Arlington Asset Investment Corp.
Form 10-Q
August 04, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-34374

ARLINGTON ASSET INVESTMENT CORP.

(Exact name of Registrant as specified in its charter)

Virginia	54-1873198
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1001 Nineteenth Street North	
Arlington, VA	22209
(Address of Principal Executive Offices)	(Zip Code)

(703) 373-0200

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

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

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

Number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2017:

Title	Outstanding
Class A Common Stock	25,950,468 shares

ARLINGTON ASSET INVESTMENT CORP.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2017

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$73,308	$54,794
Interest receivable	12,785	11,646
Mortgage-backed securities, at fair value		
Agency	4,182,529	3,911,375
Private-label	74	1,266
Derivative assets, at fair value	7,965	74,889
Deferred tax assets, net	24,162	48,829
Deposits, net	65,339	11,149
Other assets	2,729	3,003
Total assets	$4,368,891	$4,116,951
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Repurchase agreements	$3,913,699	$3,649,102
Interest payable	3,020	3,434
Accrued compensation and benefits	2,958	5,406
Dividend payable	15,548	15,739
Derivative liabilities, at fair value	4,038	9,554
Other liabilities	1,233	1,247
Long-term unsecured debt	73,768	73,656
Total liabilities	4,014,264	3,758,138
Commitments and contingencies		
Stockholders’ Equity:		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, 156,310 and -0- shares issued and outstanding, respectively (liquidation preference of $3,908 and $-0-, respectively)	3,500	—
Class A common stock, $0.01 par value, 450,000,000 shares authorized, 25,950,468 and 23,607,111 shares issued and outstanding, respectively	260	236

Class B common stock, $0.01 par value, 100,000,000 shares authorized, -0- and 20,256 shares issued and outstanding, respectively	—	—
Additional paid-in capital	1,944,847	1,910,284
Accumulated deficit	(1,593,980)	(1,551,707)
Total stockholders’ equity	354,627	358,813
Total liabilities and stockholders’ equity	$4,368,891	$4,116,951

See notes to consolidated financial statements.

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ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income				
Agency mortgage-backed securities	$31,397	$23,408	$61,683	$49,063
Private-label mortgage-backed securities	43	2,808	80	5,782
Other	21	135	41	260
Total interest income	31,461	26,351	61,804	55,105
Interest expense				
Short-term secured debt	11,314	5,509	20,173	11,009
Long-term unsecured debt	1,214	1,194	2,421	2,387
Total interest expense	12,528	6,703	22,594	13,396
Net interest income	18,933	19,648	39,210	41,709
Investment loss, net				
Realized loss on sale of available-for-sale investments, net	—	(593)	—	(593)
Other-than-temporary impairment charges	—	(1,638)	—	(1,737)
Gain on trading investments, net	15,855	27,665	11,636	78,615
Loss from derivative instruments, net	(31,678)	(34,381)	(29,373)	(135,141)
Other, net	(147)	—	5	19
Total investment loss, net	(15,970)	(8,947)	(17,732)	(58,837)
General and administrative expenses				
Compensation and benefits	2,804	2,756	6,249	5,320
Other general and administrative expenses	1,350	4,916	2,830	6,687
Total general and administrative expenses	4,154	7,672	9,079	12,007
(Loss) income before income taxes	(1,191)	3,029	12,399	(29,135)
Income tax provision (benefit)	16,737	(9,865)	25,073	(10,411)
Net (loss) income	(17,928)	12,894	(12,674)	(18,724)
Dividend on preferred stock	(35)	—	(35)	—
Net (loss) income (attributable) available to common stock	$(17,963)	$12,894	$(12,709)	$(18,724)
Basic (loss) earnings per common share	$(0.74)	$0.56	$(0.53)	$(0.81)
Diluted (loss) earnings per common share	$(0.74)	$0.56	$(0.53)	$(0.81)
Weighted-average common shares outstanding (in thousands)				
Basic	24,319	23,003	23,987	22,998

Diluted	24,319	23,070	23,987	22,998
Other comprehensive (loss) income, net of taxes				
Unrealized losses on available-for-sale securities (net of taxes of $-0-, $(641), $-0- and $(3,805), respectively)	$—	$(1,006)	$—	$(5,976)
Reclassification				
Included in investment loss, net, related to sales of available-for-sale securities (net of taxes of $-0-, $(144), $-0-, and $(144), respectively)	—	(226)	—	(226)
Included in investment loss, net, related to other-than-temporary impairment charges on available-for-sale securities (net of taxes of $-0-, $637, $-0- and $676, respectively)	—	1,001	—	1,061
Comprehensive (loss) income	$(17,928)	$12,663	$(12,674)	$(23,865)

See notes to consolidated financial statements.

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Dollars in thousands)

(Unaudited)

	Preferred Stock (#)	Preferred Amount ($)	Class A Common Stock (#)	Class A Amount ($)	Class B Common Stock (#)	Class B Amount ($)	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balances, December 31, 2015	—	$—	22,874,819	$229	102,216	$1	$1,898,085	$12,371	$(1,451,258)	$459,428
Net loss	—	—	—	—	—	—	—	—	(41,347)	(41,347)
Conversion of Class B common stock to Class A common stock	—	—	81,960	1	(81,960)	(1)	—	—	—	—
Issuance of Class A common stock	—	—	595,342	6	—	—	9,669	—	—	9,675
Issuance of Class A common stock under stock-based compensation plans	—	—	73,457	—	—	—	—	—	—	—
Repurchase of Class A common stock under stock-based compensation plans	—	—	(18,467)	—	—	—	(269)	—	—	(269)
Stock-based compensation	—	—	—	—	—	—	2,974	—	—	2,974
Income tax provision from stock-based compensation	—	—	—	—	—	—	(175)	—	—	(175)
Other comprehensive loss	—	—	—	—	—	—	—	(12,371)	—	(12,371)
Dividends declared	—	—	—	—	—	—	—	—	(59,102)	(59,102)
	—	—	23,607,111	236	20,256	—	1,910,284	—	(1,551,707)	358,813

Balances, December 31, 2016										
Net loss	—	—	—	—	—	—	—	—	(12,674)	(12,674)
Conversion of Class B common stock to Class A common stock	—	—	20,256	—	(20,256)	—	—	—	—	—
Issuance of Class A common stock	—	—	2,332,289	24	—	—	33,322	—	—	33,346
Issuance of Series B preferred stock	156,310	3,500	—	—	—	—	—	—	—	3,500
Repurchase of Class A common stock under stock-based compensation plans	—	—	(9,188)	—	—	—	(134)	—	—	(134)
Stock-based compensation	—	—	—	—	—	—	1,375	—	—	1,375
Dividends declared	—	—	—	—	—	—	—	—	(29,599)	(29,599)
Balances, June 30, 2017	156,310	$3,500	25,950,468	$260	$—	$—	$1,944,847	$—	$(1,593,980)	$354,627

See notes to consolidated financial statements.

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net loss	$(12,674)	$(18,724)
Adjustments to reconcile net loss to net cash provided by operating activities		
Investment loss, net	17,732	58,837
Net premium amortization on mortgage-backed securities	15,938	11,671
Deferred tax provision (benefit)	24,667	(11,020)
Other	1,245	1,111
Changes in operating assets		
Interest receivable	(1,139)	1,504
Other assets	146	2,124
Changes in operating liabilities		
Interest payable and other liabilities	(419)	481
Accrued compensation and benefits	(2,448)	(2,375)
Net cash provided by operating activities	43,048	43,609
Cash flows from investing activities:		
Purchases of private-label mortgage-backed securities	—	(5,357)
Purchases of agency mortgage-backed securities	(1,501,116)	(1,289,131)
Proceeds from sales of private-label mortgage-backed securities	1,268	38,290
Proceeds from sales of agency mortgage-backed securities	996,304	1,451,374
Receipt of principal payments on private-label mortgage-backed securities	10	404
Receipt of principal payments on agency mortgage-backed securities	229,271	211,614
Payments for derivatives and deposits, net	(22,053)	(150,698)
Other	129	15,732
Net cash (used in) provided by investing activities	(296,187)	272,228
Cash flows from financing activities:		
Proceeds from repurchase agreements, net	264,597	481,797
Repayments of Federal Home Loan Bank advances	—	(786,900)
Proceeds from issuance of common stock	33,346	—
Proceeds from issuance of preferred stock	3,500	—
Excess tax benefits associated with stock-based awards	—	86
Dividends paid	(29,790)	(28,894)
Net cash provided by (used in) financing activities	271,653	(333,911)
Net increase (decrease) in cash and cash equivalents	18,514	(18,074)
Cash and cash equivalents, beginning of period	54,794	36,987
Cash and cash equivalents, end of period	$73,308	$18,913
Supplemental cash flow information:		

Cash payments for interest	$22,896	$14,355
Cash payments for taxes	$—	$—

See notes to consolidated financial statements.

ARLINGTON ASSET INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

Note 1. Organization and Basis of Presentation

Arlington Asset Investment Corp. (“Arlington Asset”) and its consolidated subsidiaries (unless the context otherwise provides, collectively, the “Company”) is an investment firm that acquires and holds residential mortgage-related assets, primarily comprised of residential mortgage-backed securities (“MBS”). The Company’s investments in residential MBS include (i) residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by a government-sponsored enterprise (“GSE”) such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), which are collectively referred to as “agency MBS,” and (ii) residential MBS issued by private institutions for which the principal and interest payments are not guaranteed by a GSE, which are referred to as “private-label MBS” or “non-agency MBS.”

The unaudited interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X. The Company’s unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company’s consolidated financial statements include the accounts of Arlington Asset and all other entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Although the Company bases these estimates and assumptions on historical experience and all other reasonably available information that the Company believes to be relevant under the circumstances, such estimates frequently require management to exercise significant subjective judgment about matters that are inherently uncertain. Actual results may differ from these estimates.

Certain amounts in the consolidated financial statements and notes for prior periods have been reclassified to conform to the current year’s presentation. These reclassifications had no impact on the previously reported net income, other comprehensive income, total assets or total liabilities.

