,377)
2006	(4,396)	(1,858)	(836)	(447)	(7,537)
2007	(5,696)	(1,006)	(1,316)	(552)	(8,570)
2008	(6,274)	(1,024)	(479)	(1,061)	(8,838)
2009	(4,913)	(1,212)	(300)	(318)	(6,743)
All prior years	\$ (27,456)	\$ (6,792)	\$ (3,457)	\$ (3,812)	\$ (41,517)

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The following table presents information by line of business for prior year development of reserves assumed from CAR and other residual markets for losses and LAE for the year ended December 31, 2010.

Accident Year	CAR Assumed Private Passenger Automobile	CAR Assumed Commercial Automobile	FAIR Plan Homeowners	Total
2000 & prior	\$ (223)	\$ (2)	\$	\$ (225)
2001	(97)	(9)		(106)
2002	(96)	(13)		(109)
2003	(46)	(30)		(76)
2004	(18)	33	10	25
2005	(48)	(41)	(22)	(111)
2006	(204)	(221)	(34)	(459)
2007	(730)	(261)	(101)	(1,092)
2008	(1,386)	(378)	(390)	(2,154)
2009	(1,640)	(162)	(531)	(2,333)
All prior years	\$ (4,488)	\$ (1,084)	\$ (1,068)	\$ (6,640)

Our private passenger automobile line of business prior year reserves decreased by \$31,944 for the year ended December 31, 2010. The decrease was primarily due to improved retained private passenger results of \$24,326 for the accident years 2005 through 2009, and improved assumed CAR results for the private passenger automobile pool of \$3,026 for accident years 2008 through 2009. The improved retained private passenger results were primarily due to fewer IBNR claims than previously estimated and better than previously estimated severity on our established bodily injury and property damage case reserves. The improved CAR results were due primarily to improved CAR private passenger loss ratios as published and reported by the CAR Loss Reserving Committee.

Our commercial automobile line of business prior year reserves decreased by \$7,876 for the year ended December 31, 2010 due primarily to fewer IBNR claims than previously estimated.

Our retained homeowners line of business prior year reserves decreased by \$3,457 for the year ended December 31, 2010. Our FAIR Plan homeowners reserve decreased by \$1,068 for the year ended December 31, 2010.

Our retained other line of business prior year reserves which consists primarily of business owners, personal umbrella and dwelling fire policies decreased by \$3,812 for the year ended December 31, 2010.

In estimating all our loss reserves, including CAR, we follow the guidance prescribed by ASC 944, *Financial Services Insurance*.

For further information, see Results of Operations: *Losses and Loss Adjustment Expenses*.

*Other-Than-Temporary Impairments.*

We use a systematic methodology to evaluate declines in fair values below cost or amortized cost of our investments. This methodology ensures that we evaluate available evidence concerning any declines in a disciplined manner.

In our determination of whether a decline in fair value below amortized cost is an other-than-temporary impairment ("OTTI"), we consider and evaluate several factors and circumstances including the issuer's overall financial condition, the issuer's credit and financial strength ratings, a weakening of the general market conditions in the industry or geographic region in which the issuer operates, a prolonged period (typically six months or longer) in which the fair value of an

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issuer's securities remains below our amortized cost, and any other factors that may raise doubt about the issuer's ability to continue as a going concern.

We adopted ASC 320, *Investments Debt and Equity Securities* effective April 1, 2009. ASC 320 requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which the Company asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. Prior to April 1, 2009, we had to determine whether we had the intent and ability to hold the investment for a sufficient period of time for the value to recover. When the analysis of the above factors resulted in the Company's conclusion that declines in market values were other-than-temporary, the cost of the security was written down to market value and the reduction in value was reflected as a realized loss. The adoption of ASC 320 did not have an impact on our consolidated results of operations or financial position.

Effective under ASC 320, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that the Company will have to sell the debt security prior to the anticipated recovery, the decline in market value below amortized cost is recognized as an OTTI in earnings. In periods after the recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income.

For further information, see Results of Operations: *Net Realized Gains (Losses) on Investments*.

### Results of Operations

The following table shows certain of our selected financial results:

	Years Ended December 31,		
	2010	2009	2008
Direct written premiums	\$ 604,957	\$ 559,747	\$ 573,509
Net written premiums	576,807	532,629	552,904
Net earned premiums	551,950	531,969	576,556
Net investment income	41,395	43,308	45,771
Net realized gains (losses) on investments	863	(167)	678
Finance and other service income	18,511	16,844	17,995
<b>Total revenue</b>	<b>612,719</b>	591,954	641,000
Loss and loss adjustment expenses	360,848	346,301	369,823
Underwriting, operating and related expenses	172,823	171,124	172,987
Interest expenses	88	135	81
<b>Total expenses</b>	<b>533,759</b>	517,560	542,891
Income before income taxes	78,960	74,394	98,109
Income tax expense	22,618	20,242	27,851
<b>Net income</b>	<b>\$ 56,342</b>	\$ 54,152	\$ 70,258



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*Direct Written Premiums.* Direct written premiums for the year ended December 31, 2010, increased by \$45,210, or 8.1%, to \$604,957 from \$559,747 for the comparable 2009 period. The 2010 increase occurred primarily in our personal automobile and homeowners lines, which experienced increases of 3.8% and 3.2%, respectively, in average written premium per exposure and increases of 3.3% and 19.6%, respectively, in written exposures. The increase in homeowners exposures is primarily the result of our pricing strategy of offering account discounts to policyholders who insure both an automobile and home with us. Partially offsetting these increases was a 4.6% decrease in average written premium per exposure and a 2.2% decrease in written exposures in our commercial automobile line. This decrease is primarily a result of reduced exposures from ERPs submitting business through the CAR LSC program and general economic conditions which have reduced the size of the overall commercial automobile insurance market in Massachusetts.

*Net Written Premiums.* Net written premiums for the year ended December 31, 2010, increased by \$44,178, or 8.3%, to \$576,807 from \$532,629 for 2009. The 2010 increase was primarily due to the factors that increased direct written premiums.

*Net Earned Premiums.* Net earned premiums for the year ended December 31, 2010, increased by \$19,981, or 3.8%, to \$551,950 from \$531,969 for the comparable 2009 period. The 2010 increase was principally due to the factors that increased direct written premiums combined with decreases in earned premiums ceded to CAR, and partially offset by decreases in earned premiums assumed from CAR. Earned premiums assumed from and ceded to CAR decreased as a result of the phase-out of the CAR personal automobile reinsurance pool, which was fully replaced by an assigned risk plan, the MAIP, beginning with personal automobile policy effective dates after March 31, 2009.

The effect of assumed and ceded premiums on net written and net earned premiums is presented in the following table.

	Years Ended December 31,	
	2010	2009
<b>Written Premiums</b>		
Direct	\$ 604,957	\$ 559,747
Assumed	13,738	14,564
Ceded	(41,888)	(41,682)
Net written premiums	\$ 576,807	\$ 532,629
<b>Earned Premiums</b>		
Direct	\$ 580,942	\$ 555,020
Assumed	14,134	26,552
Ceded	(43,126)	(49,603)
Net earned premiums	\$ 551,950	\$ 531,969

*Net Investment Income.* Net investment income for the year ended December 31, 2010 decreased by \$1,913, or 4.4%, to \$41,395 from \$43,308 for the comparable 2009 period. The 2010 decrease primarily resulted from lower short-term interest rates, risk reduction actions related to municipal bonds, and ongoing maintenance of short duration to protect the portfolio from rising interest rates. Net effective annual yield decreased to 3.9% for the year ended December 31, 2010 from 4.1% for the comparable 2009 period. Our duration was 3.4 years at December 31, 2010, up slightly from 3.3 years at December 31, 2009.

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*Net Realized Gains (Losses) on Investments.* Net realized gains on investments were \$863 for the year ended December 31, 2010 compared to net realized losses of \$167 for the year ended December 31, 2009.

The gross unrealized gains and losses on investments in fixed maturity securities, equity securities, including interests in mutual funds, were as follows:

	As of December 31, 2010				
	Cost or Amortized Cost	Gross Unrealized Gains	Non-OTTI Unrealized Losses	Gross Unrealized Losses(3) OTTI Unrealized Losses(4)	Estimated Fair Value
U.S. Treasury securities	\$ 87,830	\$ 280	\$ (1,841)	\$	\$ 86,269
Obligations of states and political subdivisions	436,082	12,014	(2,906)		445,190
Residential mortgage-backed securities(1)	237,405	15,295	(39)		252,661
Commercial mortgage-backed securities	61,259	2,332			63,591
Other asset-backed securities	16,543	862			17,405
Corporate and other securities	191,235	7,769	(883)		198,121
<b>Subtotal, fixed maturity securities</b>	<b>1,030,354</b>	<b>38,552</b>	<b>(5,669)</b>	<b>\$</b>	<b>1,063,237</b>
Equity securities(2)	13,704	920			14,624
Other invested assets	2,817				2,817
<b>Totals</b>	<b>\$ 1,046,875</b>	<b>\$ 39,472</b>	<b>\$ (5,669)</b>	<b>\$</b>	<b>\$ 1,080,678</b>

- (1) Residential mortgage-backed securities consists primarily of obligations of U.S. Government agencies including collateralized mortgage obligations and mortgage backed securities guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB). The total of these fixed maturity securities was \$237,335 at amortized cost and \$252,592 at fair value as of December 31, 2010.
- (2) Equity securities includes interests in mutual funds of \$11,210 at cost and \$11,699 at fair value as of December 31, 2010 held to fund the Company's executive deferred compensation plan.
- (3) The Company's investment portfolio included 80 securities in an unrealized loss position at December 31, 2010.
- (4) Amounts in this column represent all other-than-temporary impairment ("OTTI") recognized in accumulated other comprehensive income.

As of December 31, 2010, with the exception of one security which represented less than 0.1% of our total investment in fixed income securities, our portfolio of fixed maturity investments was comprised entirely of investment grade corporate fixed maturity securities, U.S. government and agency securities, and asset-backed securities. All of our securities received a rating assigned by Moody's of Ba or higher, except the few securities not rated by Moody's, all of which are rated investment grade by Standard & Poor's. The Company holds no subprime mortgage debt securities. All of the Company's holdings in mortgage-backed securities are either U.S. Government or Agency guaranteed or are rated investment grade by either Moody's or Standard & Poor's.

The following table illustrates the gross unrealized losses included in the Company's investment portfolio and the fair value of those securities, aggregated by investment category. The table also



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illustrates the length of time that they have been in a continuous unrealized loss position as of December 31, 2010.

	As of December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 38,318	\$ 1,841	\$	\$	\$ 38,318	\$ 1,841
Obligations of states and political subdivisions	109,883	2,490	7,325	416	117,208	2,906
Residential mortgage-backed securities	1,312	31	298	8	1,610	39
Corporate and other securities	27,736	883			27,736	883
<b>Total temporarily impaired securities</b>	<b>\$ 177,249</b>	<b>\$ 5,245</b>	<b>\$ 7,623</b>	<b>\$ 424</b>	<b>\$ 184,872</b>	<b>\$ 5,669</b>

As of December 31, 2010, we held insured investment securities of approximately \$244,893 which represented approximately 22.7% of our total investment portfolio. Approximately \$63,398 of these securities are pre-refunded, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond.

The following table shows our insured investment securities that are backed by financial guarantors including pre-refunded securities as of December 31, 2010. We do not have any direct investment holdings in a financial guarantee insurance company.

Financial Guarantor	As of December 31, 2010		
	Total	Pre-refunded Securities	Exposure Net of Pre-refunded Securities
<b>Municipal bonds</b>			
Ambac Assurance Corporation	\$ 32,055	\$ 12,214	\$ 19,841
Financial Guaranty Insurance Company	267	267	
Assured Guaranty Municipal Corporation	91,819	34,936	56,883
National Public Finance Guaranty Corporation	116,704	15,981	100,723
<b>Total municipal bonds</b>	<b>240,845</b>	<b>63,398</b>	<b>177,447</b>
<b>Other asset-backed securities</b>			
Ambac Assurance Corporation	4,048		4,048
<b>Total other asset-backed securities</b>	<b>4,048</b>		<b>4,048</b>
<b>Total</b>	<b>\$ 244,893</b>	<b>\$ 63,398</b>	<b>\$ 181,495</b>

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The following table shows our insured investments by Moody's rating where it is available with and without the impact of the insurance guarantee as of December 31, 2010.

Rating	As of December 31, 2010	
	Rating With Insurance	Rating Without Insurance
Aaa	\$ 3,866	\$ 3,866
Aa1	28,976	28,976
Aa2	65,265	65,265
Aa3	88,550	77,461
A1	11,964	12,887
A2	11,003	18,021
A3	12,546	15,694
Baa1	267	267
Baa2	4,048	4,048
<b>Totals</b>	<b>\$ 226,485</b>	<b>\$ 226,485</b>

We reviewed the unrealized losses in our fixed income and equity portfolio as of December 31, 2010 for potential OTTI. We held no securities at December 31, 2010 with a material (20% or greater) unrealized loss for four or more consecutive quarters. Specific qualitative analysis was performed for securities appearing on our "Watch List," if any. Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency, and the historical volatility of the fair value of the security.

Of the \$5,669 gross unrealized losses as of December 31, 2010, \$4,747 relates to obligations of U.S. Treasuries, states and political subdivisions. The remaining \$922 of gross unrealized losses relates to holdings of investment grade residential mortgage-backed, corporate and other securities.

The unrealized losses recorded on the investment portfolio at December 31, 2010 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Given our current level of liquidity, the fact that we do not intend to sell these securities, and that it is more likely than not that we will not be required to sell these securities prior to recovery of the cost basis of these securities, these decreases in values are viewed as being temporary.

During the year ended December 31, 2010 and 2009, there was no significant deterioration in the credit quality of any of our holdings and no OTTI charges were recorded related to our portfolio of investment securities.

ASC 820, *Fair Value Measurements and Disclosure* provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets and liabilities;

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Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

Fair values for our fixed maturity securities are based on prices provided by our custodian bank and our investment manager. Both our custodian bank and our investment manager use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, we obtain non-binding price quotes from broker-dealers. A minimum of two quoted prices is obtained for the majority of our available for sale fixed maturity securities in our investment portfolio. Our custodian bank is our primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary third-party pricing service or broker-dealer quote is obtained from our investment manager. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from our custodian bank is used in our financial statements for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, we obtain a quote from an alternative source, if possible, and we document and resolve any differences between the pricing sources. In addition, we may request that our investment manager and their traders provide input as to which vendor is providing prices that their traders believe are reflective of fair value for the security. Following this process, we may decide to value the security in our financial statements using the secondary or alternative source if we believe that pricing is more reflective of the security's value than the primary pricing provided by our custodian bank. We analyze market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

Our Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. Our Level 2 securities are comprised of our available for sale fixed maturity securities whose fair value was determined using observable market inputs. Fair values for securities for which quoted market prices were unavailable were estimated based upon reference to observable inputs such as benchmark interest rates, market comparables, and other relevant inputs. Investments valued using these inputs include U.S. Treasury securities and obligations of U.S. Government agencies, obligations of international government agencies, obligations of states and political subdivisions, corporate securities, commercial and residential mortgage-backed securities, and other asset-backed securities. Inputs into the fair value application that are utilized by asset class include but are not limited to:

*States and political subdivisions:* overall credit quality, including assessments of market sectors and the level and variability of sources of payment such as general obligation, revenue or lease; credit support such as insurance, state or local economic and political base, prefunded and escrowed to maturity covenants.

*Corporate fixed maturities:* overall credit quality, the establishment of a risk adjusted credit spread over the applicable risk free yield curve for discounted cash flow valuations; assessments

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of the level of industry economic sensitivity, company financial policies, indenture restrictive covenants, and/or security and collateral.

*Residential mortgage-backed securities, U.S. agency pass-throughs, collateralized mortgage obligations ("CMOs"), non U.S. agency CMOs:* estimates of prepayment speeds based upon historical prepayment rate trends, underlying collateral interest rates, original weighted average maturity, vintage year, borrower credit quality characteristics, interest rate and yield curve forecasts, U.S. government support programs, tax policies, and delinquency/default trends.

*Commercial mortgage-backed securities:* overall credit quality, including assessments of the level and variability of credit support and collateral type such as office, retail, or lodging, predictability of cash flows for the deal structure, prevailing economic market conditions.

*Other asset-backed securities:* overall credit quality, estimates of prepayment speeds based upon historical trends and characteristics of underlying loans, including assessments of the level and variability of collateral, revenue generating agreements, area licenses agreements, product sourcing agreements and equipment and property leases.

All unadjusted estimates of fair value for our fixed maturities priced by the pricing services as described above are included in the amounts disclosed in Level 2.

In order to ensure the fair value determination is representative of an exit price (consistent with ASC 820), our procedures for validating quotes or prices obtained from third-parties include, but are not limited to, obtaining a minimum of two price quotes for each fixed maturity security if possible, as discussed above, the periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date, and the periodic review of reports provided by our investment manager regarding those securities with ratings changes and securities placed on our "Watch List." In addition, valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by our external investment manager, whose investment professionals are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price (consistent with ASC 820).

Our entire available for sale portfolio was priced based upon quoted market prices or other observable inputs as of December 31, 2010. There were no significant changes to the valuation process during the year ended December 31, 2010. As of December 31, 2010 and December 31, 2009, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

The following table summarizes our total fair value measurements for available for sale investments for the period ending December 31, 2010.

	As of December 31, 2010			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	\$ 86,269	\$	\$ 86,269	\$
Obligations of states and political subdivisions	445,190		445,190	
Residential mortgage-backed securities	252,661		252,661	
Commercial mortgage-backed securities	63,591		63,591	
Other asset-backed securities	17,405		17,405	
Corporate and other securities	198,121		198,121	
Equity securities	14,624	14,624		
<b>Totals</b>	<b>\$ 1,077,861</b>	<b>\$</b>	<b>14,624</b>	<b>\$ 1,063,237</b>

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The following table summarizes the changes in our Level 3 fair value measurements for the year ended December 31, 2010.

	<b>Other Asset-Backed Securities</b>
Balance at January 1, 2010	\$ 2,504
Net gains included in earnings	183
Net gains included in other comprehensive income	1,180
Purchases and sales	(3,867)
Transfers in (out) of Level 3	
Balance at December 31, 2010	\$
Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at December 31, 2010	\$

Transfers in and out of Level 3 are attributable to changes in the ability to observe significant inputs in determining fair value exit pricing. On January 1, 2010 our Level 3 securities consisted of one asset-backed security whose price was based solely on a single broker quote which was deemed to be obtained through unobservable inputs. This security was sold in October 2010.

*Finance and Other Service Income.* Finance and other service income includes revenues from premium installment charges, which we recognize when earned, and other miscellaneous income and fees. Finance and other service income for the year ended December 31, 2010, was \$18,511 compared to \$16,844 for the comparable 2009 period.

*Losses and Loss Adjustment Expenses.* Losses and loss adjustment expenses incurred for the year ended December 31, 2010, increased by \$14,547, or 4.2%, to \$360,848 from \$346,301 for the comparable 2009 period. Our GAAP loss ratio for the year ended December 31, 2010, increased to 65.4% compared to 65.1% for the comparable 2009 period. Our GAAP loss ratio excluding loss adjustment expenses for the year ended December 31, 2010 increased to 56.0% from 55.8% for the comparable 2009 period. Total prior year favorable development included in the pre-tax results for the year ended December 31, 2010 was \$48,157, compared to prior year favorable development of \$44,065 for the comparable 2009 period.

*Underwriting, Operating and Related Expenses.* Underwriting, operating and related expense for the year ended December 31, 2010 increased by \$1,699, or 1.0%, to \$172,823 from \$171,124 for the comparable 2009 period. Our GAAP expense ratios for the year ended December 31, 2010 decreased to 31.3% compared to 32.2% for the comparable 2009 period.

*Interest Expenses.* Interest expense for the year ended December 31, 2010 was \$88 compared to \$135 for the comparable 2009 period. The credit facility commitment fee included in interest expense was \$75 for both the years ended December 31, 2010 and 2009.

*Income Tax Expense.* Our effective tax rates were 28.6% and 27.2% for the years ended December 31, 2010 and 2009, respectively. These effective rates were lower than the statutory rate of 35% primarily due to adjustments for tax-exempt investment income.

*Net Income.* Net income for the year ended December 31, 2010 increased by \$2,190, or 4.0%, to \$56,342 from \$54,152 for the comparable 2009 period. This increase was primarily due to the factors discussed above.

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*Direct Written Premiums.* Direct written premiums for the year ended December 31, 2009, decreased by \$13,762, or 2.4%, to \$559,747 from \$573,509 for the comparable 2008 period. The 2009 decrease occurred primarily in our personal and commercial automobile lines, which experienced decreases of 4.5% and 5.8%, respectively, in average written premium per exposure and decreases of 1.1% and 5.9%, respectively, in written exposures. The decrease in average written premium per exposure in our personal automobile line was primarily the result of rate of rate decreases totaling 6.7% which we filed under the competitive pricing system introduced to the private passenger automobile market in Massachusetts beginning April 1, 2008. The decrease in exposures in our personal automobile line was primarily a result of the decrease in our ERP written exposures due to the transition to the MAIP effective April 1, 2008 as discussed above. Our commercial automobile exposures decreased by 5.9% in 2009 primarily as a result of reduced exposures from ERPs submitting business through the CAR LSC program, and general economic conditions which have reduced the size of the overall commercial automobile market in Massachusetts. Our homeowners line average written premium per exposure decreased by 0.1% with a 23.4% increase in written exposures. The increase in homeowners exposures is primarily the result of our pricing strategy of offering account discounts to policyholders who insure both an automobile and home with us.

*Net Written Premiums.* Net written premiums for the year ended December 31, 2009, decreased by \$20,275, or 3.7%, to \$532,629 from \$552,904 for 2008. This decrease was due to the factors that decreased direct written premiums combined with decreases in premiums assumed from CAR, and partially offset by decreases in premiums ceded to CAR. Written premiums assumed and ceded to CAR decreased as a result of the phase-out of the CAR personal automobile reinsurance pool, which was replaced by an assigned risk plan, the MAIP. Beginning with policy effective dates after March 31, 2009, all personal automobile business was eligible for MAIP and could no longer be ceded to CAR.

*Net Earned Premiums.* Net earned premiums for the year ended December 31, 2009, decreased by \$44,587, or 7.7%, to \$531,969 from \$576,556 for the comparable 2008 period. This decrease was due to the factors that decreased direct and net written premiums.

The effect of reinsurance on net written and net earned premiums is presented in the following table.

	Years Ended December 31,	
	2009	2008
<b>Written Premiums</b>		
Direct	\$ 559,747	\$ 573,509
Assumed	14,564	37,439
Ceded	(41,682)	(58,044)
Net written premiums	\$ 532,629	\$ 552,904
<b>Earned Premiums</b>		
Direct	\$ 555,020	\$ 595,673
Assumed	26,552	46,125
Ceded	(49,603)	(65,242)
Net earned premiums	\$ 531,969	\$ 576,556

*Net Investment Income.* Net investment income for the year ended December 31, 2009, was \$43,308, compared to \$45,771 for 2008, a decrease of 5.4%. Average cash and investment securities (at cost) increased by \$1,363, or less than 0.1%, to \$1,061,916 for the year ended December 31, 2009, from

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\$1,060,554 for the comparable 2008 period. The net effective yield on the investment portfolio decreased to 4.1% during the year ended December 31, 2009, compared to 4.3% during 2008 primarily due to lower yields on cash and short-term securities. Our duration increased to 3.3 years at December 31, 2009, from 3.2 years at December 31, 2008.

*Net Realized Gains (Losses) on Investments.* Net realized losses on investments were \$167 for the year ended December 31, 2009 compared to net realized gains of \$678 for the year ended December 31, 2008.

The gross unrealized gains and losses on investments in fixed maturity securities and equity securities, including interests in mutual funds, were as follows:

	As of December 31, 2009				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3)		Estimated Fair Value
			Non-OTTI Unrealized Losses	OTTI Unrealized Losses(4)	
U.S. Treasury securities	\$ 12,738	\$ 203	\$ (409)		\$ 12,532
Obligations of states and political subdivisions	468,319	16,218	(1,116)		483,421
Residential mortgage-backed securities(1)	289,736	11,271	(546)		300,461
Commercial mortgage-backed securities	73,431	594	(1,109)		72,916
Other asset-backed securities	22,781	879	(1,360)		22,300
Corporate and other securities	122,439	4,737	(477)		126,699
<b>Subtotal, fixed maturity securities</b>	<b>989,444</b>	<b>33,902</b>	<b>(5,017)</b>		<b>1,018,329</b>
Equity securities(2)	9,736	140			9,876
Other invested assets	409				409
<b>Totals</b>	<b>\$ 999,589</b>	<b>\$ 34,042</b>	<b>\$ (5,017)</b>		<b>\$ 1,028,614</b>

- (1) Residential mortgage-backed securities consists primarily of obligations of U.S. Government agencies including collateralized mortgage obligations and mortgage backed securities guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB). The total of these fixed maturity securities was \$289,447 at amortized cost and \$300,172 at fair value as of December 31, 2009.
- (2) Equity securities includes interests in mutual funds of \$9,736 at cost and \$9,876 at December 31, 2009 held to fund the Company's executive deferred compensation plan.
- (3) The Company's investment portfolio included 89 securities in an unrealized loss position at December 31, 2009.
- (4) Amounts in this column represent OTTI recognized in accumulated other comprehensive income.

As of December 31, 2009, with the exception of two securities which represented 0.1% of our total investment in fixed income securities, our portfolio of fixed maturity investments was comprised entirely of investment grade corporate fixed maturity securities, U.S. government and agency securities and asset-backed securities. All of our securities received a rating assigned by Moody's of Ba or higher, except the few securities not rated by Moody's. The Company holds no subprime mortgage debt securities. All of the Company's holdings in mortgage-backed securities are either U.S. Government or Agency guaranteed or are rated investment grade by either Moody's or Standard & Poor's.



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The following table illustrates the gross unrealized losses included in the Company's investment portfolio and the fair value of those securities, aggregated by investment category. The table also illustrates the length of time that they have been in a continuous unrealized loss position as of December 31, 2009.

	As of December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 9,832	\$ 409	\$	\$	\$ 9,832	\$ 409
Obligations of states and political subdivisions	47,585	257	13,483	859	61,068	1,116
Residential mortgage-backed securities	33,753	523	855	23	34,608	546
Commercial mortgage-backed securities	4,940	67	38,260	1,042	43,200	1,109
Other asset-backed securities			6,616	1,360	6,616	1,360
Corporate and other securities	26,217	315	5,143	162	31,360	477
<b>Total temporarily impaired securities</b>	<b>\$ 122,327</b>	<b>\$ 1,571</b>	<b>\$ 64,357</b>	<b>\$ 3,446</b>	<b>\$ 186,684</b>	<b>\$ 5,017</b>

As of December 31, 2009, we held insured investment securities of approximately \$306,599 which represented approximately 29.8% of our total investment portfolio. Approximately \$36,823 of these securities are pre-refunded, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond.

The following table shows our insured investment securities that are backed by financial guarantors including pre-refunded securities as of December 31, 2009. We do not have any direct investment holdings in a financial guarantee insurance company.

Financial Guarantor	As of December 31, 2009		
	Total	Pre-refunded Securities	Exposure Net of Pre-refunded Securities
<b>Municipal bonds</b>			
Ambac Assurance Corporation	\$ 42,424	\$ 3,446	\$ 38,978
Financial Guaranty Insurance Company	271	271	
Assured Guaranty Municipal Corporation	111,310	19,428	91,882
National Public Finance Guaranty Corporation	144,968	13,678	131,290
<b>Total municipal bonds</b>	<b>298,973</b>	<b>36,823</b>	<b>262,150</b>
<b>Other asset-backed securities</b>			
Ambac Assurance Corporation	4,112		4,112
Financial Guaranty Insurance Company	2,504		2,504
Syncora Corporation (XL Capital Assurance)	1,010		1,010
National Public Finance Guaranty Corporation			
<b>Total other asset-backed securities</b>	<b>7,626</b>		<b>7,626</b>
<b>Total</b>	<b>\$ 306,599</b>	<b>\$ 36,823</b>	<b>\$ 269,776</b>

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The following table shows our insured investments by Moody's rating where it is available with and without the impact of the insurance guarantee as of December 31, 2009.

Rating	As of December 31, 2009	
	Rating With Insurance	Rating Without Insurance
Aaa	\$ 3,999	\$ 3,999
Aa1	10,477	10,477
Aa2	32,561	32,561
Aa3	140,047	81,919
A1	45,307	79,787
A2	16,451	29,371
A3	28,934	33,430
Baa1	271	271
Baa2	4,112	4,112
Ba2		6,232
<b>Totals</b>	<b>\$ 282,159</b>	<b>\$ 282,159</b>

We reviewed the unrealized losses in our fixed income and equity portfolio as of December 31, 2009 for potential OTTI. We obtained specific qualitative analysis regarding certain debt securities held at December 31, 2009 with a material (20% or greater) unrealized loss for four or more consecutive quarters. Specific qualitative analysis was also performed for any additional securities appearing on our "Watch List." Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency and the historical volatility of the fair value of the security.

Of the \$5,017 gross unrealized losses as of December 31, 2009, \$1,525 relates to fixed maturity obligations of U.S. Treasuries and obligations of states and political subdivisions. The remaining \$3,492 of gross unrealized losses relates primarily to holdings of investment grade mortgage-backed and other securities.

The unrealized losses recorded on the investment portfolio at December 31, 2009 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Given our current level of liquidity, the fact that we do not intend to sell these securities, and that it's more likely than not that we will not be required to sell these securities prior to recovery of the cost basis of these securities, these decreases in values are viewed as being temporary.

During the year ended December 31, 2009, there was no significant deterioration in the credit quality of any of our holdings. During the year ended December 31, 2008, there was a significant deterioration in the issuer's financial condition of one of our holdings, American International Group, Inc. Accordingly, in the third quarter of 2008 we recorded an OTTI charge of \$1,032 for this security. We sold this security during the third quarter of 2009 and recognized an additional loss of \$14.

ASC 820, *Fair Value Measurements and Disclosure* provides a revised definition of fair value, establishes a framework for measuring fair value, and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or

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unavailable ("unobservable inputs"). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets and liabilities;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

Fair values for the Company's fixed maturity securities are based on prices provided by its custodian bank and its investment manager. Both the custodian bank and the investment manager use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. A minimum of two quoted prices is obtained for the majority of fixed maturity securities in the Company's investment portfolio. The Company's custodian bank is its primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary third-party pricing service or broker-dealer quote is obtained from the Company's investment manager. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from the Company's custodian bank is used in the Company's financial statements for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, the Company obtains a quote from an alternative source, if possible, and documents and resolves any differences between the pricing sources. In addition, the Company may request that its investment manager and their traders provide input as to which vendor is providing prices that their traders believe are reflective of fair value for the security. Following this process, the Company may decide to value the security in its financial statements using the secondary or alternative source if it believes that pricing is more reflective of the security's value than the primary pricing provided by its custodian bank. The Company analyzes market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

Our Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. Our Level 2 securities are comprised of fixed maturity securities whose fair value was determined using observable market inputs. Fair values for securities for which quoted market prices were unavailable were estimated based upon reference to observable inputs such as benchmark interest rates, market comparables, and other relevant inputs. Investments valued using these inputs include U.S. Treasury securities and obligations of U.S. Government agencies, obligations of international government agencies, obligations of states and political subdivisions, corporate securities, commercial and residential mortgage-backed securities, and other asset-backed securities. Inputs into the fair value application that are utilized by asset class include but are not limited to:

*States and political subdivisions:* overall credit quality, including assessments of market sectors and the level and variability of sources of payment such as general obligation, revenue or lease;

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credit support such as insurance, state or local economic and political base, prefunded and escrowed to maturity covenants.

*Corporate fixed maturities:* overall credit quality, the establishment of a risk adjusted credit spread over the applicable risk free yield curve for discounted cash flow valuations; assessments of the level of industry economic sensitivity, company financial policies, indenture restrictive covenants, and/or security and collateral.

*Residential mortgage-backed securities, U.S. agency pass-throughs, collateralized mortgage obligations ("CMOs"), non U.S. agency CMOs:* estimates of prepayment speeds based upon historical prepayment rate trends, underlying collateral interest rates, original weighted average maturity, vintage year, borrower credit quality characteristics, interest rate and yield curve forecasts, U.S. government support programs, tax policies, and delinquency/default trends.

*Commercial mortgage-backed securities:* overall credit quality, including assessments of the level and variability of credit support and collateral type such as office, retail, or lodging, predictability of cash flows for the deal structure, prevailing economic market conditions.

*Other asset-backed securities:* overall credit quality, estimates of prepayment speeds based upon historical trends and characteristics of underlying loans, including assessments of the level and variability of collateral, revenue generating agreements, area licenses agreements, product sourcing agreements and equipment and property leases.

All unadjusted estimates of fair value for fixed maturities priced by the pricing services as described above are included in the amounts disclosed in Level 2 of the hierarchy with the exception of one asset-backed security. On January 1 and December 31, 2009, our Level 3 securities consisted of one asset-backed security whose price was based solely on a single broker quote which was deemed to be obtained through unobservable inputs.

In order to ensure the fair value determination is representative of an exit price (consistent with ASC 820), our procedures for validating quotes or prices obtained from third-parties include, but are not limited to, obtaining a minimum of two price quotes for each fixed maturity security if possible, as discussed above, the periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date, and the periodic review of reports provided by its investment manager regarding those securities with ratings changes and securities placed on our "Watch List." In addition, valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by our external investment manager, whose investment professionals are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price (consistent with ASC 820).

Approximately 99.8% of our portfolio was priced based upon quoted market prices or other observable inputs as of December 31, 2009. There were no significant changes to the valuation process during the year ending 2009.

As of December 31, 2009 and December 31, 2008, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

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The following table summarizes our total fair value measurements and the fair value measurements based on Level 3 inputs for available for sale investments as of December 31, 2009.

	As of December 31, 2009			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury securities	\$ 12,532	\$	\$ 12,532	\$
Obligations of states and political subdivisions	483,421		483,421	
Residential mortgage-backed securities	300,461		300,461	
Commercial mortgage-backed securities	72,916		72,916	
Other asset-backed securities	22,300		19,796	2,504
Corporate and other securities	126,699		126,699	
Equity securities	9,876	9,876		
<b>Totals</b>	<b>\$ 1,028,205</b>	<b>\$ 9,876</b>	<b>\$ 1,015,825</b>	<b>\$ 2,504</b>

The following table summarizes the changes in our Level 3 fair value measurements for the year ended December 31, 2009.

	Other Asset-Backed Securities
Balance at January 1, 2009	\$ 1,842
Net gains and losses included in earnings	
Net gains included in other comprehensive income	662
Purchases and sales	
Transfers in (out) of Level 3	
<b>Balance at December 31, 2009</b>	<b>\$ 2,504</b>
<b>Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at December 31, 2009</b>	<b>\$</b>

On January 1 and December 31, 2009, one fixed maturity security was manually priced solely using broker quotes. This was deemed to render the fair value measurements as based upon unobservable inputs and accordingly, it was classified within Level 3. Transfers in and out of Level 3 would be attributable to changes in the ability to observe significant inputs in determining fair value exit pricing. As noted in the table above, no transfers were made in or out of Level 3 inputs during the year ended December 31, 2009.

*Finance and Other Service Income.* Finance and other service income includes revenues from premium installment charges, which we recognize when earned, and other miscellaneous income and fees. Finance and other service income for the year ended December 31, 2009, was \$16,844 compared to \$17,995 for the comparable 2008 period.

*Losses and Loss Adjustment Expenses.* Losses and loss adjustment expenses incurred for the year ended December 31, 2009, decreased by \$23,522, or 6.4%, to \$346,301 from \$369,823 for the comparable 2008 period. Our GAAP loss ratio for the year ended December 31, 2009, increased to 65.1% compared to 64.1% for the comparable 2008 period. Our GAAP loss ratio excluding loss adjustment expenses for the year ended December 31, 2009 increased to 55.8% from 55.1% for the comparable 2008 period. The loss ratio increased primarily as a result of the decrease in our personal automobile earned premium per exposure. Total prior year favorable development included in the pre-tax results for the year ended December 31, 2009 was \$44,065, compared to prior year favorable development of \$35,938 for the comparable 2008 period.

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*Underwriting, Operating and Related Expenses.* Underwriting, operating and related expense for the year ended December 31, 2009 decreased by \$1,863, or 1.1%, to \$171,124 from \$172,987 for the comparable 2008 period. Our GAAP expense ratios for the year ended December 31, 2009 increased to 32.2% compared to 30.0% for the comparable 2008 period. The expense ratio increased primarily as a result of decreases in net earned premiums as discussed above. In addition, an amount of \$7,547 related to our January 2010 agreement with the Massachusetts Attorney General's office was recorded as an increase to our underwriting expenses for the year ended December 31, 2009. For further information, please see Part I Item 3, *Legal Proceedings*.