Note 2. Summary of Significant Accounting Policies

Cash Equivalents

Cash equivalents include demand deposits with banks, money market accounts and highly liquid investments with original maturities of three months or less. As of June 30, 2017 and December 31, 2016, approximately 99% of the Company’s cash equivalents were invested in money market funds that invest primarily in U.S. Treasuries and other securities backed by the U.S. government.

Investment Security Purchases and Sales

Purchases and sales of investment securities are recorded on the settlement date of the transfer unless the trade qualifies as a “regular-way” trade and the associated commitment qualifies for an exemption from the accounting guidance applicable to derivative instruments. A regular-way trade is an investment security purchase or sale transaction that is expected to settle within the period of time following the trade date that is prevalent or traditional for that specific type of security. Any amounts payable or receivable for unsettled security trades are recorded as “sold securities receivable” or “purchased securities payable” in the consolidated balance sheets.

Interest Income Recognition for Investments in Agency MBS

The Company recognizes interest income for its investments in agency MBS by applying the “interest method” permitted by GAAP, whereby purchase premiums and discounts are amortized and accreted, respectively, as an adjustment to contractual interest income accrued at each security’s stated coupon rate. The interest method is applied at the individual security level based upon each security’s effective interest rate. The Company calculates each security’s effective interest rate at the time of purchase by solving for the discount rate that equates the present value of that security's remaining contractual cash flows (assuming no principal prepayments) to its purchase price. Because each security’s effective interest rate does not reflect an estimate of future prepayments, the Company refers to this manner of applying the interest method as the “contractual effective interest method.” When applying the contractual effective interest method to its investments in agency MBS, as principal prepayments occur, a proportional amount of the unamortized premium or discount is recognized in interest income such that the effective interest rate on the remaining security balance is unaffected.

Interest Income Recognition for Investments in Private-Label MBS

The Company’s investments in private-label MBS were generally acquired at significant discounts to their par values due in large part to an expectation that the Company will be unable to collect all of the contractual cash flows of the securities. Investments in private-label MBS acquired prior to 2015 were classified as available-for-sale, all of which had been sold as of December 31, 2016. The Company has elected to classify its investments in private-label MBS acquired in 2015 or later as trading securities. Interest income from investments in private-label MBS is recognized using a prospective level-yield methodology which is based upon each security’s effective interest rate. The amount of periodic interest income recognized is determined by applying the security’s effective interest rate to its amortized cost basis or reference amount. At the time of acquisition, the security’s effective interest rate is calculated by solving for the single discount rate that equates the present value of the Company’s best estimate of the amount and timing of the cash flows expected to be collected from the security to its purchase price. To prepare its best estimate of cash flows expected to be collected, the Company develops a number of assumptions about the future performance of the pool of mortgage loans that serve as collateral for its investment, including assumptions about the timing and amount of prepayments and credit losses.

In each subsequent quarterly reporting period, the amount and timing of cash flows expected to be collected from the security are re-estimated based upon current information and events. The following table provides a description of how periodic changes in the estimate of cash flows expected to be collected affect interest income recognition prospectively for investments in private-label MBS that are classified as available-for-sale and trading securities, respectively:

	Effect on Interest Income Recognition for Investments in Private-Label MBS	
	Classified as:	
Scenario:	Available-for-Sale	Trading
A positive change in cash flows occurs. Actual cash flows exceed prior estimates and/or a positive change occurs in the estimate of expected remaining cash	If the positive change in cash flows is deemed significant, a revised effective interest rate is calculated and applied prospectively such that the positive change is recognized as incremental interest income over the remaining life of the security. This revised effective interest rate is also used in subsequent periods to determine if any declines in the fair value of that security are other-than-temporary.	A revised effective interest rate is calculated and applied prospectively such that the positive change in cash flows is recognized as incremental interest income over the remaining life of the security.

flows.		
An adverse change in cash flows occurs.	The security’s effective interest rate is unaffected. If an adverse change in cash flows occurs for a security that is impaired (that is, its fair value is less than its amortized cost basis), the impairment is considered other-than-temporary due to the occurrence of a credit loss. If a credit loss occurs, the Company writes-down the amortized cost basis of the security to an amount equal to the present value of cash flows expected to be collected, discounted at the security’s existing effective interest rate, and recognizes a corresponding other-than-temporary impairment charge in earnings as a component of “investment gain (loss), net.”	The amount of periodic interest income recognized over the remaining life of the security will be reduced accordingly. Specifically, if an adverse change in cash flows occurs for a security that is impaired (that is, its fair value is less than its reference amount), the reference amount to which the security’s existing effective interest rate will be prospectively applied will be reduced to the present value of cash flows expected to be collected, discounted at the security’s existing effective interest rate. If an adverse change in cash flows occurs for a security that is not impaired, the security’s effective interest rate will be reduced accordingly and applied on a prospective basis.
Actual cash flows fall short of prior estimates and/or an adverse change occurs in the estimate of expected remaining cash flows.		

Other Comprehensive Income

Comprehensive income includes net income as currently reported by the Company on the consolidated statements of comprehensive income adjusted for other comprehensive income. Other comprehensive income for the Company represents periodic unrealized holding gains and losses related to the Company’s investments in MBS classified as available-for-sale. Accumulated unrealized holding gains and losses for available-for-sale MBS are reclassified into net income as a component of “investment gain (loss), net" upon (i) sale or realization, or (ii) the occurrence of an other-than-temporary impairment. As of December 31, 2016 all of the Company's investments in MBS are classified as trading securities. Accordingly, all unrealized gains and losses related to the Company's investments in MBS during 2017 have been recognized in net income.

Other Significant Accounting Policies

Certain of the Company's other significant accounting policies are summarized in the following notes:

Investments in agency MBS, subsequent measurement	Note 3
Investments in private-label MBS, subsequent measurement	Note 4
Borrowings	Note 5
To-be-announced agency MBS transactions, including "dollar rolls"	Note 6
Derivative instruments	Note 6
Balance sheet offsetting	Note 7
Fair value measurements	Note 8

Refer to the Company's 2016 Annual Report on Form 10-K for a complete inventory and summary of the Company's significant accounting policies.

Recent Accounting Pronouncements

The following table provides a brief description of recently issued accounting pronouncements and their actual or expected effect on the Company's consolidated financial statements:

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
Recently Adopted Accounting Guidance			
ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting (Topic 323)	This amendment eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held.	January 1, 2017	The adoption of ASU No. 2016-07 did not impact the Company's consolidated financial statements.
ASU No. 2016-09, Improvements to	This amendment was issued with the objective of simplifying several aspects of the	January 1, 2017	The adoption of ASU No. 2016-07 did not have a material

Employee Share-Based Payment Accounting (Topic 718)	accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities.		impact on the Company's consolidated financial statements.
Recently Issued Accounting Guidance Not Yet Adopted			
ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date	This amendment defers the effective date of ASU No. 2014-09 for all entities by one year. ASU No. 2014-09 requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue recognition with respect to financial instruments is not within the scope of ASU No. 2014-09.	January 1, 2018	The Company does not expect that the adoption of ASU No. 2015-14 will have a material impact on its consolidated financial statements.

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	This amendment makes targeted changes to certain aspects of guidance applicable to financial assets and financial liabilities. The amendment primarily affects accounting for certain equity investments, financial liabilities measured under the fair value option, and certain financial instrument presentation and disclosure requirements. Accounting for investments in debt securities and financial liabilities not measured under the fair value option is largely unaffected by this amendment.	January 1, 2018	ASU No. 2016-01 requires entities to measure investments in equity securities at fair value, unless fair value measurement is impractical, with changes in fair value recognized in current period earnings. Upon the adoption of ASU No. 2016-01, the Company will recognize the difference between the fair value of its investments in equity securities currently carried at their historical cost (net of impairments) and the securities' fair values in net income. As of June 30, 2017, the Company's investments in equity securities measured at cost have a balance sheet carrying value of $1,257 and an estimated fair value of $5,556.
ASU No. 2016-02, Leases (Topic 842)	This amendment replaces the existing lease accounting model with a revised model. The primary change effectuated by the revised lease accounting model is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases.	January 1, 2019	The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

Standard	Description	Date of Adoption	Effect on the Consolidated Financial Statements
ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 606)	The amendments in this update require financial assets measured at amortized cost as well as available-for-sale debt securities to be measured for impairment on the basis of the net amount expected to be collected. Credit losses are to be recognized through an allowance for credit losses, which differs from the direct write-down of the amortized cost basis currently required for other-than-temporary impairments of investments in debt securities. This update also makes substantial changes to the manner in which interest income is to be recognized for financial assets acquired with a more-than-insignificant amount of credit deterioration since origination. This update will not affect the accounting for investments in debt securities that are classified as trading securities.	January 1, 2019	As of June 30, 2017, all of the Company's investments in debt securities are classified as trading securities. Accordingly, the Company does not expect ASU No. 2016-13 to have a material impact on its consolidated financial statements.
ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230)	This amendment was issued to reduce diversity in practice with respect to eight various statement of cash flow reporting issues for which existing GAAP is either unclear or does not provide specific guidance.	January 1, 2018	The Company does not expect that the adoption of ASU No. 2016-15 will have a material impact on the classification of cash inflows or outflows within its consolidated statement of cash flows.
ASU No. 2017-08, Premium Amortization of Purchased Callable Debt Securities (Subtopic 310-20)	This amendment requires purchase premiums for investments in debt securities that are noncontingently callable by the issuer (at a fixed price and preset date) to be amortized to the earliest call date. Previously, purchase premiums for such investments were permitted to be amortized to the instrument's maturity date.	January 1, 2020	Investments in prepayable financial assets, such as residential MBS, for which the embedded call options are not held by the issuer are not within the scope of ASU No. 2017-08. Accordingly, the Company does not expect the adoption of ASU No. 2017-08 to have a material effect on its consolidated financial statements.

Note 3. Investments in Agency MBS

The Company's investments in agency MBS are reported in the accompanying consolidated balance sheets at fair value. As of June 30, 2017 and December 31, 2016, the Company had $4,182,529 and $3,911,375, respectively, of fair value in agency MBS classified as trading securities.

As of June 30, 2017 all of the Company's investments in agency MBS represent undivided (or "pass-through") beneficial interests in specified pools of fixed-rate mortgage loans. As of December 31, 2016, the Company's portfolio of investments in agency MBS also included investments in inverse interest-only agency MBS with an aggregate fair value of $1,923. The Company's investments in inverse interest-only agency MBS represented beneficial interests in a portion of the interest cash flows of an underlying pool of pass-through agency MBS collateralized by adjustable-rate mortgage loans.

All periodic changes in the fair value of trading agency MBS that are not attributed to interest income are recognized as a component of "investment gain (loss), net" in the accompanying consolidated statements of comprehensive income. The following table provides additional information about the gains and losses recognized as a component of "investment gain (loss), net" in the Company's consolidated statements of comprehensive income for the periods indicated with respect to investments in agency MBS classified as trading securities:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net gains recognized in earnings for:				
Agency MBS still held at period end	$13,474	$27,639	$11,191	$65,180
Agency MBS sold during the period	2,343	284	397	13,562
Total	$15,817	$27,923	$11,588	$78,742

The Company also invests in and finances fixed-rate agency MBS on a generic pool basis through sequential series of to-be-announced security transactions commonly referred to as "dollar rolls." Dollar rolls are accounted for as a sequential series of derivative instruments. Refer to "Note 6. Derivative Instruments" for further information about dollar rolls.

Note 4. Investments in Private-Label MBS

The Company's investments in private-label MBS are reported in the accompanying consolidated balance sheets at fair value. Investments in private-label MBS acquired prior to 2015 were classified as available-for-sale, all of which had been sold as of December 31, 2016. The Company has elected to classify its investments in private-label MBS acquired in 2015 or later as trading securities. As of June 30, 2017 and December 31, 2016, the Company held investments in private-label MBS with a fair value of $74 and $1,266, respectively, all of which were classified as trading securities.

Available-for-Sale Private-Label MBS

Periodic changes in the fair value of the Company's available-for-sale private-label MBS that are not attributed to interest income or other-than-temporary impairments represent unrealized holding gains and losses. Unrealized holding gains and losses are accumulated in other comprehensive income until the securities are sold. As of June 30, 2017 and December 31, 2016, the Company had no available-for-sale private-label MBS.

Upon the sale of available-for-sale private-label MBS, any gains or losses accumulated in other comprehensive income are recognized in earnings as a component of "investment gain (loss), net." The Company uses the specific identification method to determine the realized gain or loss that is recognized in earnings upon the sale of an available-for-sale private-label MBS.

The following table presents the results of sales of available-for-sale private-label MBS for the periods indicated:

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Proceeds from sales	$—	$28,410	$—	$28,410
Gross realized gains	—	26	—	26
Gross realized losses	—	619	—	619

Accretable Yield

The excess of the Company’s estimate of undiscounted future cash flows expected to be collected over the security’s amortized cost basis represents that security’s accretable yield. The accretable yield is expected to be recognized as interest income over the remaining life of the security on a level-yield basis. The difference between undiscounted future contractual cash flows and undiscounted future expected cash flows represents the non-accretable difference. Based on actual payments received and/or changes in the estimate of future cash flows expected to be collected, the accretable yield and the non-accretable difference can change over time. Actual cash collections that exceed prior estimates and/or positive changes in the Company’s periodic estimate of expected future cash flows result in a reclassification of non-accretable difference to accretable yield. Conversely, actual cash collections that fall short of prior estimates and/or adverse changes in the Company’s periodic estimate of expected future cash flows result in a reclassification of accretable yield to non-accretable difference.

The following table presents the changes in the accretable yield solely for available-for-sale private-label MBS for the periods indicated:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Beginning balance	$—	$66,998	$—	$85,052
Accretion	—	(2,448)	—	(5,021)
Reclassifications, net	—	89	—	(11,877)
Eliminations in consolidation	—	—	—	(3,515)
Sales	—	(16,440)	—	(16,440)
Ending balance	$—	$48,199	$—	$48,199

Other-than-Temporary Impairments

The Company evaluates available-for-sale MBS for other-than-temporary impairment on a quarterly basis. When the fair value of an available-for-sale security is less than its amortized cost at the quarterly reporting date, the security is considered impaired. Impairments determined to be other-than-temporary are recognized as a direct write-down to the security's amortized cost basis with a corresponding charge recognized in earnings as a component of "investment gain (loss), net." An impairment is considered other-than-temporary when (i) the Company intends to sell the impaired security, (ii) the Company more-likely-than not will be required to sell the impaired security prior to the recovery of its amortized cost basis, or (iii) a credit loss exists. A credit loss exists when the present value of the Company's estimate of the cash flows expected to be collected from the security, discounted at the security's existing effective interest rate, is less than the security's amortized cost basis.

If the Company intends to sell an impaired security or it more-likely-than-not will be required to sell an impaired security before recovery of its amortized cost basis, the Company writes-down the amortized cost basis of the security to an amount equal to the security's fair value and recognizes a corresponding other-than-temporary impairment charge in earnings as a component of "investment gain (loss), net." If a credit loss exists for an impaired security that the Company does not intend to sell nor will it likely be required to sell prior to recovery, the Company writes-down the amortized cost basis of the security to an amount equal to the present value of cash flows expected to be collected, discounted at the security's existing effective interest rate, and recognizes a corresponding other-than-temporary impairment charge in earnings as a component of "investment gain (loss), net."

For the three and six months ended June 30, 2016, the Company recorded credit related other-than-temporary impairment charges of $1,638 and $1,737 as a component of "investment gain (loss), net" on the consolidated statements of comprehensive income on certain available-for-sale private-label MBS. The Company recorded no other-than-temporary impairment charges on available-for-sale private-label MBS during the three and six months ended June 30, 2017. The following table presents a summary of cumulative credit related other-than-temporary impairment charges recognized on the available-for-sale private-label MBS held as of the dates indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cumulative credit related other-than-temporary impairments, beginning balance	$—	$14,116	$—	$14,017
Additions for:				
Securities for which other-than-temporary impairments have not previously occurred	—	1,638	—	1,737
Securities with previously recognized other-than-temporary impairments	—	—	—	—
Reductions for sold or matured securities	—	—	—	—
Cumulative credit related other-than-temporary impairments, ending balance	$—	$15,754	$—	$15,754

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Trading Private-Label MBS

Periodic changes in the fair value of investments in trading private-label MBS that are not attributable to interest income are recognized as a component of "investment gain (loss), net" in the Company's consolidated statements of comprehensive income. The following table provides additional information about the net gains and losses recognized as a component of "investment gain (loss), net" for the periods indicated with respect to investments in private-label MBS classified as trading securities:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net gains (losses) recognized in earnings for:				
Private-label MBS still held at period end	$(5)	$(21)	$(9)	$(216)
Private-label MBS sold during the period	43	(237)	57	89
Total	$38	$(258)	$48	$(127)

Note 5. Borrowings

Repurchase Agreements

The Company finances the purchase of MBS through repurchase agreements, which are accounted for as collateralized borrowing arrangements. In a repurchase transaction, the Company sells MBS to a counterparty under a master repurchase agreement in exchange for cash and concurrently agrees to repurchase the same security at a future date in an amount equal to the cash initially exchanged plus an agreed-upon amount of interest. MBS sold under agreements to repurchase remain on the Company's consolidated balance sheets because the Company maintains effective control over such securities throughout the duration of the arrangement. Throughout the contractual term of a repurchase agreement, the Company recognizes a "repurchase agreement" liability on its consolidated balance sheets to reflect the obligation to repay to the counterparty the proceeds received upon the initial transfer of the MBS. The difference between the proceeds received by the Company upon the initial transfer of the MBS and the contractually agreed-upon repurchase price is recognized as interest expense over the term of the repurchase arrangement on a level-yield basis.

Amounts borrowed pursuant to repurchase agreements are equal in value to a specified percentage of the fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral throughout the term of the repurchase agreement. The counterparty to the repurchase agreements may require that the Company pledge additional securities or cash as additional collateral to secure borrowings when the value of the collateral declines.

As of June 30, 2017 and December 31, 2016, the Company had no amount at risk with a single repurchase agreement counterparty or lender greater than 10% of equity. The following table provides information regarding the Company's outstanding repurchase agreement borrowings as of the dates indicated:

	June 30, 2017		December 31, 2016	
Pledged with agency MBS:				
Repurchase agreements outstanding	$3,913,699		$ 3,649,102	
Agency MBS collateral, at fair value	4,102,321		3,851,269	
Net amount [1]	188,622		202,167	
Weighted-average rate	1.33	%	0.96	%
Weighted-average term to maturity	12.8 days		19.3 days	

[1] Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.