*Interest Expenses.* Interest expense for the year ended December 31, 2009 was \$135 compared to \$81 for the comparable 2008 period. The credit facility commitment fee included in interest expense was \$75 for both the years ended December 31, 2009 and 2008.

*Income Tax Expense.* Our effective tax rates were 27.2% and 28.4% for the years ended December 31, 2009 and 2008, respectively. These effective rates were lower than the statutory rate of 35% primarily due to adjustments for tax-exempt investment income.

*Net Income.* Net income for the year ended December 31, 2009 decreased by \$16,106, or 22.9%, to \$54,152 from \$70,258 for the comparable 2008 period. This decrease was primarily due to the factors discussed above.

### **Liquidity and Capital Resources**

As a holding company, Safety's assets consist primarily of the stock of our direct and indirect subsidiaries. Our principal source of funds to meet our obligations and pay dividends to shareholders, therefore, is dividends and other permitted payments from our subsidiaries, principally Safety Insurance. Safety is the borrower under our credit facility.

Safety Insurance's sources of funds primarily include premiums received, investment income and proceeds from sales and redemptions of investments. Safety Insurance's principal uses of cash are the payment of claims, operating expenses and taxes, the purchase of investments and payment of dividends to Safety.

Net cash provided by operating activities was \$51,106, \$64,478, and \$72,815 during the years ended December 31, 2010, 2009 and 2008, respectively. Our operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time when claim and benefit payments are required. These positive operating cash flows are expected to continue to meet our liquidity requirements.

Net cash used by investing activities was \$54,420 during the year ended December 31, 2010, which resulted primarily from purchases of fixed maturities in excess of sales, paydowns, calls, and maturities of fixed maturities. Net cash provided by investing activities was \$16,091 during the year ended December 31, 2009, which resulted primarily from sales, paydowns, calls, and maturities of fixed maturities and short-term securities in excess of purchases of fixed maturities. Net cash used by investing activities was \$28,880 during the year ended December 31, 2008, which resulted primarily from purchases of fixed maturities in excess of sales, paydowns, calls, and maturities of fixed maturities.

Net cash used for financing activities was \$30,865, \$66,550, and \$29,795 during the years ended December 31, 2010, 2009, and 2008, respectively. Net cash used for financing activities is primarily comprised of dividend payments to shareholders and the acquisition of treasury stock. Net cash used for financing activities during 2010 decreased by \$35,685 compared to 2009 primarily due to the decrease in treasury stock acquisitions. Net cash used for financing activities during 2009 increased by \$36,755 compared to 2008 primarily due to the increase in treasury stock acquisitions.

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The Insurance Subsidiaries maintain a high degree of liquidity within their respective investment portfolios in fixed maturity and short-term investments. Recently, the financial markets have experienced unprecedented declines in value, including many securities currently held by us. We believe that recent and ongoing government actions, including The Emergency Economic Stabilization Act of 2008, the 2009 American Recovery and Reinvestment Act and other U.S. and global government programs and the quality of the assets we hold will allow us to realize these securities' anticipated long-term economic value. Furthermore, as of December 31, 2010, we had the intent and ability to retain such investments for the period of time anticipated to allow for this expected recovery in fair value. We do not anticipate the need to sell these securities to meet the Insurance Subsidiaries cash requirements. We expect the Insurance Subsidiaries to generate sufficient operating cash to meet all short-term and long-term cash requirements. However, there can be no assurance that unforeseen business needs or other items will not occur causing us to have to sell securities before their values fully recover; thereby causing us to recognize additional impairment charges in that time period.

*Credit Facility*

On August 14, 2008, we entered into an Amended and Restated Revolving Credit Agreement (the "New Credit Agreement") with RBS Citizens, NA ("RBS Citizens"). The New Credit Agreement amended and restated the terms of our existing Revolving Credit Agreement with RBS Citizens prior to its expiration date of August 17, 2008. The New Credit Agreement extends the maturity date to August 14, 2013 and provides a \$30,000 revolving credit facility with an accordion feature allowing for future expansion of the committed amount up to \$50,000. Loans under the credit facility bear interest at our option of either (i) the LIBOR rate plus 1.25% per annum or (ii) the higher of RBS Citizens prime rate or 0.5% above the federal funds rate plus 1.25% per annum. Interest only is payable prior to maturity.

Our obligations under the credit facility are secured by pledges of our assets and the capital stock of our operating subsidiaries. The credit facility is guaranteed by our non-insurance company subsidiaries. The credit facility contains covenants including requirements to maintain minimum risk-based capital ratios and statutory surplus of Safety Insurance as well as limitations or restrictions on indebtedness, liens, and other matters. Among other covenants, the credit facility restricts our payment of dividends (i) if a default under the credit facility is continuing or would result therefrom or (ii) in an amount in excess of 50% of our prior year's net income, as determined in accordance with GAAP. Although we paid \$27,098 in dividends to shareholders in 2010 which exceeded 50% of our prior year net income by \$22, prior consent to pay the excess amount was obtained from RBS Citizens. As of December 31, 2010, we were in compliance with all other covenants. In addition, the credit facility includes customary events of default, including a cross-default provision permitting the lenders to accelerate the facility if the Company (i) defaults in any payment obligation under debt having a principal amount in excess of \$10,000 or (ii) fails to perform any other covenant permitting acceleration of all such debt.

We had no amounts outstanding on our credit facility at December 31, 2010 and 2009. The credit facility commitment fee included in interest expenses was computed at a rate of 0.25% on the \$30,000 commitment at December 31, 2010, 2009 and 2008.

*Regulatory Matters*

Our insurance subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of the Commissioner. The Massachusetts statute limits the dividends an insurer may pay in any twelve-month period, without the prior permission of the Commissioner, to the greater of (i) 10% of the insurer's surplus as of the preceding December 31 or (ii) the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices.

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Our insurance company subsidiaries may not declare an "extraordinary dividend" (defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the limits established by Massachusetts statute) until thirty days after the Commissioner has received notice of the intended dividend and has not objected. As historically administered by the Commissioner, this provision requires the Commissioner's prior approval of an extraordinary dividend. Under Massachusetts law, an insurer may pay cash dividends only from its unassigned funds, also known as earned surplus, and the insurer's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At year-end 2010, the statutory surplus of Safety Insurance was \$582,432, and its net income for 2010 was \$51,560. As a result, a maximum of \$58,243 is available in 2011 for such dividends without prior approval of the Commissioner. During the year ended December 31, 2010, Safety Insurance recorded dividends to Safety of \$28,198.

The maximum dividend permitted by law is not indicative of an insurer's actual ability to pay dividends, which may be constrained by business and regulatory considerations, such as the impact of dividends on surplus, which could affect an insurer's ratings or competitive position, the amount of premiums that can be written and the ability to pay future dividends.

Since the initial public offering of its common stock in November 2002, the Company has paid regular quarterly dividends to shareholders of its common stock. Quarterly dividends paid during 2010 and 2009 were as follows:

Declaration Date	Record Date	Payment Date	Dividend per Common Share	Total Dividends Paid
<b>November 2, 2010</b>	<b>December 1, 2010</b>	<b>December 15, 2010</b>	<b>\$ 0.50</b>	<b>\$ 7,525</b>
<b>August 4, 2010</b>	<b>September 1, 2010</b>	<b>September 15, 2010</b>	<b>\$ 0.50</b>	<b>\$ 7,510</b>
<b>May 5, 2010</b>	<b>June 1, 2010</b>	<b>June 15, 2010</b>	<b>\$ 0.40</b>	<b>\$ 6,038</b>
<b>February 16, 2010</b>	<b>March 1, 2010</b>	<b>March 15, 2010</b>	<b>\$ 0.40</b>	<b>\$ 6,024</b>
November 2, 2009	December 1, 2009	December 15, 2009	\$ 0.40	\$ 6,024
August 4, 2009	September 1, 2009	September 15, 2009	\$ 0.40	\$ 6,137
May 5, 2009	June 1, 2009	June 15, 2009	\$ 0.40	\$ 6,205
February 17, 2009	March 2, 2009	March 13, 2009	\$ 0.40	\$ 6,474

On February 15, 2011, our Board approved a quarterly cash dividend on our common stock of \$0.50 per share which will be paid on March 15, 2011 to shareholders of record on March 1, 2011. We plan to continue to declare and pay quarterly cash dividends in 2011, depending on our financial position and the regularity of our cash flows.

On August 3, 2007, our Board approved a share repurchase program of up to \$30,000 of Safety's outstanding common shares. On March 19, 2009, our Board increased this existing share repurchase program by authorizing repurchase of up to \$60,000 of Safety's outstanding common shares. On August 4, 2010, our Board again increased the existing share repurchase program by authorizing repurchase of up to \$90,000 of Safety's outstanding common shares. Under the program, Safety may repurchase shares of its common stock for cash in public or private transactions, in the open market or otherwise, at management's discretion. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The program does not require Safety to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. During the year ended December 31, 2010, we purchased 162,907 shares of our common shares on the open market under the program at a cost of \$5,814. During the year ended December 31, 2009, we purchased 1,332,535 of our common shares on the open market under the program at a cost of \$42,196. As of December 31, 2010 the Company had purchased 1,727,455 shares on the open market at

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a cost of \$55,526. As of December 31, 2009, we had purchased 1,564,548 of our common shares on the open market under the program at a cost of \$49,712.

Management believes that the current level of cash flow from operations provides us with sufficient liquidity to meet our operating needs over the next 12 months. We expect to be able to continue to meet our operating needs after the next 12 months from internally generated funds. Since our ability to meet our obligations in the long term (beyond such twelve-month period) is dependent upon such factors as market changes, insurance regulatory changes and economic conditions, no assurance can be given that the available net cash flow will be sufficient to meet our operating needs. We expect that we would need to borrow or issue capital stock if we needed additional funds, for example, to pay for an acquisition or a significant expansion of our operations. There can be no assurance that sufficient funds for any of the foregoing purposes would be available to us at such time.

### *Off-Balance Sheet Arrangements*

We have no material obligations under a guarantee contract meeting the characteristics identified in ASC 460, *Guarantees*. We have no material retained or contingent interests in assets transferred to an unconsolidated entity. We have no material obligations, including contingent obligations, under contracts that would be accounted for as derivative instruments. We have no obligations, including contingent obligations, arising out of a variable interest in an unconsolidated entity held by, and material to, us, where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with us. We have no direct investments in real estate and no holdings of mortgages secured by commercial real estate. Accordingly, we have no material off-balance sheet arrangements.

### *Contractual Obligations*

We have obligations to make future payments under contracts and credit-related financial instruments and commitments. At December 31, 2010, certain long-term aggregate contractual obligations and credit-related commitments are summarized as follows:

	Payments Due by Period					Total
	Within One Year	Two to Three Years	Four to Five Years	After Five Years		
Loss and LAE reserves	\$ 198,152	\$ 177,932	\$ 24,263	\$ 4,044	\$ 404,391	
Purchase commitments	889	1,779	1,779	519	4,966	
Operating leases	4,183	8,876	8,856	13,425	35,340	
 Total contractual obligations	 \$ 203,224	 \$ 188,587	 \$ 34,898	 \$ 17,988	 \$ 444,697	

As of December 31, 2010, the Company had loss and LAE reserves of \$404,391, unpaid reinsurance recoverables of \$53,147 and net loss and LAE reserves of \$351,244. Our loss and LAE reserves are estimates as described in more detail under "Critical Accounting Policies and Estimates." The specific amounts and timing of obligations related to case reserves, IBNR reserves and related LAE reserves are not set contractually, and the amounts and timing of these obligations are unknown. Nonetheless, based upon our cumulative claims paid over the last ten years, the Company estimates that its loss and LAE reserves will be paid in the period shown above. While management believes that historical performance of loss payment patterns is a reasonable source for projecting future claims payments, there is inherent uncertainty in this estimated projected settlement of loss and LAE reserves, and as a result these estimates will differ, perhaps significantly, from actual future payments. Our operations typically generate substantial positive cash flows from operations as most premiums are received in advance of the time when claim and benefit payments are required. These positive

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operating cash flows are expected to continue to meet our liquidity requirements, including any unexpected variations in the timing of claim settlements.

**Forward-Looking Statements**

Forward-looking statements might include one or more of the following, among others:

Projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure or other financial items;

Descriptions of plans or objectives of management for future operations, products or services;

Forecasts of future economic performance, liquidity, need for funding and income;

Descriptions of assumptions underlying or relating to any of the foregoing; and

Future performance of credit markets.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "aim," "projects," or words of similar meaning and expressions that indicate future events and trends, or future or conditional verbs such as "will," "would," "should," "could," or "may." All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, product development, market position, expenditures and financial results, are forward-looking statements.

Forward-looking statements are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. There are a number of factors, many of which are beyond our control, that could cause actual future conditions, events, results or trends to differ significantly and/or materially from historical results or those projected in the forward-looking statements. These factors include but are not limited to the competitive nature of our industry and the possible adverse effects of such competition. Although a number of national insurers that are much larger than we are do not currently compete in a material way in the Massachusetts private passenger automobile market, if one or more of these companies decided to aggressively enter the market it could have a material adverse effect on us. Other significant factors include conditions for business operations and restrictive regulations in Massachusetts, the possibility of losses due to claims resulting from severe weather, the possibility that the Commissioner may approve future Rule changes that change the operation of the residual market, the possibility that the AG's proposed regulations will be enacted and existing insurance-related laws and regulations will become further restrictive in the future, our possible need for and availability of additional financing, and our dependence on strategic relationships, among others, and other risks and factors identified from time to time in our reports filed with the SEC. Refer to Part I, Item 1A Risk Factors.

Some other factors, such as market, operational, liquidity, interest rate, equity and other risks, are described elsewhere in this Annual Report on Form 10-K. Factors relating to the regulation and supervision of our Company are also described or incorporated in this report. There are other factors besides those described or incorporated in this report that could cause actual conditions, events or results to differ from those in the forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake any obligation to update publicly or revise any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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**Market Risk.** Market risk is the risk that we will incur losses due to adverse changes in market rates and prices. We have exposure to market risk through our investment activities and our financing activities. Our primary market risk exposure is to changes in interest rates. We use both fixed and variable rate debt as sources of financing. We have not entered, and do not plan to enter, into any derivative financial instruments for trading or speculative purposes.

**Interest Rate Risk.** Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate changes primarily results from our significant holdings of fixed rate investments and from our financing activities. Our fixed maturity investments include U.S. and foreign government bonds, securities issued by government agencies, obligations of state and local governments and governmental authorities, corporate bonds and asset-backed securities, most of which are exposed to changes in prevailing interest rates.

We manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by our management and Board and consultation with third-party financial advisors. As a general matter, we do not attempt to match the durations of our assets with the durations of our liabilities, and the majority of our liabilities are "short tail." Our goal is to maximize the total after-tax return on all of our investments. An important strategy that we employ to achieve this goal is to try to hold enough in cash and short-term investments in order to avoid liquidating longer-term investments to pay claims.

Based upon the results of interest rate sensitivity analysis, the following table shows the interest rate risk of our investments in available for sale fixed maturities, measured in terms of fair value (which is equal to the carrying value for all our available for sale fixed maturity securities).

	-100 Basis Point Change	No Change	+100 Basis Point Change
<b>As of December 31, 2010</b>			
Estimated fair value	\$ 1,098,612	\$ 1,063,237	\$ 1,024,251
Estimated increase (decrease) in fair value	\$ 35,375	\$	\$ (38,986)
<b>As of December 31, 2009</b>			
Estimated fair value	\$ 1,054,564	\$ 1,018,329	\$ 978,022
Estimated increase (decrease) in fair value	\$ 36,235	\$	\$ (40,307)

With respect to floating rate debt, we are exposed to the effects of changes in prevailing interest rates. At December 31, 2010, we had no debt outstanding under our credit facility. Assuming the full utilization of our current available credit facility, a 2.0% increase in the prevailing interest rate on our variable rate debt would result in interest expense increasing approximately \$600 for 2010, assuming that all of such debt is outstanding for the entire year.

In addition, in the current market environment, our investments can also contain liquidity risks.

**Equity Risk.** Equity risk is the risk that we will incur economic losses due to adverse changes in equity prices. Our exposure to changes in equity prices results from our holdings of common stock and mutual funds held to fund the executive deferred compensation plan. We continuously evaluate market conditions and we expect in the future to purchase additional equity securities. We principally manage equity price risk through industry and issuer diversification and asset allocation techniques.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Safety Insurance Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Safety Insurance Group, Inc. and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, appearing on Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Boston, Massachusetts  
March 14, 2011

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Balance Sheets**

(Dollars in thousands, except share data)

	December 31,	
	2010	2009
<b>Assets</b>		
Investments:		
Securities available for sale:		
Fixed maturities, at fair value (amortized cost: \$1,030,354 and \$989,444)	\$ 1,063,237	\$ 1,018,329
Equity securities, at fair value (cost: \$13,704 and \$9,736)	14,624	9,876
Other invested assets, at cost, which approximates fair value	2,817	409
<b>Total investments</b>	<b>1,080,678</b>	1,028,614
Cash and cash equivalents	40,291	74,470
Accounts receivable, net of allowance for doubtful accounts	145,726	137,238
Accrued investment income	9,471	10,044
Taxes recoverable	5,061	
Receivable from reinsurers related to paid loss and loss adjustment expenses	4,579	6,851
Receivable from reinsurers related to unpaid loss and loss adjustment expenses	53,147	64,874
Ceded unearned premiums	12,461	13,698
Deferred policy acquisition costs	52,824	47,900
Deferred income taxes	3,643	8,335
Equity and deposits in pools	19,971	23,840
Other assets	11,600	11,973
<b>Total assets</b>	<b>\$ 1,439,452</b>	<b>\$ 1,427,837</b>
<b>Liabilities</b>		
Loss and loss adjustment expense reserves	\$ 404,391	\$ 439,706
Unearned premium reserves	306,053	282,434
Accounts payable and accrued liabilities	54,239	59,869
Taxes payable		3,916
Payable to reinsurers	5,571	4,674
Other liabilities	15,722	16,803
<b>Total liabilities</b>	<b>785,976</b>	<b>807,402</b>

**Commitments and contingencies (Note 6)****Shareholders' equity**Common stock: \$0.01 par value;  
30,000,000 shares authorized;

16,795,504 and 16,624,220 shares issued	<b>168</b>	166
Additional paid-in capital	<b>151,317</b>	144,814
Accumulated other comprehensive income, net of taxes	<b>21,972</b>	18,866
Retained earnings	<b>535,545</b>	506,301
Treasury stock, at cost: 1,727,455 and 1,564,548 shares	<b>(55,526)</b>	(49,712)
<b>Total shareholders' equity</b>	<b>653,476</b>	620,435

**Total liabilities and shareholders' equity**

<b>\$ 1,439,452</b>	<b>\$ 1,427,837</b>
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The accompanying notes are an integral part of these financial statements.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Statements of Operations**

(Dollars in thousands, except per share and share data)

	Years Ended December 31,		
	2010	2009	2008
Net earned premiums	\$ 551,950	\$ 531,969	\$ 576,556
Net investment income	41,395	43,308	45,771
Net realized gains (losses) on investments	863	(167)	678
Finance and other service income	18,511	16,844	17,995
<b>Total revenue</b>	<b>612,719</b>	<b>591,954</b>	<b>641,000</b>
Losses and loss adjustment expenses	360,848	346,301	369,823
Underwriting, operating and related expenses	172,823	171,124	172,987
Interest expenses	88	135	81
<b>Total expenses</b>	<b>533,759</b>	<b>517,560</b>	<b>542,891</b>
Income before income taxes	78,960	74,394	98,109
Income tax expense	22,618	20,242	27,851
<b>Net income</b>	<b>\$ 56,342</b>	<b>\$ 54,152</b>	<b>\$ 70,258</b>
<b>Earnings per weighted average common share:</b>			
Basic	\$ 3.74	\$ 3.49	\$ 4.32
Diluted	\$ 3.74	\$ 3.48	\$ 4.31
<b>Cash dividends paid per common share</b>	<b>\$ 1.80</b>	<b>\$ 1.60</b>	<b>\$ 1.60</b>
<b>Number of shares used in computing earnings per share:</b>			
Basic	15,065,696	15,533,331	16,265,185
Diluted	15,084,295	15,552,063	16,308,394

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

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Statements of Changes in Shareholders' Equity**

(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss), Net of Taxes	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2007	\$ 162	\$ 134,224	\$ 4,453	\$ 432,746	\$ (1,585)	\$ 570,000
Net income				70,258		70,258
Other comprehensive income, net of deferred federal income taxes			(10,981)			(10,981)
Exercise of options, net of deferred federal income taxes	1	2,729				2,730
Unearned compensation on restricted stock, net of deferred federal income taxes	2	3,308				3,310
Dividends paid				(26,015)		(26,015)
Acquisition of treasury stock					(5,931)	(5,931)
Balance at December 31, 2008	165	140,261	(6,528)	476,989	(7,516)	603,371
Net income				54,152		54,152
Other comprehensive income, net of deferred federal income taxes			25,394			25,394
Exercise of options, net of deferred federal income taxes		1,002				1,002
Unearned compensation on restricted stock, net of deferred federal income taxes	1	3,551				3,552
Dividends paid				(24,840)		(24,840)
Acquisition of treasury stock					(42,196)	(42,196)
Balance at December 31, 2009	166	144,814	18,866	506,301	(49,712)	620,435
<b>Net income</b>				<b>56,342</b>		<b>56,342</b>
<b>Other comprehensive income, net of deferred federal income taxes</b>			<b>3,106</b>			<b>3,106</b>
Exercise of options, net of deferred federal income taxes	1	2,416				2,417
Unearned compensation on restricted stock, net of deferred federal income taxes	1	4,087				4,088
Dividends paid				(27,098)		(27,098)
Acquisition of treasury stock					(5,814)	(5,814)
<b>Balance at December 31, 2010</b>	<b>\$ 168</b>	<b>\$ 151,317</b>	<b>\$ 21,972</b>	<b>\$ 535,545</b>	<b>\$ (55,526)</b>	<b>\$ 653,476</b>

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

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**Safety Insurance Group, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
(Dollars in thousands)

	Years Ended December 31,		
	2010	2009	2008
<b>Net income</b>	<b>\$ 56,342</b>	<b>\$ 54,152</b>	<b>\$ 70,258</b>
<b>Other comprehensive income (loss), net of taxes:</b>			
Unrealized holding gains (losses), during the period, net of tax expense (benefit) of \$1,975, \$13,615 and \$(5,676)	<b>3,667</b>	25,285	(10,540)
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of \$(302), \$59, and \$(237)	<b>(561)</b>	109	(441)
Unrealized gains (losses) on securities available for sale	<b>3,106</b>	25,394	(10,981)
<b>Comprehensive income</b>	<b>\$ 59,448</b>	<b>\$ 79,546</b>	<b>\$ 59,277</b>

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

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(Dollars in thousands)

	Years Ended December 31,		
	2010	2009	2008
<b>Cash flows from operating activities:</b>			
Net income	\$ 56,342	\$ 54,152	\$ 70,258
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, net	12,533	12,049	11,254
Provision (benefit) for deferred income taxes	3,020	(3,024)	315
Net realized (gains) losses on investments	(863)	167	(678)
Gains on sales of fixed assets	(9)		
Changes in assets and liabilities:			
Accounts receivable	(8,488)	1,554	17,551
Accrued investment income	573	(87)	1,015
Receivable from reinsurers	13,999	15,599	10,013
Ceded unearned premiums	1,237	7,922	7,198
Deferred policy acquisition costs	(4,924)	(1,213)	1,965
Other assets	(888)	4,686	(3,410)
Loss and loss adjustment expense reserves	(35,315)	(27,853)	(10,161)
Unearned premium reserves	23,619	(7,261)	(30,850)
Accounts payable and accrued liabilities	(5,630)	8,758	1,088
Payable to reinsurers	897	(3,617)	(2,371)
Other liabilities	(4,997)	2,646	(372)
Net cash provided by operating activities	51,106	64,478	72,815
<b>Cash flows from investing activities:</b>			
Fixed maturities purchased	(350,852)	(200,796)	(108,209)
Equity securities purchased	(7,525)	(5,315)	(6,073)
Other invested assets purchased	(2,500)	(475)	
Short-term securities purchased			(82,892)
Proceeds from sales and paydowns of fixed maturities	220,217	103,284	127,439
Proceeds from maturities, redemptions, and calls of fixed maturities	84,954	32,986	42,591
Proceeds from sales of equity securities	3,580	3,680	3,991
Proceeds from sales of other invested assets	91	66	
Proceeds from maturities of short-term securities		82,996	
Fixed assets purchased	(2,394)	(335)	(5,727)
Proceeds from sales of fixed assets	9		
Net cash (used for) provided by investing activities	(54,420)	16,091	(28,880)
<b>Cash flows from financing activities:</b>			
Proceeds from stock options exercised	1,990	367	1,415
Excess tax benefits from stock options exercised	57	119	736
Dividends paid to shareholders	(27,098)	(24,840)	(26,015)
Acquisition of treasury stock	(5,814)	(42,196)	(5,931)

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Net cash used for financing activities	<b>(30,865)</b>	(66,550)	(29,795)
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**Net (decrease) increase in cash and cash equivalents**

	<b>(34,179)</b>	14,019	14,140
Cash and cash equivalents at beginning of year	<b>74,470</b>	60,451	46,311

<b>Cash and cash equivalents at end of period</b>	<b>\$ 40,291</b>	\$ 74,470	\$ 60,451
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**Supplemental disclosure of cash flow information:**

Cash paid during the year for:

Federal and state income taxes	<b>\$ 28,300</b>	\$ 14,109	\$ 32,420
Interest	<b>\$ 123</b>	\$ 75	\$ 139

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

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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

**1. Basis of Presentation**

The consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include Safety Insurance Group, Inc. and its subsidiaries (the "Company"). The subsidiaries consist of Safety Insurance Company, Safety Indemnity Insurance Company, Safety Property and Casualty Insurance Company, Whiteshirts Asset Management Corporation ("WAMC"), and Whiteshirts Management Corporation, which is WAMC's holding company. All intercompany transactions have been eliminated.

The Company was incorporated on June 25, 2001 in the State of Delaware. On October 16, 2001, the Company acquired all of the issued and outstanding common stock of Thomas Black Corporation ("TBC") and its property and casualty subsidiaries. TBC subsequently merged with and into Safety Insurance Group, Inc. with Safety Insurance Group, Inc. being the corporation surviving the merger.

The Company is a leading provider of personal lines property and casualty insurance focused primarily on the Massachusetts market. The Company's principal product line is private passenger automobile insurance, which accounted for 68.7% of its direct written premiums in 2010. The Company operates through its insurance company subsidiaries, Safety Insurance Company, Safety Indemnity Insurance Company and Safety Property and Casualty Company (together referred to as the "Insurance Subsidiaries").

The Company began writing private passenger automobile and homeowners insurance business in New Hampshire during 2008 and began writing New Hampshire personal umbrella business during 2009. During the years ended December 31, 2010 and 2009, the Company wrote \$2,774 and \$978, respectively, in direct written premiums in New Hampshire.

**2. Summary of Significant Accounting Policies**

**Investments**

Investments in fixed maturities available for sale, which include taxable and non-taxable bonds and redeemable preferred stocks, are reported at fair value. Investments in equity securities available for sale, which include interests in mutual funds, are reported at fair value. Fair values for fixed maturity securities are based on estimates obtained from independent pricing services. Fair values for equity securities are derived from external market quotations. Short-term investments, which consist of U.S. Treasury bills, are reported at amortized cost which approximates fair value. Other invested assets, which include collateral loans, are state at cost, which approximates fair value. Unrealized gains or losses on fixed maturity and equity securities reported at fair value are excluded from earnings and reported in a separate component of shareholders' equity, known as "Accumulated other comprehensive income (loss), net of taxes," until realized. Realized gains or losses on the sale or maturity of investments are determined on the basis of the specific cost identification method. Fixed maturities and equity securities that experience declines in value that are other-than-temporary are written down to fair value with a corresponding charge to net realized losses on investments.

Investment income is recognized on an accrual basis of accounting. Bonds not backed by other loans are amortized using the interest method. Loan-backed bonds and structured securities are amortized using the interest method and significant changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.

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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

**Cash Equivalents**

Cash equivalents, consisting of money market accounts and United States ("U.S.") Treasury bills with original maturities of three months or less, are stated at amortized cost, which approximates fair value.

**Accounts Receivable**

Amounts included in accounts receivable represent premiums as well as finance charges, the majority of which are both billed on a monthly installment basis. Accounts receivable are stated net of allowances for doubtful accounts. At December 31, 2010 and 2009, these allowances were \$362 and \$210, respectively. Uncollected premium balances over ninety days past due are written off.

**Deferred Policy Acquisition Costs**

Amounts that vary with and are primarily related to acquiring new and renewal business, principally commissions and premium taxes, are deferred and amortized ratably over the effective period of the policies. All other acquisition expenses are expensed as incurred. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, and if not, are charged to expense. Future investment income attributable to related premiums is not taken into account in measuring the recoverability of the carrying value of this asset. Amortization of acquisition costs in the amount of \$101,980, \$96,503 and \$100,899 was charged to underwriting expenses for the years ended December 31, 2010, 2009 and 2008, respectively.

**Equity and Deposits in Pools**

Equity and deposits in pools represents the net receivable amounts from the residual market mechanisms, Commonwealth Automobile Reinsurers ("CAR"), for automobile and Massachusetts Property Insurance Underwriting Association ("FAIR Plan"), for homeowner insurance in Massachusetts. See Note 8 for a discussion of the Company's accounting for amounts assumed from residual markets.

**Equipment and Leasehold Improvements**

Equipment and leasehold improvements are carried at cost less accumulated depreciation. The costs of computer software developed or obtained for internal use are capitalized and amortized over the estimated life of the business system, beginning when the software is ready for its intended use. Maintenance and repairs are charged to expense as incurred; improvements are capitalized.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

Methods of depreciation and useful lives by asset category are as follows:

	<b>Life</b>	<b>Depreciation Method</b>
Automobiles	3 years	Straight-line
Data processing equipment	3-5 years	Double-declining balance
Equipment	5 years	Straight-line
Furniture and fixtures	7 years	Straight-line
Leasehold improvements	Over lease term	Straight-line
Software	3-10 years	Straight-line or double declining balance

**Losses and Loss Adjustment Expenses**

Liabilities for losses and loss adjustment expenses ("LAE") include case basis estimates for open claims reported prior to year-end and estimates of unreported claims and claim adjustment expenses. The estimates are continually reviewed and modified to reflect current conditions, and any resulting adjustments are reflected in current operating results. Adjustments for anticipated salvage and subrogation are recorded on incurred and reported and incurred but not reported losses.

**Premiums and Unearned Premiums**

Premiums are earned over the terms of the respective policies, which are generally one year. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of the policies.

Ceded premiums are charged to income over the terms of the respective policies and the applicable term of the reinsurance contracts with third party reinsurers. Ceded unearned premiums represent the unexpired portion of premiums ceded to CAR and other reinsurers.

Premiums received in advance of the policy effective date are recorded as a liability and not recognized as income until earned. Such amounts are included in accounts payable and accrued liabilities and totaled \$13,793 and \$15,302 at December 31, 2010 and 2009, respectively.

**Reinsurance**

Liabilities for unearned premiums and unpaid losses are stated before deductions for ceded reinsurance. The ceded amounts are carried as receivables. Earned premiums are stated net of deductions for ceded reinsurance.

The Company, as primary insurer, will be required to pay losses in their entirety in the event that the reinsurers are unable to discharge their obligations under the reinsurance agreements.

**Finance and Other Service Income**

Finance and other service income includes revenues from premium installment charges, which are recognized when earned.

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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

**Income Taxes**

The Company and its subsidiaries file a consolidated U.S. federal income tax return. The method of allocation among members of the consolidated group is subject to a written agreement approved by the Board of Directors (the "Board"). The consolidated tax liability is allocated on the basis of the members' proportionate contribution to consolidated taxable income.

Deferred income taxes are generally recognized when assets and liabilities have different values for financial statement and tax reporting purposes, and for other temporary taxable and deductible differences as defined by Accounting Standards Codification ("ASC") 740, *Income Taxes*. A valuation allowance is established where management has assessed that it is more likely than not that the Company will not be able to utilize the full deferred tax asset.

**Earnings per Weighted Average Common Share**

Basic earnings per weighted average common share ("EPS") is calculated by dividing net income by the weighted average number of basic common shares outstanding during the period including unvested restricted shares which are considered participating securities. Diluted earnings per share amounts are based on the weighted average number of common shares including unvested restricted shares and the net effect of potentially dilutive common shares outstanding. At December 31, 2010, 2009 and 2008, the Company's potentially dilutive instruments were common shares under options of 151,003, 215,337 and 238,666, respectively.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

The following table sets forth the computation of basic and diluted EPS for the periods indicated.

	Years Ended December 31,		
	2010	2009	2008
Net income as reported	\$ 56,342	\$ 54,152	\$ 70,258
Less dividends:			
Distributed to common shareholders	26,598	24,422	25,677
Distributed to participating security holders	500	419	338
<b>Total undistributed earnings</b>	<b>\$ 29,244</b>	<b>\$ 29,311</b>	<b>\$ 44,243</b>
Undistributed earnings to common shareholders	\$ 28,706	\$ 28,804	\$ 43,649
Undistributed earnings to participating security holders	\$ 538	\$ 507	\$ 594
Net income available to common shareholders for basic and diluted earnings per share	\$ 56,342	\$ 54,152	\$ 70,258
Weighted average number of common shares outstanding	14,788,562	15,264,244	16,046,937
Common equivalent shares restricted stock	277,134	269,087	218,248
Weighted average common and common equivalent shares outstanding used to calculate basic earnings per share	15,065,696	15,533,331	16,265,185
Common equivalent shares stock options	18,599	18,732	43,209
Weighted average common and common equivalent shares outstanding used to calculate diluted earnings per share	15,084,295	15,552,063	16,308,394
<b>Basic earnings per share</b>	<b>\$ 3.74</b>	<b>\$ 3.49</b>	<b>\$ 4.32</b>
Diluted earnings per share	\$ 3.74	\$ 3.48	\$ 4.31

Diluted EPS excludes stock options with exercise prices and exercise tax benefits greater than the average market price of the Company's common stock during the period because their inclusion would be anti-dilutive. There were 97,203, 167,925 and 168,925 anti-dilutive stock options for the year ended December 31, 2010, 2009 and 2008, respectively.

**Share-Based Compensation**

Prior to January 1, 2006, the Company accounted for share-based compensation to employees and non-employee directors in accordance with the recognition and measurement principles of ASC 718, *Share Based Compensation*. Accordingly, no compensation cost related to stock options was reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company historically reported pro forma results under the disclosure-only provisions of ASC 718.

ASC 718 requires the Company to measure and recognize the cost of employee services received in exchange for an award of equity instruments. Under the provisions of ASC 718, effective January 1, 2006, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).



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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

As permitted by ASC 718, the Company elected the modified prospective transition method. Under the modified prospective transition method, (i) compensation expense for share-based awards granted prior to January 1, 2006 is recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes as adjusted to incorporate forfeiture assumptions, and (ii) compensation expense for all share-based awards granted subsequent to December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of ASC 718. Results for periods prior to January 1, 2006 have not been restated.

See Note 5 for further information regarding share-based compensation.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statutory Accounting Practices**

The Company's insurance subsidiaries, domiciled in the Commonwealth of Massachusetts, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance ("the Division"). Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the Division, but allowed by the Division. See Note 12 for further information.

**Recent Accounting Pronouncements**

ASC 855, *Subsequent Events*, establishes principles and requirements for subsequent events. ASC 855 is effective for interim and annual financial periods ending after June 15, 2009, and was applied prospectively. In February 2010, the FASB issued updated guidance which amended the subsequent events disclosure requirements to eliminate the requirement for SEC filers to disclose the date through which it has evaluated subsequent events, clarify the period through which conduit bond obligors must evaluate subsequent events and refine the scope of the disclosure requirements for reissued financial statements. The updated guidance was effective upon issuance. The adoption of the guidance had no impact on the Company's consolidated financial condition or results of operations.