The following table provides information regarding the Company's outstanding repurchase agreement borrowings during the three and six months ended June 30, 2017 and 2016:

	June 30, 2017		June 30, 2016	
Weighted-average outstanding balance during the three months ended	$4,125,631		$3,293,662	
Weighted-average rate during the three months ended	1.08	%	0.66	%
Weighted-average outstanding balance during the six months ended	$4,025,321		$3,258,029	
Weighted-average rate during the six months ended	1.00	%	0.66	%

Long-Term Unsecured Debt

As of June 30, 2017 and December 31, 2016, the Company had $73,768 and $73,656, respectively, of outstanding long-term unsecured debentures, net of unamortized debt issuance costs of $1,532 and $1,644, respectively. The Company’s long-term debentures consisted of the following as of the dates indicated:

	June 30, 2017			December 31, 2016		
	Senior Notes Due 2025	Senior Notes Due 2023	Trust Preferred Debt	Senior Notes Due 2025	Senior Notes Due 2023	Trust Preferred Debt
Outstanding Principal	$35,300	$ 25,000	$ 15,000	$35,300	$ 25,000	$ 15,000
Annual Interest Rate	6.75 %	6.625 %	LIBOR+ 2.25 - 3.00 %	6.75 %	6.625 %	LIBOR+ 2.25 - 3.00 %
Interest Payment Frequency	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Weighted-Average Interest Rate	6.75 %	6.625 %	3.91 %	6.75 %	6.625 %	3.63 %
Maturity	March 15, 2025	May 1, 2023	2033 - 2035	March 15, 2025	May 1, 2023	2033 - 2035
Early Redemption Date	March 15, 2018	May 1, 2016	2008 - 2010	March 15, 2018	May 1, 2016	2008 - 2010

The Senior Notes due 2023 and the Senior Notes due 2025 are publicly traded on the New York Stock Exchange under the ticker symbols “AIW” and “AIC,” respectively. The Senior Notes due 2023 and Senior Notes due 2025 may be redeemed in whole or in part at any time and from time to time at the Company’s option on or after May 1, 2016 and March 15, 2018, respectively, at a redemption price equal to the principal amount plus accrued and unpaid interest. The indenture governing these Senior Notes contains certain covenants, including limitations on the Company’s ability to merge or consolidate with other entities or sell or otherwise dispose of all or substantially all of the Company’s assets.

Note 6. Derivative Instruments

In the normal course of its operations, the Company is a party to financial instruments that are accounted for as derivative instruments. Derivative instruments are recorded at fair value as either “derivative assets” or “derivative liabilities” in the consolidated balance sheets, with all periodic changes in fair value reflected as a component of “investment gain (loss), net” in the consolidated statements of comprehensive income. Cash receipts or payments related to derivative instruments are classified as investing activities within the consolidated statements of cash flows.

Types and Uses of Derivative Instruments

Interest Rate Derivatives

Most of the Company’s derivative instruments are interest rate derivatives that are intended to economically hedge changes, attributable to changes in benchmark interest rates, in certain MBS fair values and future interest cash flows on the Company’s short-term financing arrangements. Interest rate derivatives include centrally cleared interest rate swaps as well as exchange-traded instruments, such as Eurodollar futures, interest rate swap futures, U.S. Treasury note futures, and options on futures. While the Company uses its interest rate derivatives to economically hedge a portion of its interest rate risk, it has not designated such contracts as hedging instruments for financial reporting purposes.

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

Receivables recognized for the right to reclaim cash initial margin posted in respect of interest rate derivative instruments are included in the line item “deposits, net” in the accompanying consolidated balance sheets. Prior to January 1, 2017, the daily exchange of variation margin associated with centrally cleared derivative instruments was considered a pledge of collateral. For these prior periods, receivables recognized for the right to reclaim cash variation margin posted in respect of interest rate derivative instruments are included in the line item “deposits, net” in the accompanying consolidated balance sheets. The Company elected to offset any payables recognized for the obligation to return cash variation margin received from an interest rate derivative instrument counterparty against receivables recognized for the right to reclaim cash initial margin posted by the Company to that same counterparty.

Beginning on January 1, 2017, as a result of a CME amendment to their rule book which governs their central clearing activities, the daily exchange of variation margin associated with a centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared interest rate swaps as a direct reduction to the carrying value of the interest rate swap derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps reflected in the Company's consolidated balance sheets is equal to the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period.

To-Be-Announced Agency MBS Transactions, Including "Dollar Rolls"

In addition to interest rate derivatives that are used for interest rate risk management, the Company is a party to derivative instruments that economically serve as investments, such as forward contracts to purchase fixed-rate "pass-through" agency MBS on a non-specified pool basis, which are known as to-be-announced ("TBA") contracts. A TBA contract is a forward contract for the purchase or sale of a fixed-rate agency MBS at a predetermined price, face amount, issuer, coupon, and stated maturity for settlement on an agreed upon future date. The specific agency MBS that will be delivered to satisfy the TBA trade is not known at the inception of the trade. The Company accounts for TBA contracts as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA contract that its settlement will result in physical delivery of the underlying agency MBS, or the individual TBA contract will not settle in the shortest time period possible.

The Company's agency MBS investment portfolio includes net purchase (or "net long") positions in TBA securities, which are primarily the result of executing sequential series of "dollar roll" transactions. The Company executes dollar roll transactions as a means of investing in and financing non-specified fixed-rate agency MBS. Such transactions involve effectively delaying (or "rolling") the settlement of a forward purchase of a TBA agency MBS by entering into an offsetting sale prior to the settlement date, net settling the "paired-off" positions in cash, and contemporaneously entering another forward purchase of a TBA agency MBS of the same characteristics for a later settlement date. TBA securities purchased for a forward settlement month are generally priced at a discount relative to TBA securities sold for settlement in the current month. This discount, often referred to as the dollar roll "price drop," reflects compensation for the net interest income (interest income less financing costs) that is foregone as a result of relinquishing beneficial ownership of the MBS for the duration of the dollar roll (also known as "dollar roll income"). By executing a sequential series of dollar roll transactions, the Company is able to create the economic experience of investing in an agency MBS, financed with a repurchase agreement, over a period of time. Forward purchases and sales of TBA securities are accounted for as derivative instruments in the Company's financial statements. Accordingly, dollar roll income is recognized as a component of "investment gain (loss), net" along with all other periodic changes in the fair value of TBA commitments.

In addition to transacting in net long positions in TBA securities for investment purposes, the Company may also, from time to time, transact in net sale (or "net short") positions in TBA securities for the purpose of economically hedging a portion of the sensitivity of the fair value of the Company's investments in agency MBS to changes in interest rates.

Receivables recognized for the right to reclaim cash collateral posted by the Company in respect of TBA transactions is included in the line item "deposits, net" in the accompanying consolidated balance sheets. Liabilities recognized for the obligation to return cash collateral received by the Company in respect of TBA transactions is included in the line item "other liabilities" in the accompanying consolidated balance sheets.

In addition to TBA transactions, the Company may, from time to time, enter into commitments to purchase or sell specified agency MBS that do not qualify as regular-way security trades. Such commitments are also accounted for as derivative instruments.

Derivative Instrument Population and Fair Value

The following table presents the fair value of the Company’s derivative instruments as of the dates indicated:

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	$6,907	$ —	$63,315	$ (1,949)
10-year U.S. Treasury note futures	984	—	—	—
Options on 10-year U.S. Treasury note futures	27	—	4,289	(3,906)
TBA commitments	47	(4,038)	7,285	(3,699)
Total	$7,965	$ (4,038)	$74,889	$ (9,554)

Interest Rate Swaps

The Company’s interest rate swap agreements represent agreements to make semiannual interest payments based upon a fixed interest rate and receive quarterly variable interest payments based upon the prevailing three-month LIBOR on the date of reset.

The following table presents information about the Company’s interest rate swap agreements that were in effect as of June 30, 2017:

	Notional Amount	Weighted-average: Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)	Fair Value
Years to maturity:						
Less than 3 years	$ 975,000	1.18%	1.24 %	0.06 %	1.7	$ 352
3 to less than 7 years	500,000	1.91%	1.21 %	(0.70)%	4.0	644
7 to 10 years	2,000,000	2.01%	1.23 %	(0.78)%	8.9	5,721
Total / weighted-average	$ 3,475,000	1.76%	1.23 %	(0.53)%	6.2	$ 6,717

The following table presents information about the Company’s forward-starting interest rate swap agreements that had yet to take effect as of June 30, 2017:

	Notional Amount	Weighted-average: Fixed Pay Rate	Term After Effective Date (Years)	Fair Value
Effective in September / October 2017	$ 375,000	1.13 %	2.0	$ 190

The following table presents information about the Company’s interest rate swap agreements that were in effect as of December 31, 2016:

	Notional Amount	Weighted-average: Fixed Pay Rate	Variable Receive Rate	Net (Pay) Rate	Remaining Life (Years)	Fair Value
Years to maturity:						
Less than 3 years	$ 1,375,000	1.10%	0.97 %	(0.13)%	1.7	$ 6,470
3 to less than 7 years	350,000	1.84%	1.00 %	(0.84)%	3.7	(769)

7 to 10 years	1,600,000	1.93%	0.96 %	(0.97)%	9.2	50,511
Total / weighted-average	$ 3,325,000	1.58%	0.97 %	(0.61)%	5.5	$ 56,212

The following table presents information about the Company's forward-starting interest rate swap agreements that had yet to take effect as of December 31, 2016:

		Weighted-average:		
	Notional Amount	Fixed Pay Rate	Term After Effective Date (Years)	Fair Value
Effective in September / October 2017	$ 375,000	1.13 %	2.0	$ 5,154

10-year U.S. Treasury Note Futures

The Company's 10-year U.S. Treasury note futures held as of June 30, 2017, are short positions with an aggregate notional amount of $350,000 that mature in September 2017. Upon the maturity date of these futures contracts, the Company has the option to either net settle each contract in cash in an amount equal to the difference between the then-current fair value of the underlying 10-year U.S. Treasury note and the contractual sale price inherent to the futures contract, or to physically settle the contract by delivering the underlying 10-year U.S. Treasury note.

Options on 10-year U.S. Treasury Note Futures

The Company purchases and sells exchange-traded options on 10-year U.S. Treasury note futures contracts with the objective of economically hedging a portion of the sensitivity of its investments in agency MBS to significant changes in interest rates. The Company may purchase put options which provide the Company with the right to sell 10-year U.S. Treasury note futures to a counterparty, and the Company may also write call options that provide a counterparty with the option to buy 10-year U.S. Treasury note futures from the Company. In order to limit its exposure on its interest rate derivative instruments from a significant decline in long-term interest rates, the Company may also purchase contracts that provide the Company with the option to buy, or call, 10-year U.S. Treasury note futures from a counterparty. The options may be exercised at any time prior to their expiry, and if exercised, may be net settled in cash or through physical receipt or delivery of the underlying futures contracts. Information about the Company's outstanding options on 10-year U.S. Treasury note futures contracts as of June 30, 2017 is as follows:

	Notional Amount	Weighted-average Strike Price	Implied Strike Rate (1)	Net Fair Value
Purchased call options:				
July 2017 expiration	$700,000	129.9	1.81 %	$ 27

(1) The implied strike rate is estimated based upon the weighted average strike price per contract and the price of an equivalent 10-year U.S. Treasury note futures contract.