In January 2010, the FASB issued ASC Update No. 2010-06 (Topic 820), *Improving Disclosures about Fair Value Measurements*, which amends and clarifies existing guidance related to fair value measurements and disclosures. This guidance requires new disclosures for (1) transfers in and out of Level 1 and Level 2 and reasons for such transfers; and (2) the separate presentation of purchases, sales, issuances and settlement in the Level 3 reconciliation. It also clarifies guidance around disaggregation and disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. The Company adopted this guidance effective for quarter ended March 31, 2010, except for the new disclosures in the Level 3 reconciliation. The Level 3 disclosures are effective for periods ending after December 15, 2010 and were implemented for year end December 31, 2010. The adoption of the guidance did not have an impact on the Company's consolidated financial condition or results of operations.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

In October 2010, the FASB issued updated guidance to address diversity in practice for the accounting of costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. The guidance also specifies that advertising costs only should be included as deferred acquisition costs if the direct-response advertising accounting criteria are met. The new guidance is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively, with retrospective application permitted. The Company is in process of evaluating the impact of adoption on its consolidated financial conditions and results of operations.

**Reclassifications**

Prior period amounts have been reclassified to conform to the current year presentation.

**Segments**

The Company comprises one business segment: property and casualty insurance operations. Management organizes the business around private passenger automobile insurance in Massachusetts sold exclusively through independent agents and offers other personal and commercial insurance as complementary products. In accordance with ASC 280, *Segment Reporting*, the financial information of the segment is presented consistent with the way results are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

**3. Investments**

The gross unrealized gains and losses on investments in fixed maturity securities, and equity securities, including interests in mutual funds were as follows for the periods indicated:

	As of December 31, 2010				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Non-OTTI Unrealized Losses	OTTI Unrealized Losses(4)	Estimated Fair Value
U.S. Treasury securities	\$ 87,830	\$ 280	\$ (1,841)	\$	\$ 86,269
Obligations of states and political subdivisions	436,082	12,014	(2,906)		445,190
Residential mortgage-backed securities(1)	237,405	15,295	(39)		252,661
Commercial mortgage-backed securities	61,259	2,332			63,591
Other asset-backed securities	16,543	862			17,405
Corporate and other securities	191,235	7,769	(883)		198,121
Subtotal, fixed maturity securities	1,030,354	38,552	(5,669)		1,063,237
Equity securities(2)	13,704	920			14,624
Other invested assets	2,817				2,817
Totals	\$ 1,046,875	\$ 39,472	\$ (5,669)	\$	\$ 1,080,678

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

As of December 31, 2009					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(3) Non-OTTI Unrealized Losses	OTTI Unrealized Losses(4)	Estimated Fair Value
U.S. Treasury securities	\$ 12,738	\$ 203	\$ (409)	\$	\$ 12,532
Obligations of states and political subdivisions	468,319	16,218	(1,116)		483,421
Residential mortgage-backed securities(1)	289,736	11,271	(546)		300,461
Commercial mortgage-backed securities	73,431	594	(1,109)		72,916
Other asset-backed securities	22,781	879	(1,360)		22,300
Corporate and other securities	122,439	4,737	(477)		126,699
<b>Subtotal, fixed maturity securities</b>	<b>989,444</b>	<b>33,902</b>	<b>(5,017)</b>		<b>1,018,329</b>
Equity securities(2)	9,736	140			9,876
Other invested assets	409				409
<b>Totals</b>	<b>\$ 999,589</b>	<b>\$ 34,042</b>	<b>\$ (5,017)</b>	<b>\$</b>	<b>\$ 1,028,614</b>

(1) Residential mortgage-backed securities consists primarily of obligations of U.S. Government agencies including collateralized mortgage obligations and mortgage-backed securities guaranteed and/or insured by the following issuers: Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and the Federal Home Loan Bank (FHLB). The total of these fixed maturity securities was \$237,335 and \$289,447 at amortized cost and \$252,592 and \$300,172 at fair value as of December 31, 2010 and 2009, respectively.

(2) Equity securities includes interests in mutual funds of \$11,210 and \$9,736 at cost and \$11,699 and \$9,876 at fair value as of December 31, 2010 and 2009, respectively, held to fund the Company's executive deferred compensation plan.

(3) The Company's investment portfolio included 80 and 89 securities in an unrealized loss position at December 31, 2010 and 2009, respectively.

(4) Amounts in this column represent all other-than-temporary impairment ("OTTI") recognized in accumulated other comprehensive income.

The amortized cost and the estimated fair value of fixed maturity securities, by maturity, are shown below for the periods indicated. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**As of December 31, 2010**

Edgar Filing: AG Mortgage Investment Trust, Inc. - Form 424B5

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 90,998	\$ 91,803
Due after one year through five years	259,870	268,862
Due after five years through ten years	243,706	248,919
Due after ten years through twenty years	111,668	111,030
Due after twenty years	8,905	8,966
Asset-backed securities	315,207	333,657
<b>Totals</b>	<b>\$ 1,030,354</b>	<b>\$ 1,063,237</b>

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

The gross realized gains (losses) on investments were as follows for the periods indicated:

	Years Ended December 31,		
	2010	2009	2008
Gross realized gains			
Fixed maturity securities	\$ 1,592	\$ 453	\$ 2,251
Equity securities	32		
Short term securities		1	
Gross realized losses			
Fixed maturity securities	(753)	(303)	(1,116)
Equity securities	(8)	(318)	(457)
Total gains (losses) on investments	\$ 863	\$ (167)	\$ 678

Proceeds from maturities, redemptions and calls of fixed maturities maturing were \$84,954, \$32,986 and \$42,591 for the year ended December 31, 2010, 2009 and 2008, respectively.

In the normal course of business, the Company enters into transactions involving various types of financial instruments, including investments in fixed maturities and equity securities. Investment transactions have credit exposure to the extent that a counter party may default on an obligation to the Company. Credit risk is a consequence of carrying, trading and investing in securities. To manage credit risk, the Company focuses on higher quality fixed income securities, reviews the credit strength of all companies in which it invests, limits its exposure in any one investment and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

The following tables as of December 31, 2010 and December 31, 2009 illustrate the gross unrealized losses included in the Company's investment portfolio and the fair value of those securities aggregated by investment category. The tables also illustrate the length of time that they have been in a continuous unrealized loss position.

	As of December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 38,318	\$ 1,841	\$	\$	\$ 38,318	\$ 1,841
Obligations of states and political subdivisions	109,883	2,490	7,325	416	117,208	2,906
Residential mortgage-backed securities	1,312	31	298	8	1,610	39
Corporate and other securities	27,736	883			27,736	883
Total temporarily impaired securities	\$ 177,249	\$ 5,245	\$ 7,623	\$ 424	\$ 184,872	\$ 5,669

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share and share data)

	As of December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities	\$ 9,832	\$ 409	\$	\$	\$ 9,832	\$ 409
Obligations of states and political subdivisions	47,585	257	13,483	859	61,068	1,116
Residential mortgage-backed securities	33,753	523	855	23	34,608	546
Commercial mortgage-backed securities	4,940	67	38,260	1,042	43,200	1,109
Other asset-backed securities			6,616	1,360	6,616	1,360
Corporate and other securities	26,217	315	5,143	162	31,360	477
<b>Total temporarily impaired securities</b>	<b>\$ 122,327</b>	<b>\$ 1,571</b>	<b>\$ 64,357</b>	<b>\$ 3,446</b>	<b>\$ 186,684</b>	<b>\$ 5,017</b>

As of December 31, 2010, the Company held insured investment securities of approximately \$244,893 which represented approximately 22.7% of the Company's total investment portfolio. Approximately \$63,398 of these securities are pre-refunded, meaning that funds have been set aside in escrow to satisfy the future interest and principal obligations of the bond.

The following table shows the Company's insured investment securities that are backed by financial guarantors including pre-refunded securities as of December 31, 2010. The Company does not have any direct investment holdings in a financial guarantee insurance company.

Financial Guarantor	As of December 31, 2010		
	Total	Pre-refunded Securities	Exposure Net of Pre-refunded Securities
<b>Municipal bonds</b>			
Ambac Assurance Corporation	\$ 32,055	\$ 12,214	\$ 19,841
Financial Guaranty Insurance Company	267	267	
Assured Guaranty Municipal Corporation	91,819	34,936	56,883
National Public Finance Guaranty Corporation	116,704	15,981	100,723
<b>Total municipal bonds</b>	<b>240,845</b>	<b>63,398</b>	<b>177,447</b>
<b>Other asset-backed securities</b>			
Ambac Assurance Corporation	4,048		4,048
<b>Total other asset-backed securities</b>	<b>4,048</b>		<b>4,048</b>
<b>Total</b>	<b>\$ 244,893</b>	<b>\$ 63,398</b>	<b>\$ 181,495</b>

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The following table shows the Company's insured investments by Moody's rating where it is available both with and without the impact of the insurance guarantee as of December 31, 2010.

Rating	As of December 31, 2010	
	Rating With Insurance	Rating Without Insurance
Aaa	\$ 3,866	\$ 3,866
Aa1	28,976	28,976
Aa2	65,265	65,265
Aa3	88,550	77,461
A1	11,964	12,887
A2	11,003	18,021
A3	12,546	15,694
Baa1	267	267
Baa2	4,048	4,048
<b>Totals</b>	<b>\$ 226,485</b>	<b>\$ 226,485</b>

**Other-Than-Temporary Impairments**

ASC 320, *Investments Debt and Equity Securities* requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which the Company asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. Prior to April 1, 2009, the Company had to determine whether it had the intent and ability to hold the investment for a sufficient period of time for the value to recover. When the analysis of the above factors resulted in the Company's conclusion that declines in market values were other-than-temporary, the cost of the security was written down to market value and the reduction in value was reflected as a realized loss.

Effective under ASC 320, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded as a component of other comprehensive income (loss). In instances where no credit loss exists but it is more likely than not that the Company will have to sell the debt security prior to the anticipated recovery, the decline in market value below amortized cost is recognized as an OTTI in earnings. In periods after the recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income.

The Company holds no subprime mortgage debt securities. All of the Company's holdings in mortgage-backed securities are either U.S. Government or Agency guaranteed or are rated investment grade by either Moody's or Standard & Poor's.

The unrealized losses in the Company's fixed income portfolio as of December 31, 2010 were reviewed for potential other-than-temporary asset impairments. The Company held no debt and equity securities at December 31, 2010 with a material (20% or greater) unrealized loss for four or more

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consecutive quarters. Specific qualitative analysis was also performed for any additional securities appearing on the Company's "Watch List," if any. Qualitative analysis considered such factors as the financial condition and the near term prospects of the issuer, whether the debtor is current on its contractually obligated interest and principal payments, changes to the rating of the security by a rating agency and the historical volatility of the fair value of the security.

The qualitative analysis performed by the Company concluded that the unrealized losses recorded on the investment portfolio at December 31, 2010 resulted from fluctuations in market interest rates and other temporary market conditions as opposed to fundamental changes in the credit quality of the issuers of such securities. Therefore, decreases in fair values of the Company's securities are viewed as being temporary.

During the year ended December 31, 2010 and 2009, there was no significant deterioration in the credit quality of any of the Company's holdings and no OTTI charges were recorded related to the Company's portfolio of investment securities.

Based upon the qualitative analysis performed, the Company's decision to hold these securities, the Company's current level of liquidity and its positive operating cash flows, management believes it is more likely than not that it will not be required to sell any of its securities before the anticipated recovery in the fair value to its amortized cost basis.

ASC 320, *Investments Debt and Equity Securities* requires that the Company record, as of the beginning of the interim period of adoption, a cumulative effect adjustment to reclassify the noncredit component of a previously recognized OTTI from retained earnings to other comprehensive income (loss). At April 1, 2009 and December 31, 2010, there were no amounts included in accumulated other comprehensive income related to securities which were considered by the Company to be other-than-temporarily impaired.

**Net Investment Income**

The components of net investment income were as follows:

	Years Ended December 31,		
	2010	2009	2008
Interest and dividends on fixed maturities	\$ 42,332	\$ 44,160	\$ 45,207
Dividends on equity securities	294	161	270
Interest on other invested assets	12	11	
Interest on short-term securities		67	35
Interest on cash, and cash equivalents	84	232	1,588
<b>Total investment income</b>	<b>42,722</b>	44,631	47,100
Investment expenses	1,327	1,323	1,329
<b>Net investment income</b>	<b>\$ 41,395</b>	\$ 43,308	\$ 45,771

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**Safety Insurance Group, Inc. and Subsidiaries**

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**(Dollars in thousands, except per share and share data)**

**Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosure* provides a revised definition of fair value, establishes a framework for measuring fair value, and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets and liabilities;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

Fair values for the Company's fixed maturity securities are based on prices provided by its custodian bank and its investment manager. Both the custodian bank and the investment manager use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. A minimum of two quoted prices is obtained for the majority of our available for sale fixed maturity securities in the Company's investment portfolio. The Company's custodian bank is its primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary third-party pricing service or broker-dealer quote is obtained from the Company's investment manager. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from the Company's custodian bank is used in the Company's financial statements for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, the Company obtains a quote from an alternative source, if possible, and documents and resolves any differences between the pricing sources. In addition, the Company may request that its investment manager and their traders provide input as to which vendor is providing prices that their traders believe are reflective of fair value for the security. Following this process, the Company may decide to value the security in its financial statements using the secondary or alternative source if it believes that pricing is more reflective of the security's value than the primary pricing provided by its custodian bank. The Company analyzes market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

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**Safety Insurance Group, Inc. and Subsidiaries**

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**(Dollars in thousands, except per share and share data)**

The Company's Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. The Company's Level 2 securities are comprised of our available for sale fixed maturity securities whose fair value was determined using observable market inputs. Fair values for securities for which quoted market prices were unavailable were estimated based upon reference to observable inputs such as benchmark interest rates, market comparables, and other relevant inputs. Investments valued using these inputs include U.S. Treasury securities and obligations of U.S. Government agencies, obligations of international government agencies, obligations of states and political subdivisions, corporate securities, commercial and residential mortgage-backed securities, and other asset-backed securities. Inputs into the fair value application that are utilized by asset class include but are not limited to:

*States and political subdivisions:* overall credit quality, including assessments of market sectors and the level and variability of sources of payment such as general obligation, revenue or lease; credit support such as insurance, state or local economic and political base, prefunded and escrowed to maturity covenants.

*Corporate fixed maturities:* overall credit quality, the establishment of a risk adjusted credit spread over the applicable risk free yield curve for discounted cash flow valuations; assessments of the level of industry economic sensitivity, company financial policies, indenture restrictive covenants, and/or security and collateral.

*Residential mortgage-backed securities, U.S. agency pass-throughs, collateralized mortgage obligations ("CMOs"), non U.S. agency CMOs:* estimates of prepayment speeds based upon historical prepayment rate trends, underlying collateral interest rates, original weighted average maturity, vintage year, borrower credit quality characteristics, interest rate and yield curve forecasts, U.S. government support programs, tax policies, and delinquency/default trends.

*Commercial mortgage-backed securities:* overall credit quality, including assessments of the level and variability of credit support and collateral type such as office, retail, or lodging, predictability of cash flows for the deal structure, prevailing economic market conditions.

*Other asset-backed securities:* overall credit quality, estimates of prepayment speeds based upon historical trends and characteristics of underlying loans, including assessments of the level and variability of collateral, revenue generating agreements, area licenses agreements, product sourcing agreements and equipment and property leases.

All unadjusted estimates of fair value for our fixed maturities priced by the pricing services as described above are included in the amounts disclosed in Level 2.

In order to ensure the fair value determination is representative of an exit price (consistent with ASC 820), the Company's procedures for validating quotes or prices obtained from third-parties include, but are not limited to, obtaining a minimum of two price quotes for each available for sale fixed maturity security if possible, as discussed above, the periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date, and the periodic review of reports provided by its investment manager regarding those securities with ratings changes and securities placed on the Company's "Watch List." In addition, valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by the Company's external investment manager, whose investment professionals are familiar with the securities

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being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price (consistent with ASC 820).

The Company's entire available for sale portfolio was priced based upon quoted market prices or other observable inputs as of December 31, 2010. There were no significant changes to the valuation process during the year ended December 31, 2010. As of December 31, 2010 and 2009, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

The following tables summarize our total fair value measurements for available for sale investments for the periods indicated.

**As of December 31, 2010**

	<b>Total</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
U.S. Treasury securities	\$ 86,269	\$	\$ 86,269	\$
Obligations of states and political subdivisions	445,190		445,190	
Residential mortgage-backed securities	252,661		252,661	
Commercial mortgage-backed securities	63,591		63,591	
Other asset-backed securities	17,405		17,405	
Corporate and other securities	198,121		198,121	
Equity securities	14,624	14,624		
Totals	\$ 1,077,861	\$ 14,624	\$ 1,063,237	\$

**As of December 31, 2009**

	<b>Total</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
U.S. Treasury securities	\$ 12,532	\$	\$ 12,532	\$
Obligations of states and political subdivisions	483,421		483,421	
Residential mortgage-backed securities	300,461		300,461	
Commercial mortgage-backed securities	72,916		72,916	
Other asset-backed securities	22,300		19,796	2,504
Corporate and other securities	126,699		126,699	
Equity securities	9,876	9,876		
Totals	\$ 1,028,205	\$ 9,876	\$ 1,015,825	\$ 2,504

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The following tables summarize the changes in the Company's Level 3 fair value measurements for the periods indicated.

	<b>Other Asset-Backed Securities</b>
Balance at January 1, 2010	\$ 2,504
Net gains included in earnings	183
Net gains included in other comprehensive income	1,180
Purchases and sales	(3,867)
Transfers in (out) of Level 3	
Balance at December 31, 2010	\$
Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at December 31, 2010	\$

	<b>Other Asset-Backed Securities</b>
Balance at January 1, 2009	\$ 1,842
Net gains and losses included in earnings	
Net gains included in other comprehensive income	662
Purchases and sales	
Transfers in (out) of Level 3	
Balance at December 31, 2009	\$ 2,504
Amount of total losses included in earnings attributable to the change in unrealized losses related to assets still held at December 31, 2009	\$

Transfers in and out of Level 3 are attributable to changes in the ability to observe significant inputs in determining fair value exit pricing. On January 1, 2010, our Level 3 securities consisted of one asset-backed security whose price was based solely on a single broker quote which was deemed to be obtained through unobservable inputs. This security was sold in October 2010.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)****4. Equipment and Leasehold Improvements**

The carrying value of equipment and leasehold improvements by classification was as follows:

	As of December 31,	
	2010	2009
Software	\$ 10,655	\$ 8,976
Data processing equipment	3,295	3,063
Leasehold improvements	2,524	2,501
Other equipment	2,183	1,729
Furniture and fixtures	926	924
Automobiles	10	53
<b>Total cost</b>	<b>19,593</b>	<b>17,246</b>
Less accumulated depreciation and amortization	10,728	8,248
<b>Equipment and leasehold improvements, net</b>	<b>\$ 8,865</b>	<b>\$ 8,998</b>

Depreciation and amortization expense for the years ended December 31, 2010, 2009 and 2008 was \$2,526, \$2,698 and \$2,443, respectively.

**5. Employee Benefit Plans****The Safety Insurance 401(k) Retirement Plan**

The Company sponsors the Safety Insurance Company 401(k) qualified defined contribution retirement plan (the "Retirement Plan"). The Retirement Plan is available to all eligible employees of the Company. An employee must be 21 years of age to be eligible to participate in the Retirement Plan and is allowed to contribute on a pre-tax basis up to the maximum allowed under federal law. The Retirement Plan is administered by the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974. At the close of each Retirement Plan year, the Company makes a matching contribution equal to 100% of the amount each participant contributed during the plan year from their total pay, up to a maximum amount of 8% of the participant's base salary, to those participants who have contributed to the Retirement Plan and were employed on the last day of the Retirement Plan year. Compensation expense related to the Retirement Plan was \$2,201, \$2,113 and \$2,031 for the years ended December 31, 2010, 2009 and 2008, respectively.

**Management Omnibus Incentive Plan**

Long-term incentive compensation is provided under the Company's 2002 Management Omnibus Incentive Plan ("the Incentive Plan") which provides for a variety of stock-based compensation awards, including nonqualified stock options ("NQSOs"), incentive stock options, stock appreciation rights and restricted stock ("RS") awards.

On March 10, 2006, the Board approved amendments to the Incentive Plan, subject to shareholder approval, to (i) increase the number of shares of common stock available for issuance by 1,250,000 shares, (ii) remove obsolete provisions, and (iii) make other non-material changes. A total of 1,250,000 shares of common stock had previously been authorized for issuance under the Incentive Plan. The Incentive Plan, as amended, was approved by the shareholders at the 2006 Annual Meeting of Shareholders which was held on May 19, 2006. The maximum number of shares of common stock with



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respect to which awards may be granted is 2,500,000. Shares of stock covered by an award under the Incentive Plan that are forfeited will again be available for issuance in connection with future grants of awards under the plan. At December 31, 2010, there were 813,484 shares available for future grant. The Board of Directors and the Compensation Committee intend to issue more awards under the Incentive Plan in the future.

A summary of stock based awards granted under the Incentive Plan is as follows:

Type of Equity Awarded	Effective Date	Number of Awards Granted	Exercise Price(1) or Fair Value(2) per Share	Vesting Terms	Expiration Date
NQSOs	November 27, 2002	379,000	\$ 12.00	(1) 5 years, 20% annually	November 27, 2012
NQSOs	February 20, 2003	99,000	\$ 13.30	(1) 5 years, 20% annually	February 20, 2013
NQSOs	March 31, 2003	292,000	\$ 13.03	(1) 3 years, 30%-30%-40%	March 31, 2013
NQSOs	August 21, 2003	10,000	\$ 15.89	(1) 5 years, 20% annually	August 21, 2013
NQSOs	March 25, 2004	111,000	\$ 18.50	(1) 5 years, 20% annually	March 25, 2014
RS	March 25, 2004	70,271	\$ 18.50	(2) 3 years, 30%-30%-40%	N/A
NQSOs	August 30, 2004	10,000	\$ 21.40	(1) 5 years, 20% annually	August 30, 2014
NQSOs	March 16, 2005	78,000	\$ 35.23	(1) 5 years, 20% annually	March 16, 2015
RS	March 16, 2005	56,770	\$ 35.23	(2) 3 years, 30%-30%-40%	N/A
RS	March 16, 2005	4,000	\$ 35.23	(2) No vesting period(3)	N/A
NQSOs	March 10, 2006	126,225	\$ 42.85	(1) 5 years, 20% annually	March 10, 2016
RS	March 10, 2006	58,342	\$ 42.85	(2) 3 years, 30%-30%-40%	N/A
RS	March 10, 2006	4,000	\$ 42.85	(2) No vesting period(3)	N/A
RS	February 26, 2007	65,760	\$ 45.62	(2) 3 years, 30%-30%-40%	N/A
RS	February 26, 2007	4,000	\$ 45.62	(2) No vesting period(3)	N/A
RS	March 22, 2007	49,971	\$ 38.78	(2) 5 years, 20% annually	N/A
RS	March 10, 2008	76,816	\$ 35.80	(2) 3 years, 30%-30%-40%	N/A
RS	March 10, 2008	4,000	\$ 35.80	(2) No vesting period (3)	N/A
RS	March 20, 2008	45,779	\$ 34.37	(2) 5 years, 20% annually	N/A
RS	March 9, 2009	95,953	\$ 28.66	(2) 3 years, 30%-30%-40%	N/A
RS	March 9, 2009	4,000	\$ 28.66	(2) No vesting period (3)	N/A
RS	March 19, 2009	38,046	\$ 33.24	(2) 5 years, 20% annually	N/A
<b>RS</b>	<b>March 9, 2010</b>	<b>77,360</b>	<b>\$ 38.78</b>	<b>(2) 3 years, 30%-30%-40%</b>	<b>N/A</b>
<b>RS</b>	<b>March 9, 2010</b>	<b>4,000</b>	<b>\$ 38.78</b>	<b>(2) No vesting period(3)</b>	<b>N/A</b>
<b>RS</b>	<b>March 23, 2010</b>	<b>25,590</b>	<b>\$ 38.09</b>	<b>(2) 5 years, 20% annually</b>	<b>N/A</b>

(1) The exercise price of the options grant effective on November 27, 2002, is equal to the IPO price of the Company's stock on that same day. The exercise price of the remaining option grants is equal to the closing price of our common stock on the grant date.

(2) The fair value per share of the restricted stock grant is equal to the closing price of the Company's common stock on the grant date.

(3)

The shares cannot be sold, assigned, pledged, or otherwise transferred, encumbered or disposed of until the recipient is no longer a member of the Board of Directors.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)****Stock Options**

The fair value of stock options used to compute both net income and earnings per share disclosures for the years ended December 31, 2010, 2009 and 2008 is the estimated fair value at grant date using the Black-Scholes option-pricing model with the following assumptions:

	Years Ended December 31,		
	2010	2009	2008
Expected dividend yield	<b>1.36% - 1.68%</b>	1.36% - 2.16%	1.36% - 2.52%
Expected volatility	<b>0.31 - 0.36</b>	0.28 - 0.36	0.20 - 0.36
Risk-free interest rate	<b>4.35% - 4.76%</b>	3.23% - 4.76%	3.23% - 4.76%
Expected holding period	<b>6.5 - 7 years</b>	6.5 - 7 years	6.5 - 7 years

Expected dividend yield is the Company's dividend yield on the measurement date and is based on the assumption that the current yield will continue in the future. Expected volatility is based on historical volatility of the Company's common stock as well as the volatility of a peer group of property and casualty insurers measured for a period equal to the expected holding period of the option. The risk-free interest rate is based upon the yield on the measurement date of a zero-coupon U.S. Treasury bond with a maturity period equal to the expected holding period of the option. The expected holding period is based upon the simplified method provided in SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*, which utilizes the mid-points between the vesting dates and the expiration date of the option award to calculate the overall expected term. There were no stock options granted during the twelve months ended December 31, 2010, 2009 and 2008.

The following table summarizes stock option activity under the Incentive Plan.

	2010		2009		2008	
	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
Outstanding at beginning of year	<b>215,337</b>	<b>\$ 35.40</b>	238,666	\$ 33.66	334,588	\$ 28.25
Exercised during the year	<b>(64,334)</b>	<b>30.93</b>	(22,329)	16.45	(95,722)	14.79
Forfeited during the year			(1,000)	42.85	(200)	18.50
Outstanding at end of year	<b>151,003</b>	<b>37.30</b>	215,337	35.40	238,666	33.66
Exercisable at end of year	<b>127,058</b>	<b>\$ 36.26</b>	154,847	\$ 33.11	120,631	\$ 30.33

At December 31, 2010, the aggregate intrinsic value of outstanding shares under option was \$1,573 with a weighted average remaining contractual term of 4.7 years. At December 31, 2009, the aggregate intrinsic value of outstanding shares under option and exercisable was \$971 with a weighted average remaining contractual term of 5.5 years. At December 31, 2008, the aggregate intrinsic value of outstanding shares under option and exercisable was \$1,629 with a weighted average remaining contractual term of 6.3 years. Aggregate intrinsic value represents the total pretax intrinsic value, based upon the Company's closing year end stock price of \$47.72, \$36.23 and \$38.06 for December 31, 2010, 2009 and 2008, respectively, which would have been received by the option holders had all option holders exercised their options as of those dates. The range of exercise prices on stock options outstanding under the Incentive Plan was \$13.30 to \$42.85 at December 31, 2010, and \$12.00 to \$42.85 at December 31, 2009 and 2008. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was \$1,080, \$442 and \$2,227, respectively.

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A summary of the status of non-vested options as of December 31, 2010 is presented below:

	Number of Shares	Weighted Average Grant Date Exercise Price
Non-vested at beginning of year	60,490	\$ 41.26
Vested during the year	(36,545)	40.22
Non-vested at end of year	23,945	\$ 42.85

As of December 31, 2010, there was \$65 of unrecognized compensation expense related to non-vested option awards that is expected to be recognized over a weighted average period of 0.2 years.

Cash received from options exercised was \$1,990, \$367 and \$1,416 for the years ended December 31, 2010, 2009, and 2008, respectively.

As a result of adopting ASC 718, *Compensation-Stock Compensation* on January 1, 2006, the Company's net income for the twelve months ended December 31, 2010 was lowered by \$240, net of income tax benefit of \$129. The Company's net income for the twelve months ended December 31, 2009 was lowered by \$336, net of income tax benefit of \$181. The impact on basic and diluted EPS for the twelve months ended December 31, 2010 and 2009 was a reduction of \$0.02 and \$0.02 per share, respectively.

**Restricted Stock**

Restricted stock awarded to employees in the form of unvested shares is recorded at the market value of the Company's common stock on the grant date and amortized ratably as expense over the requisite service period.

The following table summarizes restricted stock activity under the Incentive Plan for the years ending December 31.

	2010		2009		2008	
	Shares Under Restriction	Weighted Average Fair Value	Shares Under Restriction	Weighted Average Fair Value	Shares Under Restriction	Weighted Average Fair Value
Outstanding at beginning of year	298,834	\$ 34.28	246,325	\$ 38.77	186,751	\$ 41.85
Granted during the year	106,950	38.61	137,999	29.92	126,595	35.28
Vested and unrestricted during the year	(104,283)	36.27	(84,852)	40.20	(67,021)	40.79
Forfeited during the year			(638)	36.57		
Outstanding at end of year	301,501	\$ 35.13	298,834	\$ 34.28	246,325	\$ 38.77

As of December 31, 2010, there was \$6,511 of unrecognized compensation expense related to non-vested restricted stock awards that is expected to be recognized over a weighted average period of 1.8 years. The total fair value of the shares that were vested and unrestricted during the years ended December 31, 2010, 2009 and 2008 was \$3,782, \$3,412 and \$2,733, respectively. For the years ended December 31, 2010, 2009 and 2008, the Company recorded compensation expense related to restricted stock of \$2,617, \$2,493 and \$2,230, net of income tax benefits of \$1,409, \$1,342 and \$1,201, respectively.



Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)****6. Commitments and Contingencies****Lease Commitments**

The Company has various non-cancelable long-term operating leases. The approximate minimum annual rental payments due under these lease agreements as of December 31, 2010 are as follows:

2011	<b>\$ 4,183</b>
2012	<b>4,451</b>
2013	<b>4,425</b>
2014	<b>4,362</b>
2015 and after	<b>17,919</b>
Total minimum lease payments	<b>\$ 35,340</b>

Certain lease agreements contain renewal options and, in addition to the minimum annual rentals, generally provide for payment of a share of the real estate taxes and operating expenses in excess of a base amount. Rental expense was \$4,112, \$4,113 and \$3,962 for the years ended December 31, 2010, 2009 and 2008, respectively. All leases expire prior to 2019. The Company expects that in the normal course of business, leases that expire will be renewed.

An eighth amendment to a lease agreement for the lease of office space was executed on April 5, 2007. Under the provisions of this amendment, additional space was occupied and the lease term was extended an additional ten years commencing on January 1, 2009, with an option to renew for one additional five year term.

**Contingencies**

Various claims, generally incidental to the conduct of normal business, are pending or alleged against the Company from time to time. In the opinion of management, based in part on the advice of legal counsel, the ultimate resolution of such claims will not have a material adverse effect on the Company's consolidated financial statements. However, if estimates of the ultimate resolutions of those proceedings are revised, liabilities related to those proceedings could be adjusted in the near term.

Massachusetts law requires that insurers licensed to do business in Massachusetts participate in the Massachusetts Insurers Insolvency Fund ("Insolvency Fund"). Members of the Insolvency Fund are assessed a proportionate share of the obligations and expenses of the Insolvency Fund in connection with an insolvent insurer. It is anticipated that there will be additional assessments from time to time relating to various insolvencies. Although the timing and amounts of any future assessments are not known, based upon existing knowledge, management's opinion is that such future assessments will not have a material effect upon the financial position of the Company.

On November 21, 2008, the Massachusetts Office of the Attorney General (the "AG") delivered a civil investigative demand (the "CID") to Safety Insurance Company. The CID directed the Company to produce certain information related to its policies and practices in connection with underwriting insurance policies on motorcycles and adjusting total loss claims under such policies. Other insurance companies are also being investigated by the AG related to their policies and practices related to motorcycle insurance.

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**(Dollars in thousands, except per share and share data)**

On January 14, 2010, the Company announced it had reached an agreement with the AG to change the way in which the Company calculated motorcycle premiums for certain types of coverage dating back to January 1, 2002. Under the terms of the settlement, the Company agreed to pay refunds to certain motorcycle policyholders. The Company has deposited \$7,408 into a trust fund to be used to pay the amount of those refunds and has paid \$330 to the Commonwealth of Massachusetts, which includes reimbursement of costs and expenses related to the implementation of the settlement by the AG. Of the total settlement to date, \$7,547 was recorded as an increase to the Company's Underwriting, operating and other expenses for the year ended December 31, 2009 and \$191 of additional refunds subsequently identified by the AG and deposited to the trust fund by the Company in July 2010 was recorded as Underwriting, operating and other expenses for the year ended December 31, 2010.

The Company worked with the Attorney General's office to identify the policies on which refunds would be issued and the amount of refunds to be paid to each individual policyholder. During the quarter ended September 30, 2010, the Company first notified approximately 21 thousand policyholders of the amount of individual refunds offered and requested receipt of appropriate releases from them in order to access the trust fund to issue refund checks. As of March 3, 2011, a total of approximately \$6,219 in refund checks has been issued to about 15 thousand policyholders. The final total of refunds paid may be more or less than currently estimated; however, in management's opinion, any future expenses related to the settlement will not have a material adverse effect upon the overall financial position of the Company.

**7. Debt**

On August 14, 2008, the Company entered into an Amended and Restated Revolving Credit Agreement (the "New Credit Agreement") with RBS Citizens, NA ("RBS Citizens"). The New Credit Agreement amended and restated the terms of the Company's existing Revolving Credit Agreement with RBS Citizens prior to its expiration date of August 17, 2008. The New Credit Agreement extends the maturity date to August 14, 2013 and provides a \$30,000 revolving credit facility with an accordion feature allowing for future expansion of the committed amount up to \$50,000. Loans under the credit facility bear interest at the Company's option at either (i) the LIBOR rate plus 1.25% per annum or (ii) the higher of RBS Citizens prime rate or 0.5% above the federal funds rate plus 1.25% per annum. Interest only is payable prior to maturity.

The Company's obligations under the credit facility are secured by pledges of its assets and the capital stock of its operating subsidiaries. The credit facility is guaranteed by the Company's non-insurance company subsidiaries. The credit facility contains covenants including requirements to maintain minimum risk based capital ratios and statutory surplus of Safety Insurance Company as well as limitations or restrictions on indebtedness, liens, and other matters. Among other covenants, the credit facility restricts the Company's payment of dividends (i) if a default under the credit facility is continuing or would result therefrom or (ii) in an amount in excess of 50% of the Company's prior year's net income, as determined in accordance with GAAP. Although the Company paid \$27,098 in dividends to shareholders in 2010 which exceeded 50% of its prior year net income by \$22, prior consent to pay the excess amount was obtained from RBS Citizens. As of December 31, 2010, the Company was in compliance with all other covenants. In addition, the credit facility includes customary events of default, including a cross-default provision permitting the lenders to accelerate the facility if the Company (i) defaults in any payment obligation under debt having a principal amount in excess of \$10,000 or (ii) fails to perform any other covenant permitting acceleration of all such debt.

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**Safety Insurance Group, Inc. and Subsidiaries**

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The Company had no amounts outstanding on its credit facility at December 31, 2010 and 2009. The credit facility commitment fee included in interest expenses was computed at a rate of 0.25% on the \$30,000 commitment at December 31, 2010 and 2009.

**8. Reinsurance**

The Company cedes insurance to CAR and to other reinsurers. The Company has a property catastrophe excess of loss agreement and a casualty excess of loss agreement that qualify as reinsurance treaties and are designed to protect against large or unusual loss and LAE activity. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Company is subject to concentration of credit risk with respect to reinsurance ceded to CAR. At December 31, 2010 and 2009, respectively, reinsurance receivables on paid and unpaid loss and LAE with a carrying value of \$39,513 and \$54,812 and ceded unearned premiums of \$8,908 and \$10,212 were associated with CAR. The Company assumes a proportionate share of the obligations from CAR. The Company makes an estimate of its share of assumed activity from the most recent quarter reported by CAR and records adjustments to the reported activity to reflect its anticipated final assumed obligations. The Company's participation in CAR resulted in assumed net income of \$4,241 and \$6,299 for 2010 and 2009 and assumed net losses of \$4,251 for the year ended December 31, 2008.