Information about the Company's outstanding options on 10-year U.S. Treasury note futures contracts as of December 31, 2016 is as follows:

	Notional Amount	Weighted-average Strike Price	Implied Strike Rate (1)	Net Fair Value
Purchased put options:				
January 2017 expiration	$950,000	120.8	2.87 %	$539
February 2017 expiration	700,000	122.6	2.64 %	3,281
Total / weighted average for purchased put options	$1,650,000	121.6	2.77 %	$3,820
Sold call options:				
January 2017 expiration	$(100,000)	126.0	2.25 %	$(141)
February 2017 expiration	(900,000)	126.0	2.24 %	(3,765)
Total / weighted average for sold call options	$(1,000,000)	126.0	2.24 %	$(3,906)
Purchased call options:				
January 2017 expiration	$1,000,000	127.1	2.12 %	$469
				$383

(1) The implied strike rate is estimated based upon the weighted average strike price per contract and the price of an equivalent 10-year U.S. Treasury note futures contract.

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TBA Commitments

The following tables present information about the Company’s TBA commitments as of the dates indicated:

	June 30, 2017			
	Notional Amount: Net Purchase (Sale) Commitment	Contractual Forward Price	Market Price	Fair Value
Dollar roll positions:				
3.5% coupon purchase commitments	$435,000	$ 448,641	$ 446,826	$ (1,815)
4.0% coupon purchase commitments	700,000	738,535	736,312	(2,223)
4.0% coupon sale commitments	(25,000)	(26,344)	(26,297)	47
Total TBA commitments, net	$1,110,000	$ 1,160,832	$ 1,156,841	$ (3,991)

	December 31, 2016			
	Notional Amount: Net Purchase (Sale) Commitment	Contractual Forward Price	Market Price	Fair Value
Dollar roll positions:				
3.0% coupon purchase commitments	$725,000	$ 718,887	$ 720,027	$ 1,140
3.5% coupon purchase commitments	25,000	25,586	25,613	27
3.5% coupon sale commitments	(25,000)	(25,602)	(25,613)	(11)
Total dollar roll positions, net	725,000	718,871	720,027	1,156
TBA commitments serving as economic hedges:				
3.5% coupon purchase commitments	600,000	608,601	614,719	6,118
3.5% coupon sale commitments	(600,000)	(611,031)	(614,719)	(3,688)
Total economic hedges, net	—	(2,430)	—	2,430
Total TBA commitments, net	$725,000	$ 716,441	$ 720,027	$ 3,586

Derivative Instrument Gains and Losses

The following tables provide information about the derivative gains and losses recognized within the periods indicated:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest rate derivatives:				
Interest rate swaps:				
Net interest expense [1]	$(5,293)	$(4,376)	$(10,702)	$(8,373)
Unrealized losses, net	(26,991)	(35,840)	(18,824)	(80,945)
Gains realized upon early termination	65	—	696	—
Total interest rate swap losses, net	(32,219)	(40,216)	(28,830)	(89,318)
U.S. Treasury note futures, net	(2,176)	(2,208)	(2,041)	(63,285)
Options on U.S. Treasury note futures, net	(1,736)	(4,374)	(6,153)	(6,249)
Other, net	—	—	—	(25)
Total interest rate derivative losses, net	(36,131)	(46,798)	(37,024)	(158,877)
TBA and specified agency MBS commitments:				
TBA dollar roll income [2]	4,298	3,719	7,696	7,514
Other gains (losses) on agency MBS commitments, net	155	8,698	(45)	16,222
Total gains on agency MBS commitments, net	4,453	12,417	7,651	23,736
Total derivative losses, net	$(31,678)	$(34,381)	$(29,373)	$(135,141)

(1) Represents the periodic net interest settlement incurred during the period (often referred to as "net interest carry"). Beginning in 2017, also includes "price alignment interest" income earned or expense incurred on cumulative variation margin paid or received, respectively, associated with centrally cleared interest rate swap agreements.

(2) Represents the price discount of forward-settling TBA purchases relative to a contemporaneously executed "spot" TBA sale, which economically equates to net interest income that is earned ratably over the period beginning on the settlement date of the sale and ending on the settlement date of the forward-settling purchase.

Derivative Instrument Activity

The following tables summarize the volume of activity, in terms of notional amount, related to derivative instruments for the periods indicated:

	For the Three Months Ended June 30, 2017				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	$3,600,000	$375,000	$—	$ (125,000)	$ 3,850,000
10-year U.S. Treasury note futures	—	608,000	(258,000)	—	350,000
Purchased put options on 10-year U.S. Treasury note futures	700,000	100,000	(800,000)	—	—
Sold call options on 10-year U.S. Treasury note futures	350,000	300,000	(650,000)	—	—
Purchased call options on 10-year U.S. Treasury note futures	350,000	1,500,000	(1,150,000)	—	700,000
Commitments to purchase (sell) MBS, net	450,000	2,865,000	(2,205,000)	—	1,110,000

	For the Three Months Ended June 30, 2016				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	$1,750,000	$500,000	$—	$ —	$ 2,250,000
10-year U.S. Treasury note futures	375,000	502,500	(415,000)	(462,500)	—
Purchased put options on 10-year U.S. Treasury note futures	2,000,000	4,000,000	(4,000,000)	—	2,000,000
Commitments to purchase (sell) MBS, net	690,000	2,050,441	(1,865,000)	—	875,441

	For the Six Months Ended June 30, 2017				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	$3,700,000	$775,000	$—	$ (625,000)	$ 3,850,000
10-year U.S. Treasury note futures	—	845,100	(495,100)	—	350,000
Purchased put options on 10-year U.S. Treasury note futures	1,650,000	2,540,000	(4,190,000)	—	—
Sold call options on 10-year U.S. Treasury note futures	1,000,000	2,450,000	(3,450,000)	—	—
Purchased call options on 10-year U.S. Treasury note futures	1,000,000	2,400,000	(2,700,000)	—	700,000
Commitments to purchase (sell) MBS, net	725,000	4,315,000	(3,930,000)	—	1,110,000

	For the Six Months Ended June 30, 2016				
	Beginning of Period	Additions	Scheduled Settlements	Early Terminations	End of Period
Interest rate swaps	$1,500,000	$750,000	$—	$ —	$ 2,250,000
10-year U.S. Treasury note futures	1,335,000	1,371,000	(2,118,500)	(587,500)	—
Put options on 10-year U.S. Treasury note futures, net	—	6,000,000	(4,000,000)	—	2,000,000
Put options on Eurodollar futures	4,000,000	—	(4,000,000)	—	—
Commitments to purchase (sell) MBS, net	375,000	3,550,441	(3,050,000)	—	875,441

Cash Collateral Posted and Received for Derivative Instruments

The following table presents information about the cash collateral posted and received by the Company in respect of its derivative instruments, which is included in the line item "deposits, net" in the accompanying consolidated balance sheets, for the dates indicated:

	June 30, 2017	December 31, 2016
Cash collateral posted for:		
Interest rate swaps (cash initial margin)	$58,992	$ 65,728
U.S. Treasury note futures and options on U.S. Treasury note futures (cash initial margin)	4,550	5,314
TBA commitments	1,797	1,474
Total cash collateral posted	65,339	72,516
Cash collateral received for interest rate swaps (1)	—	(61,367)
Total cash collateral posted, net	$65,339	$ 11,149

(1) Beginning in 2017, the Company accounts for the daily receipt or payment of cash variation margin associated with centrally cleared interest rate swaps as a legal settlement of the derivative instrument itself, as opposed to a pledge of collateral.

Note 7. Offsetting of Financial Assets and Liabilities

The agreements that govern certain of the Company's derivative instruments and collateralized short-term financing arrangements provide for a right of setoff in the event of default or bankruptcy with respect to either party to such transactions. The Company presents derivative assets and liabilities as well as collateralized short-term financing arrangements on a gross basis.

Receivables recognized for the right to reclaim cash initial margin posted in respect of interest rate derivative instruments are included in the line item "deposits, net" in the accompanying consolidated balance sheets. Prior to January 1, 2017, the daily exchange of variation margin associated with centrally cleared derivative instruments was considered a pledge of collateral. For these prior periods, receivables recognized for the right to reclaim cash variation margin posted in respect of interest rate derivative instruments are included in the line item "deposits, net" in the accompanying consolidated balance sheets. The Company elected to offset any payables recognized for the obligation to return cash variation margin received from an interest rate derivative instrument counterparty against receivables recognized for the right to reclaim cash initial margin posted by the Company to that same counterparty.

Beginning on January 1, 2017, as a result of a CME amendment to their rule book which governs their central clearing activities, the daily exchange of variation margin associated with a centrally cleared derivative instrument is legally characterized as the daily settlement of the derivative instrument itself, as opposed to a pledge of collateral. Accordingly, beginning in 2017, the Company accounts for the daily receipt or payment of variation margin associated with its centrally cleared interest rate swaps as a direct reduction to the carrying value of the interest rate swap derivative asset or liability, respectively. Beginning in 2017, the carrying amount of centrally cleared interest rate swaps reflected in the Company’s consolidated balance sheets is equal to the unsettled fair value of such instruments; because variation margin is exchanged on a one-day lag, the unsettled fair value of such instruments represents the change in fair value that occurred on the last day of the reporting period.