CAR has been, with few exceptions, required by law to issue a policy to any applicant who seeks it. As a servicing carrier of CAR, this requirement has applied to the Company.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

The effect of assumed and ceded premiums on net written and earned premiums and losses and LAE is as follows:

	Years Ended December 31,		
	2010	2009	2008
<b>Written Premiums</b>			
Direct	\$ 604,957	\$ 559,747	\$ 573,509
Assumed	13,738	14,564	37,439
Ceded	(41,888)	(41,682)	(58,044)
Net written premiums	\$ 576,807	\$ 532,629	\$ 552,904
<b>Earned Premiums</b>			
Direct	\$ 580,942	\$ 555,020	\$ 595,673
Assumed	14,134	26,552	46,125
Ceded	(43,126)	(49,603)	(65,242)
Net earned premiums	\$ 551,950	\$ 531,969	\$ 576,556
<b>Loss and LAE</b>			
Direct	\$ 368,542	\$ 357,269	\$ 372,951
Assumed	4,712	13,241	38,548
Ceded	(12,406)	(24,209)	(41,676)
Net loss and LAE	\$ 360,848	\$ 346,301	\$ 369,823

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)****9. Loss and Loss Adjustment Expense Reserves**

The following table sets forth a reconciliation of beginning and ending reserves for losses and LAE as shown in the Company's consolidated financial statements for the years indicated:

	Years Ended December 31,		
	2010	2009	2008
Reserves for losses and LAE, beginning of year	\$ 439,706	\$ 467,559	\$ 477,720
Less reinsurance recoverable on unpaid losses and LAE	(64,874)	(76,489)	(84,290)
Net reserves for losses and LAE, beginning of year	374,832	391,070	393,430
Incurring losses and LAE, related to:			
Current year	409,005	390,366	405,761
Prior years	(48,157)	(44,065)	(35,938)
Total incurred losses and LAE	360,848	346,301	369,823
Paid losses and LAE related to:			
Current year	253,476	235,681	229,924
Prior years	130,960	126,858	142,259
Total paid losses and LAE	384,436	362,539	372,183
Net reserves for losses and LAE, end of year	351,244	374,832	391,070
Plus reinsurance recoverables on unpaid losses and LAE	53,147	64,874	76,489
Reserves for losses and LAE, end of year	\$ 404,391	\$ 439,706	\$ 467,559

At the end of each period, the reserves were re-estimated for all prior accident years. The Company's prior year reserves decreased by \$48,157, \$44,065, and \$35,938 for the years ended December 31, 2010, 2009, and 2008, respectively. The decrease in prior year reserves during 2010 resulted from re-estimations of prior year ultimate loss and LAE liabilities and is primarily composed of reductions of \$34,248 in our retained automobile reserves, \$7,269 in our retained homeowners and retained all other reserves, and \$5,572 in CAR assumed reserves. The decrease in prior year reserves during 2009 resulted from re-estimations of prior year ultimate loss and LAE liabilities and is primarily composed of reductions of \$24,979 in the Company's retained automobile reserves, \$11,551 in reserves assumed from CAR, and \$6,103 in the Company's retained homeowners and all other reserves. The decrease in prior year reserves during 2008 resulted from re-estimations of prior years ultimate loss and LAE liabilities and is primarily composed of reductions of \$21,752 in the Company's retained automobile reserves and

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\$8,905 in reserves assumed from CAR.

The Company's private passenger automobile line of business prior year reserves decreased by \$31,944 for the year ended December 31, 2010. The decrease was primarily due to improved retained private passenger results of \$24,326 for the accident years 2005 through 2009, and improved assumed CAR results for the private passenger automobile pool of \$3,026 for accident years 2008 through 2009. The Company's private passenger automobile line of business prior year reserves decreased by \$30,489 for the year ended December 31, 2009. The decrease was primarily due to improved retained private passenger results of \$18,275 for the accident years 2004 through 2008, and improved assumed CAR results for the private passenger automobile pool of \$8,596 for accident years 2005 through 2008. The improved retained private passenger results were primarily due to fewer incurred but not yet reported

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****(Dollars in thousands, except per share and share data)**

claims than previously estimated and better than previously estimated severity on the Company's established bodily injury and property damage case reserves. The improved CAR results were due primarily to improved CAR private passenger loss ratios as published and reported by the CAR Loss Reserving Committee.

Due to the nature of the risks that the Company underwrites and has historically underwritten, management does not believe that it has an exposure to asbestos or environmental pollution liabilities.

**10. Income Taxes**

A summary of the income tax expense in the Consolidated Statements of Income is shown below:

	Years Ended December 31,		
	2010	2009	2008
<b>Current Income Taxes:</b>			
Federal	\$ 19,603	\$ 23,243	\$ 27,534
State	(5)	23	2
	<b>19,598</b>	23,266	27,536
<b>Deferred Income Taxes:</b>			
Federal	3,020	(3,024)	315
State			
	<b>3,020</b>	(3,024)	315
<b>Total income tax expense</b>	<b>\$ 22,618</b>	<b>\$ 20,242</b>	<b>\$ 27,851</b>

The income tax expense attributable to the consolidated results of operations is different from the amounts determined by multiplying income before federal income taxes by the statutory federal income tax rate. The sources of the difference and the tax effects of each were as follows:

	Years Ended December 31,		
	2010	2009	2008
Federal income tax expense, at statutory rate	\$ 27,636	\$ 26,038	\$ 34,338
Tax-exempt investment income, net	(5,169)	(6,023)	(6,723)
State taxes, net	(7)	20	2
Other, net	158	207	234
<b>Total income tax expense</b>	<b>\$ 22,618</b>	<b>\$ 20,242</b>	<b>\$ 27,851</b>

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The deferred income tax asset (liability) represents the tax effects of temporary differences attributable to the Company's consolidated federal tax return group. Its components were as follows:

	Years Ended December 31,	
	2010	2009
<b>Deferred tax assets:</b>		
Discounting of loss reserves	\$ 8,006	\$ 8,890
Discounting of unearned premium reserve	21,517	19,883
Bad debt allowance	406	353
Employee benefits	5,999	5,571
State loss carryforwards	35	410
AG motorcycle policies settlement	486	2,641
Rent incentive	1,032	1,164
Other		1,670
Total deferred tax assets before valuation allowance	37,481	40,582
Valuation allowance for deferred tax assets	(35)	(2,079)
Total deferred tax assets, net of valuation allowance	37,446	38,503
<b>Deferred tax liabilities:</b>		
Deferred acquisition costs	(18,488)	(16,765)
Investments	(560)	(502)
Net unrealized gains on investments	(11,831)	(10,159)
Depreciation	(359)	(354)
Software development costs	(1,787)	(1,549)
Premium acquisition expenses	(778)	(839)
Total deferred tax liabilities	(33,803)	(30,168)
Net deferred tax asset	\$ 3,643	\$ 8,335

The Company believes, based upon consideration of objective and verifiable evidence, including its recent earnings history and its future expectations, that the Company's taxable income in future years will be sufficient to realize all federal deferred tax assets. A valuation allowance of \$35 and \$2,079 was established against state deferred tax assets at December 31, 2010 and 2009, respectively. This valuation allowance is based upon management's assessment that it is more likely than not that the Company will not be able to utilize these state deferred tax assets.

The Company adopted the provisions of ASC 740, *Income Taxes* on January 1, 2007. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that the Company determine whether the benefits of its tax positions have a more likely than not chance of being sustained upon audit based upon the technical merits of the tax position. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a result of the implementation of ASC 740, the Company recognized no adjustment to its consolidated balance sheet or statement of operations. The Company believes that the positions taken on its income tax returns for open tax years will be

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**Safety Insurance Group, Inc. and Subsidiaries**

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sustained upon examination by the IRS. Therefore, the Company has not recorded a liability under ASC 740.

As of December 31, 2010, 2009, and 2008, the Company had no unrecognized tax benefits, and none which if recognized would affect the effective tax rate. The Company does not currently anticipate significant changes in the amount of unrecognized income tax benefits during the next twelve months.

The Company records interest and penalties associated with audits as a component of Income before income taxes. Penalties are recorded in Underwriting, operating and other expenses, and interest expense is recorded in Interest expenses in the Consolidated Statement of Operations. The Company had no interest and penalties accrued as of December 31, 2010 and 2009.

As of December 31, 2010, the Company was no longer subject to examination of its U.S. federal tax returns for years prior to 2007. The Company is not currently under examination by the IRS. During the year 2009, the Massachusetts Department of Revenue concluded its review of the 2005 and 2006 tax periods. The resulting audit adjustments were immaterial to the Company's financial position.

**11. Share Repurchase Program**

On August 3, 2007, the Board approved a share repurchase program of up to \$30,000 of the Company's outstanding common shares. On March 19, 2009, the Board increased this existing share repurchase program by authorizing repurchase of up to \$60,000 of the Company's outstanding common shares. On August 4, 2010, the Board again increased the existing share repurchase program by authorizing repurchase of up to \$90,000 of the Company's outstanding common shares. Under the program, the Company may repurchase shares of its common stock for cash in public or private transactions, in the open market or otherwise, at management's discretion. The timing of such repurchases and actual number of shares repurchased will depend on a variety of factors including price, market conditions and applicable regulatory and corporate requirements. The program does not require the Company to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. During the year ended December 31, 2010, the Company purchased 162,907 shares of its common shares on the open market under the program at a cost of \$5,814. During the year ended December 31, 2009, the Company purchased 1,332,535 of its common shares on the open market under the program at a cost of \$42,196. As of December 31, 2010 the Company had purchased 1,727,455 shares on the open market at a cost of \$55,526. As of December 31, 2009, the Company had purchased 1,564,548 of its common shares on the open market under the program at a cost of \$49,712.

**12. Statutory Net Income and Surplus**

**Statutory Accounting Practices**

The Company's insurance company subsidiaries, domiciled in the Commonwealth of Massachusetts, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the Division. Statutory net income of the Company's insurance company subsidiaries was \$56,246, \$51,640 and \$75,144 for the years ended December 31, 2010, 2009 and 2008, respectively. Statutory capital and surplus of the Company's insurance subsidiaries was \$582,432 and \$556,575 at December 31, 2010 and 2009, respectively.

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**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

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**Dividends**

The Insurance Subsidiaries are subject to various regulatory restrictions that limit the maximum amount of dividends available to be paid to their parent without prior approval of the Commonwealth of Massachusetts Commissioner of Insurance (the "Commissioner"). Massachusetts statute limits the dividends an insurer may pay in any twelve month period, without the prior permission of the Commissioner, to the greater of (i) 10% of the insurer's surplus as of the preceding December 31 or (ii) the insurer's net income for the twelve-month period ending the preceding December 31, in each case determined in accordance with statutory accounting practices. Our insurance company subsidiaries may not declare an "extraordinary dividend" (defined as any dividend or distribution that, together with other distributions made within the preceding twelve months, exceeds the limits established by Massachusetts statute) until thirty days after the Commissioner has received notice of the intended dividend and has not objected. As historically administered by the Commissioner, this provision requires the Commissioner's prior approval of an extraordinary dividend. Under Massachusetts law, an insurer may pay cash dividends only from its unassigned funds, also known as earned surplus, and the insurer's remaining surplus must be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. At year-end 2010, the statutory surplus of Safety Insurance was \$582,432 and its net income for 2010 was \$51,560. As a result, a maximum of \$58,243 is available in 2011 for such dividends without prior approval of the Commissioner. During the year ended December 31, 2010, Safety Insurance recorded dividends to Safety of \$28,198.

**13. Fair Value of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosure* provides a revised definition of fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value information. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). ASC 820 establishes a fair value hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in ASC 820 prioritizes fair value measurements into three levels based on the nature of the inputs as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets and liabilities;

Level 2 Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and quoted prices in active markets for similar, but not identical instruments; and

Level 3 Valuations based on unobservable inputs.

Fair values for the Company's fixed maturity securities are based on prices provided by its custodian bank and its investment manager. Both the Company's custodian bank and investment manager use a variety of independent, nationally recognized pricing services to determine market valuations. If the pricing service cannot provide fair value determinations, the Company obtains non-binding price quotes from broker-dealers. A minimum of two quoted prices is obtained for the majority of available for sale fixed maturity securities in the Company's investment portfolio. The Company's custodian bank is its primary provider of quoted prices from third-party pricing services and broker-dealers. To provide reasonable assurance of the validity of each price or quote, a secondary

**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

third-party pricing service or broker-dealer quote is obtained from the Company's investment manager. An examination of the pricing data is then performed for each security. If the variance between the primary and secondary price quotes for a security is within an accepted tolerance level, the quoted price obtained from the Company's custodian bank is used in its financial statements for the security. If the variance between the primary and secondary price quotes exceeds an accepted tolerance level, the Company obtains a quote from an alternative source, if possible, and documents and resolves any differences between the pricing sources. In addition, the Company may request that its investment manager and their traders provide input as to which vendor is providing prices that their traders believe are reflective of fair value for the security. Following this process, the Company may decide to value the security in its financial statements using the secondary or alternative source if it believes that pricing is more reflective of the security's value than the primary pricing provided by its custodian bank. The Company analyzes market valuations received to verify reasonableness, to understand the key assumptions used and their sources, and to determine an appropriate ASC 820 fair value hierarchy level based upon trading activity and the observability of market inputs. Based on this evaluation and investment class analysis, each price is classified into Level 1, 2 or 3.

Fair values of instruments are based on (i) quoted prices in active markets for identical assets (Level 1), (ii) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs are observable in active markets (Level 2) or (iii) valuations derived from valuation techniques in which one or more significant inputs are unobservable in the marketplace (Level 3).

The Company's Level 1 securities consist of equity securities whose values are based on quoted prices in active markets for identical assets. The Company's Level 2 securities are comprised of our available fixed maturity securities whose fair value was determined using observable market inputs. Fair values for securities for which quoted market prices were unavailable were estimated based upon reference to observable inputs such as benchmark interest rates, market comparables, and other relevant inputs. Investments valued using these inputs include U.S. Treasury securities and obligations of U.S. Government agencies, obligations of international government agencies, obligations of states and political subdivisions, corporate securities, commercial and residential mortgage-backed securities, and other asset-backed securities. Inputs into the fair value application that are utilized by asset class include but are not limited to:

*States and political subdivisions:* overall credit quality, including assessments of market sectors and the level and variability of sources of payment such as general obligation, revenue or lease; credit support such as insurance, state or local economic and political base, prefunded and escrowed to maturity covenants.

*Corporate fixed maturities:* overall credit quality, the establishment of a risk adjusted credit spread over the applicable risk free yield curve for discounted cash flow valuations; assessments of the level of industry economic sensitivity, company financial policies, indenture restrictive covenants, and/or security and collateral.

*Residential mortgage-backed securities, U.S. agency pass-throughs, collateralized mortgage obligations ("CMOs"), non U.S. agency CMOs:* estimates of prepayment speeds based upon historical prepayment rate trends, underlying collateral interest rates, original weighted average maturity, vintage year, borrower credit quality characteristics, interest rate and yield curve forecasts, U.S. government support programs, tax policies, and delinquency/default trends.

**Safety Insurance Group, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Dollars in thousands, except per share and share data)**

*Commercial mortgage-backed securities:* overall credit quality, including assessments of the level and variability of credit support and collateral type such as office, retail, or lodging, predictability of cash flows for the deal structure, prevailing economic market conditions.

*Other asset-backed securities:* overall credit quality, estimates of prepayment speeds based upon historical trends and characteristics of underlying loans, including assessments of the level and variability of collateral, revenue generating agreements, area licenses agreements, product sourcing agreements and equipment and property leases.

All unadjusted estimates of fair value for our fixed maturities priced by the pricing services as described above are included in the amounts disclosed in Level 2.

In order to ensure the fair value determination is representative of an exit price (consistent with ASC 820), the Company's procedures for validating quotes or prices obtained from third-parties include, but are not limited to, obtaining a minimum of two price quotes for each fixed maturity security if possible, as discussed above, the periodic testing of sales activity to determine if there are any significant differences between the market price used to value the security as of the balance sheet date and the sales price of the security for sales that occurred around the balance sheet date, and the periodic review of reports provided by its investment manager regarding those securities with ratings changes and securities placed on its "Watch List." In addition, valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by the Company's external investment manager, whose investment professionals are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price (consistent with ASC 820).

The Company's entire available for sale portfolio was priced based upon quoted market prices or other observable inputs as of December 31, 2010. There were no significant changes to the valuation process during the year ended December 31, 2010. As of December 31, 2010 and December 31, 2009, no quotes or prices obtained were adjusted by management. All broker quotes obtained were non-binding.

At December 31, 2010 and 2009 investments in fixed maturities and equity securities classified as available for sale had a fair value which equaled carrying value of \$1,077,861 and \$1,028,205, respectively. At December 31, 2010 and 2009 other invested assets had a carrying value at cost of \$2,817 and \$409, which approximates fair value. At December 31, 2010 and 2009, we held no short-term investments. The carrying values of cash and cash equivalents and investment income accrued approximates fair value.

At December 31, 2010 and 2009 the Company had no amounts outstanding on its secured credit facility.

Table of Contents**Safety Insurance Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

(Dollars in thousands, except per share and share data)

**14. Quarterly Results of Operations**

An unaudited summary of the Company's 2010 and 2009 quarterly performance, and audited annual performance, is as follows:

	Year ended December 31, 2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total revenue	\$ 148,355	\$ 151,398	\$ 154,431	\$ 158,535	\$ 612,719
Net income	12,774	15,089	15,467	13,012	56,342
Earnings per weighted average common share:					
Basic	0.85	1.00	1.03	0.86	3.74
Diluted	0.85	1.00	1.03	0.86	3.74
Cash dividends paid per common share	0.40	0.40	0.50	0.50	1.80

	Year ended December 31, 2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total revenue	\$ 149,542	\$ 146,306	\$ 148,329	\$ 147,777	\$ 591,954
Net income	11,844	15,015	17,024	10,269	54,152
Earnings per weighted average common share:					
Basic	0.73	0.96	1.11	0.68	3.49
Diluted	0.73	0.96	1.11	0.68	3.48
Cash dividends paid per common share	0.40	0.40	0.40	0.40	1.60

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended [the "Exchange Act"]) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are adequate and effective and ensure that all information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and that information required to be disclosed in such reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has audited the effectiveness of Safety Insurance Group, Inc.'s internal control over financial reporting as of December 31, 2010, as stated in their report which is included herein.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15 and 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

The following disclosures relate to actions taken by the Board of Directors of the Company (the "Board"), the Compensation Committee of the Board and the Board of Directors of Safety Insurance Company and would otherwise have been filed during the first fiscal quarter of 2011 on a Form 8-K.

On March 9, 2011, the Compensation Committee of the Board approved the 2010 annual executive cash bonus pool in the total amount of \$1,648 pursuant to the Annual Performance Incentive Plan. Of the total pool, the following amounts were allocated to the Company's CEO and Named Executive Officers: David F. Brussard, \$577; Daniel D. Loranger, \$210; Edward N. Patrick, Jr., \$185; William J. Begley, Jr., \$176; George M. Murphy, \$146.