The following tables present information, as of the dates indicated, about the Company's derivative instruments, short-term borrowing arrangements, and associated collateral, including those subject to master netting (or similar) arrangements:

As of June 30, 2017	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets: Financial Instruments (1)	Gross Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral (2)	Net Amount
Assets:						
Derivative instruments:						
Options on U.S. Treasury note futures	$ 27	$ —	$ 27	$ —	$ —	$ 27
U.S. Treasury note futures	984	—	984	—	(984)	—
Interest rate swaps	6,907	—	6,907	—	(6,907)	—
TBA commitments	47	—	47	—	—	47
Total derivative instruments	7,965	—	7,965	—	(7,891)	74
Total assets	$ 7,965	$ —	$ 7,965	$ —	$ (7,891)	$ 74
Liabilities:						
TBA commitments	$ 4,038	$ —	$ 4,038	$ —	$ (1,797)	$ 2,241
Repurchase agreements	3,913,699	—	3,913,699	(3,913,699)	—	—
Total liabilities	$ 3,917,737	$ —	$ 3,917,737	$ (3,913,699)	$ (1,797)	$ 2,241

As of December 31, 2016	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets: Financial Instruments (1)	Gross Amount Not Offset in the Consolidated Balance Sheets: Cash Collateral (2)	Net Amount
Assets:						
Derivative instruments:						
Options on U.S. Treasury note futures	$ 4,289	$ —	$ 4,289	$ (3,906)	$ —	$ 383
Interest rate swaps	63,315	—	63,315	(1,949)	(61,366)	—
TBA commitments	7,285	—	7,285	—	—	7,285

Total derivative instruments	74,889	—	74,889	(5,855)	(61,366)	7,668
Deposits, net	72,516	(61,367)	11,149	—	—	11,149
Total assets	$147,405	$ (61,367)	$ 86,038	$ (5,855)	$ (61,366)	$18,817
Liabilities:						
Derivative instruments:						
Options on U.S. Treasury note futures	$3,906	$ —	$ 3,906	$ (3,906)	$ —	$—
Interest rate swaps	1,949	—	1,949	(1,949)	—	—
TBA commitments	3,699	—	3,699	—	(1,474)	2,225
Total derivative instruments	9,554	—	9,554	(5,855)	(1,474)	2,225
Deposits, net	61,367	(61,367)	—	—	—	—
Repurchase agreements	3,649,102	—	3,649,102	(3,649,102)	—	—
Total liabilities	$3,720,023	$ (61,367)	$ 3,658,656	$ (3,654,957)	$ (1,474)	$2,225

(1) Does not include the fair value amount of financial instrument collateral pledged in respect of repurchase agreements that exceeds the associated liability presented in the consolidated balance sheets.

(2) Does not include the amount of cash collateral pledged in respect of derivative instruments that exceeds the associated derivative liability presented in the consolidated balance sheets.

Note 8. Fair Value Measurements

Fair Value of Financial Instruments

The accounting principles related to fair value measurements define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as described below:

Level 1 Inputs -	Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company at the measurement date;
Level 2 Inputs -	Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
Level 3 Inputs -	Unobservable inputs for the asset or liability, including significant judgments made by the Company about the assumptions that a market participant would use.

The Company measures the fair value of the following assets and liabilities:

Mortgage-backed securities

Agency MBS - The Company's investments in agency MBS are classified within Level 2 of the fair value hierarchy. Inputs to fair value measurements of the Company's investments in agency MBS include price estimates obtained from third-party pricing services. In determining fair value, third-party pricing services use a market approach. The inputs used in the fair value measurements performed by the third-party pricing services are based upon readily observable transactions for securities with similar characteristics (such as issuer/guarantor, coupon rate, stated maturity, and collateral pool characteristics) occurring on the measurement date. The Company makes inquiries of the third party pricing sources to understand the significant inputs and assumptions used to determine prices. The Company reviews the various third-party fair value estimates and performs procedures to validate their reasonableness, including comparison to recent trading activity for similar securities and an overall review for consistency with market conditions observed as of the measurement date.

Private-label MBS - The Company's investments in private-label MBS are classified within Level 3 of the fair value hierarchy as private-label MBS trade infrequently and, therefore, the measurement of their fair value requires the use of significant unobservable inputs. In determining fair value, the Company primarily uses an income approach as well as market approaches. The Company utilizes present value techniques based on the estimated future cash flows of the instrument taking into consideration various assumptions derived by management based on their observations of assumptions used by market participants. These assumptions are corroborated by evidence such as historical collateral performance data, evaluation of historical collateral performance data for other securities with comparable or similar risk characteristics, and observed completed or pending transactions in similar instruments, when available. The significant inputs to the Company's valuation process include collateral default, loss severity, prepayment, and discount rates (i.e., the rate of return demanded by market participants as of the measurement date). In general, significant increases (decreases) in default, loss severity, or discount rate assumptions, in isolation, would result in a significantly lower (higher) fair value measurement. However, significant increases (decreases) in prepayment rate assumptions, in isolation, may result in a significantly higher (lower) fair value measurement depending upon the instrument's specific characteristics and the overall payment structure of the issuing securitization vehicle. It is difficult to generalize the interrelationships between these significant inputs as the actual results could differ considerably on an individual security basis. Therefore, each significant input is closely analyzed to ascertain its reasonableness for the Company's purposes of fair value measurement.

Measuring fair value is inherently subjective given the volatile and sometimes illiquid markets for these private-label MBS and requires management to make a number of judgments about the assumptions that a market participant would use, including assumptions about the timing and amount of future cash flows as well as the rate of return required by market participants. The assumptions the Company applies are specific to each security. Although the Company relies on its internal calculations to estimate the fair value of these private-label MBS, the Company considers indications of value from actual sales of similar private-label MBS to assist in the valuation process and to calibrate the Company's models.

Derivative instruments

Exchange-traded derivative instruments - Exchange-traded derivative instruments, which include Eurodollar futures, U.S. Treasury note futures, interest rate swap futures, and options on futures, are classified within Level 1 of the fair value hierarchy as they are measured using quoted prices for identical instruments in liquid markets.

Centrally cleared interest rate swaps - Centrally cleared interest rate swaps are classified within Level 2 of the fair value hierarchy. The fair values of centrally cleared interest rate swaps are measured using the daily valuations reported by the clearinghouse through which the instrument was cleared. In performing its end-of-day valuations, the clearinghouse constructs forward interest rate curves (for example, three-month LIBOR forward rates) from its specific observations of that day's trading activity. The clearinghouse uses the applicable forward interest rate curve to develop a market-based forecast of future remaining contractually required cash flows for each interest rate swap. Each market-based cash flow forecast is then discounted using the overnight index swap rate curve (sourced from the Federal Reserve Bank of New York) to determine a net present value amount which represents the instrument's fair value. The Company reviews the valuations reported by the clearinghouse on an ongoing basis and performs procedures using readily available market data to independently verify their reasonableness.

Forward-settling purchases and sales of TBA securities – Forward-settling purchases and sales of TBA securities are classified within Level 2 of the fair value hierarchy. The fair value of each forward-settling TBA contract is measured using broker or dealer quotations, which are based upon readily observable transaction prices occurring on the measurement date for forward-settling contracts to buy or sell TBA securities with the same guarantor, contractual maturity, and coupon rate for delivery on the same forward settlement date as the contract under measurement.

Other

Long-term unsecured debt - As of June 30, 2017 and December 31, 2016, the carrying value of the Company's long-term debt was $73,768 and $73,656, respectively, net of unamortized debt issuance costs, and consists of Senior Notes and trust preferred debt issued by the Company. The Company's estimate of the fair value of long-term debt is $70,742 and $66,489 as of June 30, 2017 and December 31, 2016, respectively. The Company's Senior Notes, which are publicly traded on the New York Stock Exchange, are classified within Level 1 of the fair value hierarchy. Trust preferred debt is classified within Level 2 of the fair value hierarchy as the fair value is estimated based on the quoted prices of the Company's publicly traded Senior Notes.

Investments in equity securities of non-public companies and investment funds - As of June 30, 2017 and December 31, 2016, the Company had investments in equity securities and investment funds with a carrying amount of $1,801 and $1,918, respectively, which are included in the line item "other assets" in the accompanying consolidated balance sheets. As of June 30, 2017 and December 31, 2016, $544 and $533, respectively, of these investments represent securities for which the Company elected the "fair value option" at the time that the securities were initially recognized on the Company's consolidated balance sheets; the Company measures the fair value of these securities on a recurring basis, recognizing the periodic change in fair value in earnings. The remaining $1,257 and $1,385 in investments in equity securities of non-public companies and investment funds as of June 30, 2017 and December 31, 2016, respectively, were measured at cost, net of impairments. The Company's estimate of the fair value of investments in equity securities and investment funds is $6,100 and $6,034 as of June 30, 2017 and December 31, 2016, respectively. Investments in equity securities and investment funds are classified within Level 3 of the fair value hierarchy. The fair values of the Company's investments in equity securities and investment funds are not readily determinable. Accordingly, for its investments in equity securities, the Company estimates fair value by estimating the enterprise value of the investee and then waterfalls the enterprise value over the investee's securities in the order of their preference relative to one another. To estimate the enterprise value of the investee, the Company uses traditional valuation methodologies, including the consideration of recent investments in, or tender offers for, the equity securities of the investee. For its investments in investment funds, the Company estimates fair value based upon the investee's net asset value per share.

Financial assets and liabilities for which carrying value approximates fair value - Cash and cash equivalents, deposits, receivables, repurchase agreements, payables, and other assets and liabilities are reflected in the consolidated balance sheets at their cost, which, due to the short-term nature of these instruments and their limited inherent credit risk, approximates fair value.

Fair Value Hierarchy

Financial Instruments Measured at Fair Value on a Recurring Basis

The following tables set forth financial instruments measured at fair value by level within the fair value hierarchy as of June 30, 2017 and December 31, 2016. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2017			
	Total	Level 1	Level 2	Level 3
MBS				
Trading:				
Agency MBS	$4,182,529	$—	$4,182,529	$—
Private-label MBS	74	—	—	74
Total MBS	4,182,603	—	4,182,529	74
Derivative assets	7,965	1,011	6,954	—
Derivative liabilities	(4,038)	—	(4,038)	—
Other assets	544	—	—	544
Total	$4,187,074	$1,011	$4,185,445	$618

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
MBS				
Trading:				
Agency MBS	$3,911,375	$—	$3,911,375	$—
Private-label MBS	1,266	—	—	1,266
Total MBS	3,912,641	—	3,911,375	1,266
Derivative assets	74,889	4,289	70,600	—
Derivative liabilities	(9,554)	(3,906)	(5,648)	—
Other assets	533	—	—	533
Total	$3,978,509	$383	$3,976,327	$1,799

There were no transfers of financial instruments into or out of Levels 1, 2 or 3 during the three and six months ended June 30, 2017 or the year ended December 31, 2016.

Level 3 Financial Assets and Liabilities

The following table provides information about the significant unobservable inputs used to measure the fair value of the Company's private-label MBS as of the dates indicated:

	June 30, 2017	December 31, 2016

	Weighted-average (1)	Range	Weighted-average (1)	Range
Discount rate	—	—	6.50 %	6.50 - 6.50 %
Default rate	—	—	2.25 %	2.25 - 2.25 %
Loss severity rate	—	—	45.00 %	45.00 - 45.00 %
Total prepayment rate (including defaults)	—	—	10.25 %	10.25 - 10.25 %

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[(1)]Based on face value.

The table below sets forth an attribution of the change in the fair value of the Company's Level 3 investments that are measured at fair value on a recurring basis for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	$1,976	$129,336	$1,799	$130,553
Total net gains (losses)				
Included in investment gain (loss), net	(101)	(2,488)	61	(2,456)
Included in other comprehensive income	—	(379)	—	(8,415)
Purchases	—	—	—	5,357
Sales	(1,268)	(38,290)	(1,268)	(38,290)
Payments, net	(32)	(1,801)	(54)	(3,345)
Accretion of discount	43	2,808	80	5,782
Ending balance	$618	$89,186	$618	$89,186
Net unrealized gains (losses) included in earnings for the period for Level 3 assets still held at the reporting date	$(145)	$(1,658)	$3	$(1,952)

Note 9. Income Taxes

Arlington Asset is subject to taxation as a corporation under Subchapter C of the Internal Revenue Code of 1986, as amended (the "Code"). As of June 30, 2017, the Company had estimated net operating loss ("NOL") carry-forwards of $75,423 that can be used to offset future taxable ordinary income. The Company's NOL carry-forwards begin to expire in 2027. As of June 30, 2017, the Company had estimated net capital loss ("NCL") carry-forwards of $324,385 that can be used to offset future net capital gains. The scheduled expirations of the Company's NCL carry-forwards are $136,840 in 2019, $102,927 in 2020, $71,131 in 2021 and $13,487 in 2022. The Company is subject to federal alternative minimum tax ("AMT") and state and local taxes on its taxable income and gains that are not offset by its NOL and NCL carry-forwards. As of June 30, 2017, the Company had estimated AMT credit carry-forwards of $8,838 that can be used to offset future taxable ordinary income. The AMT credit carry-forwards do not expire.

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities reflect the impact of temporary differences between the carrying amount of assets and liabilities pursuant to the application of GAAP and their respective tax bases and are stated at tax rates expected to be in effect when the taxes are actually paid or recovered. Deferred tax assets are also recognized for NOL carry-forwards, NCL carry-forwards and any tax credit carry-forwards.

A valuation allowance is provided against the deferred tax asset if, based upon the Company's evaluation, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is incorporated into the determination of whether a valuation allowance for deferred tax assets is appropriate. Items considered in the valuation allowance determination include expectations of future earnings of the appropriate tax character, recent historical financial results, tax planning strategies, the length of statutory carry-forward periods and the expected timing of the reversal of temporary differences. As of June 30, 2017, the Company determined that it should record a full valuation allowance against its deferred tax assets that are capital in nature, which consists of its NCL carry-forwards and temporary GAAP to tax differences that are expected to result in capital losses in future periods. As of June 30, 2017, the Company determined that it should not record any valuation allowance against its deferred tax assets that are ordinary in nature, which consists of its NOL carry-forwards, tax credit carry-forwards and temporary GAAP to tax differences that are expected to result in deductions from ordinary income in future periods. For the three and six months ended June 30, 2017, the Company recorded an increase to its valuation allowance of $16,829 and $19,958, respectively. The increase in the valuation allowance primarily represents the incremental allowance required to fully reserve its deferred tax assets stemming from temporary GAAP to tax differences that are expected to be capital losses in future periods (at current valuations).

Deferred tax assets and liabilities consisted of the following as of the dates indicated:

	June 30, 2017	December 31, 2016
Ordinary deferred tax assets:		
NOL carry-forward	$29,340	$ 37,238
AMT credit carry-forward	8,838	8,427
Deferred net loss on designated derivatives	1,195	1,386
Stock-based compensation	2,404	2,426
Other, net	208	208
Total ordinary deferred tax assets	41,985	49,685
Ordinary deferred tax liabilities:		
Net unrealized gain on designated derivatives	(17,823)	(25,145)
Ordinary deferred tax assets, net	24,162	24,540
Capital deferred tax assets:		
NCL carry-forward	126,186	120,939
Net unrealized loss on investments	34,675	44,253
Valuation allowance	(160,861)	(140,903)
Total capital deferred tax assets, net	—	24,289
Total deferred tax assets, net	$24,162	$ 48,829

The Company is subject to examination by the U.S. Internal Revenue Service ("IRS") and state and local taxing jurisdictions where the Company has significant business operations. As of June 30, 2017, there are no on-going examinations.

Note 10. Earnings (Loss) Per Share

Basic earnings per share includes no dilution and is computed by dividing net income or loss applicable to common stock by the weighted-average number of common shares outstanding for the respective period. Diluted earnings per share includes the impact of dilutive securities such as unvested shares of restricted stock and performance share units. The following tables present the computations of basic and diluted earnings (loss) per share for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Shares in thousands)	2017	2016	2017	2016
Basic weighted-average common shares outstanding	24,319	23,003	23,987	22,998
Performance share units and unvested restricted stock	—	67	—	—
Diluted weighted-average common shares outstanding	24,319	23,070	23,987	22,998
Net (loss) income attributable to common stock	$(17,963)	$12,894	$(12,709)	$(18,724)
Basic (loss) earnings per common share	$(0.74)	$0.56	$(0.53)	$(0.81)
Diluted (loss) earnings per common share	$(0.74)	$0.56	$(0.53)	$(0.81)

The diluted loss per share for the three and six months ended June 30, 2017 and the six months ended June 30, 2016 did not include the antidilutive effect of 233,418, 239,248 and 56,463 shares of unvested shares of performance share units and restricted stock, respectively.

Note 11. Stockholders' Equity

Common Stock

The Company has authorized share capital of 450,000,000 shares of Class A common stock, par value $0.01 per share, and 100,000,000 shares of Class B common stock, par value $0.01 per share. Holders of the Class A and Class B common stock are entitled to one vote and three votes per share, respectively, on all matters voted upon by the shareholders. Shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis at the option of the Company in certain circumstances including either (i) upon sale or other transfer, or (ii) at the time the holder of such shares of Class B common stock ceases to be employed by the Company.

During the six months ended June 30, 2017 and during the year ended December 31, 2016, holders of the Company's Class B common stock converted an aggregate of 20,256 and 81,960 shares of Class B common stock into 20,256 and 81,960 shares of Class

A common stock, respectively. As of June 30, 2017, all remaining shares of Class B common stock had been exchanged for shares of the Company's Class A common stock.

Preferred Stock

The Company has authorized share capital of 2,000,000 shares of 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock (the "Series B Preferred Stock"), par value of $.01 per share, and 23,000,000 shares of undesignated preferred stock. The Company's Board of Directors has the authority, without further action by the shareholders, to issue additional preferred stock in one or more series and to fix the terms and rights of the preferred stock.

In May 2017, the Company completed a public offering in which 135,000 shares of its Series B Preferred Stock were issued to the public at a public offering price of $24.00 per share for proceeds net of underwriting discounts and commissions and expenses of $3,018. The Series B Preferred Stock is publicly traded on the New York Stock Exchange under the ticker symbol "AI PrB."

The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by the Company. Holders of Series B Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive a cumulative cash dividend at a rate of 7.00% per annum of their $25.00 per share liquidation preference before holders of common stock are entitled to receive any dividends. Shares of Series B Preferred Stock are redeemable at $25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared) exclusively at our option commencing on May 12, 2022 or earlier upon the occurrence of a change in control. Dividends are payable quarterly in arrears on the 30th day of each December, March, June and September. As of June 30, 2017, we had declared and paid all required quarterly dividends on our Series B Preferred Stock.

Dividends

Pursuant to the Company's variable dividend policy for its common stock, the Board of Directors evaluates common stock dividends on a quarterly basis and, in its sole discretion, approves the payment of dividends. The Company's common stock dividend payments, if any, may vary significantly from quarter to quarter. The Board of Directors has approved and the Company has declared and paid the following dividends on its common stock to date in 2017:

Quarter Ended	Dividend Amount	Declaration Date	Record Date	Pay Date
June 30	$ 0.550	June 16	June 30	July 31
March 31	0.625	March 14	March 31	April 28

The Board of Directors approved and the Company declared and paid the following dividends for 2016:

Quarter Ended	Dividend	Declaration Date	Record Date	Pay Date

	Amount			
December 31	$ 0.625	December 16	December 30	January 31, 2017
September 30	0.625	September 15	September 30	October 31
June 30	0.625	June 17	June 30	July 29
March 31	0.625	March 15	March 31	April 29

Equity Distribution Agreements

On May 24, 2013, the Company entered into separate equity distribution agreements (the “Prior Equity Distribution Agreements”) with each of RBC Capital Markets, LLC, JMP Securities LLC, Ladenburg Thalmann & Co. Inc. and MLV & Co. LLC (the “Prior Equity Sales Agents”), pursuant to which the Company may offer and sell, from time to time, up to 1,750,000 shares of the Company’s Class A common stock. Pursuant to the Prior Equity Distribution Agreements, shares of the Company’s common stock may be offered and sold through the Prior Equity Sales Agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from the Company, in privately negotiated transactions.