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On March 9, 2011, the Compensation Committee of the Board approved executive long-term incentive awards to certain members of senior management pursuant to our 2002 Management Omnibus Incentive Plan, as Amended. The long-term incentive awards were granted in a total amount of \$3,250 in the form of restricted stock, to be effective on and given a fair value of the closing price of our common stock on March 9, 2011. The restricted stock vests in three annual installments of 30% on March 9, 2012, 30% on March 9, 2013, and 40% on March 9, 2014. Of the total award the following amounts were allocated to the Company's CEO and Named Executive Officers; David F. Brussard, \$1,200 worth of restricted stock; Daniel D. Loranger, \$250 worth of restricted stock; Edward N. Patrick, Jr., \$250 worth of restricted stock; William J. Begley, Jr., \$400 worth of restricted stock; George M. Murphy \$425 worth of restricted stock. The form of restricted stock agreement that will be entered into is attached hereto as Exhibit 10.19.

Upon recommendation from the Compensation Committee, on March 9, 2011, the Board approved executive deferred compensation awards pursuant to the Executive Incentive Compensation Plan in the total amount of \$973. Of the total award, the following amounts were allocated to the Company's CEO and Named Executive Officers: David F. Brussard, \$335; Daniel D. Loranger, \$125, Edward N. Patrick, Jr., \$114; William J. Begley, Jr., \$110; George M. Murphy, \$86.

**PART III**

***ITEMS 10-14.***

Within 120 days after the close of its fiscal year, the Company intends to file with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 as amended, which will include the matters required by these items.

**PART IV.**

***ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.***

(a)

The following documents are filed as a part of this report:

1. Financial Statements: The Consolidated Financial Statements for the year ended December 31, 2010 are contained herein as listed in the Index to Consolidated Financial Statements.
2. Financial Statement Schedules: The Financial Statement Schedules are contained herein as listed in the Index to Financial Statement Schedules.
3. Exhibits: The exhibits are contained herein as listed in the Index to Exhibits.

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**SAFETY INSURANCE GROUP, INC.**  
**INDEX TO FINANCIAL STATEMENT SCHEDULES**

	<b>Page</b>
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Table of Contents**Safety Insurance Group, Inc.****Summary of Investments Other than Investments in Related Parties****Schedule I****At December 31, 2010****(Dollars in thousands)**

	Cost or Amortized Cost	Estimated Fair Value	Amount at which shown in the Balance Sheet
<b>Fixed maturities:</b>			
Bonds:			
U.S. government and government agencies and authorities	\$ 325,165	\$ 338,861	\$ 338,861
States, municipalities and political subdivisions	436,083	445,190	445,190
Corporate bonds	269,106	279,186	279,186
<b>Total fixed maturities</b>	<b>1,030,354</b>	<b>1,063,237</b>	<b>1,063,237</b>
<b>Equity securities:</b>			
Common stocks:			
Industrial, miscellaneous and all other	13,704	14,624	14,624
<b>Total equity securities</b>	<b>13,704</b>	<b>14,624</b>	<b>14,624</b>
<b>Other long-term investments</b>	<b>2,817</b>	<b>2,817</b>	<b>2,817</b>
<b>Total investments</b>	<b>\$ 1,046,875</b>	<b>\$ 1,080,678</b>	<b>\$ 1,080,678</b>

Table of Contents**Safety Insurance Group, Inc.****Condensed Financial Information of the Registrant****Condensed Balance Sheets****Schedule II**

(Dollars in thousands)

	December 31,	
	2010	2009
<b>Assets</b>		
Investments in consolidated affiliates	\$ 654,408	\$ 621,386
Other	75	46
<b>Total assets</b>	<b>\$ 654,483</b>	<b>\$ 621,432</b>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 1,007	\$ 997
<b>Total liabilities</b>	<b>1,007</b>	<b>997</b>
<b>Shareholders' equity</b>	<b>653,476</b>	<b>620,435</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 654,483</b>	<b>\$ 621,432</b>

**Safety Insurance Group, Inc.****Condensed Financial Information of the Registrant****Condensed Statements of Income and Comprehensive Income****Schedule II**

(Dollars in thousands)

	For the Years Ended December 31,		
	2010	2009	2008
Revenues, net of income taxes	\$	\$	\$
Expenses	1,270	1,335	1,496
Net loss	(1,270)	(1,335)	(1,496)
Earnings from consolidated affiliates	57,612	55,487	71,754
<b>Consolidated net income</b>	<b>56,342</b>	<b>54,152</b>	<b>70,258</b>
Other net comprehensive income (loss), net of taxes	3,106	25,394	(10,981)
<b>Consolidated comprehensive net income</b>	<b>\$ 59,448</b>	<b>\$ 79,546</b>	<b>\$ 59,277</b>

Table of Contents**Safety Insurance Group, Inc.****Condensed Financial Information of the Registrant****Condensed Statements of Cash Flows****Schedule II****(Dollars in thousands)****Years Ended December 31,**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Consolidated net income</b>	<b>\$ 56,342</b>	<b>\$ 54,152</b>	<b>\$ 70,258</b>
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings in consolidated subsidiaries	<b>(57,612)</b>	<b>(55,487)</b>	<b>(71,754)</b>
Amortization	<b>4,013</b>	<b>3,877</b>	<b>3,888</b>
Changes in assets and liabilities:			
Other assets	<b>(29)</b>	<b>19</b>	<b>5,037</b>
Accounts payable and accrued liabilities	<b>10</b>	<b>(304)</b>	<b>366</b>
<b>Net cash provided by operating activities</b>	<b>2,724</b>	<b>2,257</b>	<b>7,795</b>
Dividends received from consolidated subsidiaries	<b>28,198</b>	<b>64,412</b>	<b>22,735</b>
<b>Net cash provided by investing activities</b>	<b>28,198</b>	<b>64,412</b>	<b>22,735</b>
Proceeds from exercise of stock options	<b>1,990</b>	<b>367</b>	<b>1,416</b>
Dividends paid	<b>(27,098)</b>	<b>(24,840)</b>	<b>(26,015)</b>
Acquisition of treasury stock	<b>(5,814)</b>	<b>(42,196)</b>	<b>(5,931)</b>
<b>Net cash used for financing activities</b>	<b>(30,922)</b>	<b>(66,669)</b>	<b>(30,530)</b>
<b>Net increase in cash and cash equivalents</b>			
<b>Cash and cash equivalents, beginning of year</b>			
<b>Cash and cash equivalents, end of year</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

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## Safety Insurance Group, Inc.

## Supplementary Insurance Information

## Schedule III

(Dollars in thousands)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Other Policy Claims and Benefits Payable	Premium Revenue	Net Investment Income	Benefits, Claims, and Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
Years Ended:										
December 31, 2010	\$ 52,824	\$ 404,391	\$ 306,053	\$	\$ 551,950	\$ 41,395	\$ 360,848	\$ 101,980	\$ 70,843	\$ 576,807
December 31, 2009	47,900	439,706	282,434		531,969	43,308	346,301	96,503	74,621	532,629
December 31, 2008	46,687	467,559	289,695		576,556	45,771	369,823	100,899	72,088	552,904

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**Safety Insurance Group, Inc.**

**Reinsurance**

**Schedule IV**

(Dollars in thousands)

<b>Total Premiums</b>	<b>Gross Amount</b>	<b>Ceded to Other Companies</b>	<b>Assumed from Other Companies</b>	<b>Net Amount</b>	<b>Percentage of Amount Assumed to Net</b>
<b>Years ended:</b>					
December 31, 2010	\$ 580,942	\$ 43,126	\$ 14,134	\$ 551,950	2.6%
December 31, 2009	555,020	49,603	26,552	531,969	5.0
December 31, 2008	595,673	65,242	46,125	576,556	8.0

Table of Contents**Safety Insurance Group, Inc.****Valuation and Qualifying Accounts****Schedule V****(Dollars in thousands)**

<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Deductions(1)</b>	<b>Balance at End of Period</b>
<b>December 31, 2010</b>					
Allowance for Doubtful Accounts	\$ 210	\$ 1,231	\$	\$ 1,079	\$ 362
<b>December 31, 2009</b>					
Allowance for Doubtful Accounts	110	1,274		1,174	210
<b>December 31, 2008</b>					
Allowance for Doubtful Accounts	29	1,169		1,088	110

(1) Deductions represent write-offs of accounts determined to be uncollectible

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**Safety Insurance Group, Inc.  
Supplemental Information Concerning Property and Casualty Insurance Operations**

**Schedule VI**

(Dollars in thousands)

Affiliations With Registrant	Deferred Policy Acquisition Costs	Reserves for Discount, Unpaid if Claims any, and deducted in Adjustment Expenses	Column Unearned Premiums	Column Earned Premiums	Net Investment Income	Claims and Claims Adjustment Expenses Incurred Related to Current Year	Prior Year	Amortization of Deferred Policy Acquisition Costs	Paid Claims and Adjustment Expenses	Premiums Written
Consolidated Property & Casualty Subsidiaries										
2010	\$ 52,824	\$ 404,391	\$ 306,053	\$ 551,950	\$ 41,395	\$ 409,005	\$ (48,157)	\$ 101,980	\$ 384,436	\$ 576,807
2009	47,900	439,706	282,434	531,969	43,308	390,366	(44,065)	96,503	362,539	532,629
2008	46,687	467,559	289,695	576,556	45,771	405,761	(35,938)	100,899	372,183	552,904

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**SAFETY INSURANCE GROUP, INC.**

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Form of Amended and Restated Certificate of Incorporation of Safety Insurance Group, Inc. <sup>(1)</sup>
3.2	Form of Amended and Restated Bylaws of Safety Insurance Group, Inc. <sup>(1)</sup>
4	Form of Stock Certificate for the Common Stock <sup>(1)</sup>
10.1	Lease Agreement between Thomas Black Corporation and Aman, Inc. for the lease of office space located on the 1st through 6th, 11th and 12th floors of 20 Custom House Street, Boston, Massachusetts, dated June 11, 1987, and as amended on October 11, 1988, September 14, 1989, September 19, 1990, February 23, 1994, December 20, 1996, June 24, 2002, July 26, 2004 and April 5, 2007 <sup>(2)</sup>
10.2	Tax Indemnity Agreement by and among Safety Holdings, Inc. and the Management Team, dated October 16, 2001 <sup>(1)</sup>
10.3	2001 Restricted Stock Plan <sup>(1)(4)</sup>
10.4	Executive Incentive Compensation Plan <sup>(1)(4)</sup>
10.5	2002 Management Omnibus Incentive Plan, as Amended <sup>(7)</sup>
10.6	Reinsurance Terms Sheet between Safety Insurance Company and Swiss Re America Corporation, effective January 1, 2002 <sup>(1)</sup>
10.7	Excess Catastrophe Reinsurance Program Terms Sheet between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Blanch Inc., effective January 1, 2002 <sup>(1)</sup>
10.8	Property Risk Excess of Loss Reinsurance Program Terms Sheet between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Blanch Inc., effective January 1, 2002 <sup>(1)</sup>
10.9	Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and the Hartford Steam Boiler Inspection and Insurance Company, effective July 1, 2003 <sup>(1)</sup>
10.10	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and David F. Brussard, as of December 31, 2008 <sup>(3)(4)(11)</sup>
10.11	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and William J. Begley, Jr., as of December 31, 2008 <sup>(3)(4)(11)</sup>
10.12	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and Edward N. Patrick, Jr., as of December 31, 2008 <sup>(3)(4)(11)</sup>
10.13	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and Daniel D. Loranger, as of December 31, 2008 <sup>(3)(4)(11)</sup>
10.14	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and Robert J. Kerton, as of December 31, 2008 <sup>(3)(4)(13)</sup>
10.15	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and David E. Krupa, as of December 31, 2008 <sup>(3)(4)(11)</sup>
10.16	Safety Insurance Company Executive Incentive Compensation Plan Basic Document <sup>(4)(5)(12)</sup>
10.17	Safety Insurance Company Executive Incentive Compensation Plan Adoption Agreement <sup>(4)(5)(12)</sup>
10.18	Safety Insurance Company Executive Incentive Compensation Plan Rabbi Trust Agreement <sup>(4)(5)(12)</sup>
10.19	Form of Restricted Stock Notice and Agreement (with vesting) under the 2002 Management Omnibus Incentive Plan <sup>(4)(5)</sup>
10.20	Form of Restricted Stock Notice and Agreement (without vesting) under the 2002 Management Omnibus Incentive Plan <sup>(4)(5)</sup>
10.21	Form of Nonqualified Stock Option Notice and Agreement under the 2002 Management Omnibus Incentive Plan <sup>(4)(5)</sup>
10.22	Form of Incentive Stock Option Notice and Agreement under the 2002 Management Omnibus Incentive Plan <sup>(4)(5)</sup>
10.23	Form of Stock Appreciation Right Notice and Agreement under the 2002 Management Omnibus Incentive Plan <sup>(4)(5)</sup>
10.24	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and James D. Berry, as of December 31, 2008 <sup>(4)(6)(13)</sup>
10.25	Amended and Restated Employment Agreement by and between Safety Insurance Group, Inc. and George M. Murphy, as of December 31, 2008 <sup>(4)(6)(13)</sup>
10.26	Excess Catastrophe Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Blanch Inc., effective January 1, 2006 <sup>(7)</sup>
10.27	Property Excess of Loss Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Blanch Inc., effective January 1, 2006 <sup>(7)</sup>
10.28	Casualty Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, effective January 1, 2006 <sup>(7)</sup>

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Exhibit Number	Description
10.29	Addendum No. 1 to Casualty Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, effective January 1, 2006 <sup>(7)</sup>
10.30	Property Catastrophe Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, effective January 1, 2006 <sup>(7)</sup>
10.31	Umbrella Liability Quota Share Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, effective January 1, 2006 <sup>(7)</sup>
10.32	Addendum No. 1 to Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and the Hartford Steam Boiler Inspection and Insurance Company, effective April 1, 2006 <sup>(7)</sup>
10.33	Annual Performance Incentive Plan <sup>(4)(7)</sup>
10.34	Excess Catastrophe Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Inc., effective January 1, 2007 <sup>(8)</sup>
10.35	Addendum No. 1 to Excess Catastrophe Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Inc., adding Safety Property and Casualty Insurance Company as a named reinsured company, effective January 1, 2007 <sup>(8)</sup>
10.36	Property Excess of Loss Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Inc., effective January 1, 2007 <sup>(8)</sup>
10.37	Addendum No. 1 to Property Excess of Loss Reinsurance Contract between Safety Insurance Company, Safety Indemnity Insurance Company and Benfield Inc., adding Safety Property and Casualty Insurance Company as a named reinsured company, effective January 1, 2007 <sup>(8)</sup>
10.38	Property Catastrophe Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Reinsurance America Corporation, effective January 1, 2007 <sup>(8)</sup>
10.39	Addendum No. 2 to Casualty Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Reinsurance America Corporation, effective January 1, 2007 <sup>(8)</sup>
10.40	Addendum No. 2 to Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and The Hartford Steam Boiler Inspection and Insurance Company, effective January 1, 2007 <sup>(8)</sup>
10.41	Addendum No. 1 to Umbrella Liability Quota Share Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, adding Safety Property and Casualty Insurance Company as a named reinsured company, effective September 1, 2007 <sup>(9)</sup>
10.42	Addendum No. 3 to Casualty Excess of Loss Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company and Swiss Re America Corporation, adding Safety Property and Casualty Insurance Company as a named reinsured company, effective September 1, 2007 <sup>(9)</sup>
10.43	Amended and Restated Revolving Credit Agreement with RBS Citizens <sup>(10)</sup>
10.44	Amendment to Annual Performance Incentive Plan <sup>(4)(11)</sup>
10.45	Amendment to Management Omnibus Incentive Plan dated December 31, 2008 <sup>(4)(11)</sup>
10.46	Service Line for Homeowners Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company, and Safety Property and Casualty Insurance Company and The Hartford Steam Boiler Inspection and Insurance Company, effective August 1, 2010 <sup>(14)</sup>
10.47	Equipment Breakdown for Homeowners Reinsurance Agreement between Safety Insurance Company, Safety Indemnity Insurance Company, and Safety Property and Casualty Insurance Company and the Hartford Steam Boiler Inspection and Insurance Company, effective August 1, 2010 <sup>(14)</sup>
10.48	Amendment to Management Omnibus Incentive Plan dated August 4, 2010 <sup>(4)(15)</sup>
21	Subsidiaries of Safety Insurance Group, Inc. <sup>(9)</sup>
23	Consent of PricewaterhouseCoopers LLP <sup>(15)</sup>
24	Power of Attorney <sup>(1)</sup>
31.1	CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(15)</sup>
31.2	CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(15)</sup>
32.1	CEO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(15)</sup>

## Edgar Filing: AG Mortgage Investment Trust, Inc. - Form 424B5

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<b>Exhibit Number</b>	<b>Description</b>
32.2	CFO Certification Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(15)</sup>
(1)	Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-87056) filed April 26, 2002, and as amended on Form S-8 (Reg. No. 333-110676) filed on November 21, 2003 and as amended on Form S-8 (Reg. No. 333-140423) filed on February 2, 2007.
(2)	Incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-87056) filed April 26, 2002, and as amended on Form S-8 (Reg. No. 333-110676) filed on November 21, 2003 and as amended on Form S-8 (Reg. No. 333-140423) filed on February 2, 2007, and as incorporated herein by reference on Form 10-Q for the quarterly period ended June 30, 2007, as filed on August 9, 2007.
(3)	Incorporated herein by reference to the Registrant's Form 10-Q for the quarterly period ended September 30, 2004 filed on November 9, 2004.
(4)	Denotes management contract or compensation plan or arrangement.
(5)	Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2004 filed on March 16, 2005.
(6)	Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2005 filed on March 16, 2006.
(7)	Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2006 filed on March 1, 2007.
(8)	Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended September 30, 2007 filed on November 9, 2007.
(9)	Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2007 filed on March 14, 2008.
(10)	Incorporated herein by reference to the Registrant's Form 8-K filed on August 20, 2008.
(11)	Incorporated herein by reference to the Registrant's Form 8-K filed on December 31, 2008.
(12)	Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended September 30, 2008, as filed on November 7, 2008.
(13)	Incorporated herein by reference to the Registrant's Form 10-K for the year ended December 31, 2008 filed on March 13, 2009.
(14)	Incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended June 30, 2010, as filed on August 6, 2010.
(15)	Included herein.