During the three months ended March 31, 2017, the Company issued 800 shares of Class A common stock at a weighted average public offering price of $15.16 per share for proceeds net of underwriting discounts and commissions and expenses of $12 under the Prior Equity Distribution Agreements. On February 23, 2017, the Company terminated the Prior Equity Distribution Agreements.

On February 22, 2017, the Company entered into new separate equity distribution agreements (the “New Equity Distribution Agreements”) with each of JMP Securities LLC, FBR Capital Markets & Co., JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. (the “New Equity Sales Agents”), pursuant to which the Company may offer and sell, from time to time, up to 6,000,000 shares of the Company’s Class A common stock. Pursuant to the New Equity Distribution Agreements, shares of the Company’s common stock may be offered and sold through the New Equity Sales Agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from the Company, in privately negotiated transactions. During the three months ended June 30, 2017, the Company issued 2,331,489 shares of Class A common stock at a weighted average public offering price of $14.51 per share for proceeds net of underwriting discounts and commissions and expenses of $33,334 under the New Equity Distribution Agreements.

As of June 30, 2017, the Company had 3,668,511 shares of Class A common stock available for sale under the New Equity Distribution Agreements.

On May 16, 2017, the Company entered into an equity distribution agreement (the “Series B Preferred Equity Distribution Agreement”) with JonesTrading Institutional Services LLC (the “Series B Preferred Equity Agent”), pursuant to which the Company may offer and sell, from time to time, up to 1,865,000 shares of the Company’s Series B Preferred Stock. Pursuant to the Series B Preferred Equity Distribution Agreement, shares of the Company’s Series B Preferred stock may be offered and sold through the Series B Preferred Equity Sales Agent in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from the Company, in privately negotiated transactions. During the three months ended June 30, 2017, the Company issued 21,310 shares of Series B Preferred stock at a weighted average public offering price of $24.41 per share for proceeds net of underwriting discounts and commissions and expenses of $482 under the Series B Preferred Equity Distribution Agreement.

As of June 30, 2017, the Company had 1,843,690 shares of Series B Preferred stock available for sale under the Series B Preferred Equity Distribution Agreement.

Share Repurchase Program

The Company’s Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to 2,000,000 shares of Class A common stock (the “Repurchase Program”). Repurchases under the Repurchase Program may be made from time to time on the open market and in private transactions at management’s discretion in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares of Class A common stock to be repurchased will depend upon market conditions and other factors. The Repurchase Program is funded using the Company’s cash on hand and cash generated from operations. The Repurchase Program has no expiration date and may be suspended or terminated at any time without prior notice. As of June 30, 2017, there remain available for repurchase 1,951,305 shares of Class A common stock under the Repurchase Program.

Shareholder Rights Agreement

The Board of Directors adopted and the Company’s shareholders approved a shareholder rights agreement (“Rights Plan”). Under the terms of the Rights Plan, in general, if a person or group acquires or commences a tender or exchange offer for beneficial ownership of 4.9% or more of the outstanding shares of our Class A common stock upon a determination by our Board of Directors (an “Acquiring Person”), all of our other Class A and Class B common shareholders will have the right to purchase securities from us at a discount to such securities’ fair market value, thus causing substantial dilution to the Acquiring Person.

The Board of Directors adopted the Rights Plan in an effort to protect against a possible limitation on the Company’s ability to use its NOL carry-forwards, NCL carry-forwards, and built-in losses under Sections 382 and 383 of the Code. The Company’s ability to use its NOLs, NCLs and built-in losses would be limited if it experienced an “ownership change” under Section 382 of the Code. In general, an “ownership change” would occur if there is a cumulative change in the ownership of the Company’s common stock of more than 50% by one or more “5% shareholders” during a three-year period. The Rights Plan was adopted to dissuade any person or group from acquiring 4.9% or more of the Company’s outstanding Class A common stock, each, an Acquiring Person, without the approval of the Board of Directors and triggering an “ownership change” as defined by Section 382.

The Rights Plan and any outstanding rights will expire at the earliest of (i) June 4, 2019, (ii) the time at which the rights are redeemed or exchanged pursuant to the Rights Plan, (iii) the repeal of Section 382 and 383 of the Code or any successor statute if the Board of Directors determines that the Rights Plan is no longer necessary for the preservation of the applicable tax benefits, and (iv) the beginning of a taxable year to which the Board of Directors determines that no applicable tax benefits may be carried forward.

Note 12. Revisions to Previously Reported Financial Statements

During the second quarter of 2017, the Company concluded that the previously reported deferred tax assets, net, and accumulated deficit were incorrect for the three months ended March 31, 2017 and for the five fiscal years ended December 31, 2016 with a corresponding effect on the previously reported income tax benefit and net income for the fiscal year ended December 31, 2012. Although the impact of this change was not material to the consolidated financial statements for the five fiscal years ended December 31, 2016 and for the three months ended March 31, 2017, the Company has revised its previously reported consolidated financial statements for those periods to reflect the cumulative impact of the errors. The following tables set forth the affected line items within the Company's previously reported consolidated financial statements for the periods indicated:

	As of March 31, 2017 As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheets:			
Deferred tax assets, net	$65,149	$ (24,603)	$40,546
Total assets	4,720,492	(24,603)	4,695,889
Accumulated deficit	(1,536,949)	(24,603)	(1,561,552)
Total stockholders' equity	374,481	(24,603)	349,878
Total liabilities and stockholders' equity	4,720,492	(24,603)	4,695,889

	As of December 31, 2016 As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheets:			
Deferred tax assets, net	$73,432	$ (24,603)	$48,829
Total assets	4,141,554	(24,603)	4,116,951
Accumulated deficit	(1,527,104)	(24,603)	(1,551,707)
Total stockholders' equity	383,416	(24,603)	358,813
Total liabilities and stockholders' equity	4,141,554	(24,603)	4,116,951

	As of December 31, 2015 As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheets:			
Deferred tax assets, net	$97,530	$ (24,603)	$72,927
Total assets	4,202,939	(24,603)	4,178,336
Accumulated deficit	(1,426,655)	(24,603)	(1,451,258)
Total stockholders' equity	484,031	(24,603)	459,428
Total liabilities and stockholders' equity	4,202,939	(24,603)	4,178,336

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless the context otherwise requires or provides, references in this Quarterly Report on Form 10-Q to “we,” “us,” “our” and the “Company” refer to Arlington Asset Investment Corp. (“Arlington Asset”) and its subsidiaries. This discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in Item 1 of this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

The discussion of our consolidated financial condition and results of operations below may contain forward-looking statements. These statements, which reflect management’s beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, please see “Cautionary Statement About Forward-Looking Information” in Item 3 of Part I of this Quarterly Report on Form 10-Q and the risk factors included in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016.

Our Company

We are a principal investment firm that currently acquires and holds a levered portfolio of residential mortgage-backed securities (“MBS”), consisting of agency MBS and private-label MBS. Agency MBS include residential mortgage pass-through certificates for which the principal and interest payments are guaranteed by a U.S. government agency or government sponsored enterprise (“GSE”), such as the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”). Private-label MBS, or non-agency MBS, include residential MBS that are not guaranteed by a GSE or the U.S. government. As of June 30, 2017, nearly all of our investment capital was allocated to agency MBS.

We leverage prudently our investment portfolio so as to increase potential returns to our shareholders. We fund our investments primarily through short-term financing arrangements, principally through repurchase agreements. We enter into various hedging transactions to mitigate the interest rate sensitivity of our cost of borrowing and the value of our MBS portfolio.

We are a Virginia corporation and taxed as a C corporation for U.S. federal tax purposes. We are an internally managed company and do not have an external investment advisor.

Factors that Affect our Results of Operations and Financial Condition

Our business is materially affected by a variety of industry and economic factors, including:

- conditions in the global financial markets and economic conditions generally;
- changes in interest rates and prepayment rates;
- conditions in the residential real estate and mortgage markets;
- actions taken by the U.S. government, U.S. Federal Reserve, the U.S. Treasury and foreign central banks;
- changes in laws and regulations and industry practices; and
- other market developments.

Current Market Conditions and Trends

During the second quarter of 2017, the bond markets signaled tempered expectations for faster economic growth and higher inflation from any pro-economic growth policies from the November 2016 elections, including potential tax reform, infrastructure spending and deregulation, while the equity markets continued to price in a higher optimism for growth and inflation.

During the second quarter of 2017, the 10-year U.S. Treasury rate rallied for most of the quarter reaching a low of 2.10% in June before ending at 2.31% as of June 30, 2017, an eight basis point decline from March 31, 2017. The U.S. Treasury rate curve continued to flatten during the second quarter as the spread between the 2-year and 10-year U.S. Treasury rate narrowed 20 basis points. The spread between 10-year U.S. Treasury rates and interest rate swaps tightened modestly by two basis points during the second quarter of 2017 with the 10-year swap rate ending at 2.28% on June 30, 2017. However, on the short-end of the curve, the spread between 2-year U.S Treasury rates and interest rate swaps increased twelve basis points.

On June 14, 2017, the Federal Open Market Committee ("FOMC") announced that it was raising the target federal funds rate range by 25 basis points from 1.00% to 1.25%, the third increase in a six-month period. In its June 14, 2017 statement, the FOMC commented that it continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further. The FOMC also stated that it now expects inflation to remain somewhat below 2% in the near term of the next twelve months but to stabilize around 2% over the medium term. The FOMC commented further that it expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate, and will likely remain, for some time, below levels that are expected to prevail in the longer run. Based on federal fund futures prices, market participants currently believe that there is a less than 50% chance that the FOMC will raise the targeted federal funds rate again by December 2017. In its June 14, 2017 statement, the FOMC also commented that it was maintaining its existing reinvestment policy of its U.S. Treasury securities and agency MBS, but that the FOMC would expect to begin implementing a balance sheet normalization program in the current year, provided that the economy evolves broadly as anticipated. The FOMC indicated that it will implement its balance sheet normalization by gradually decreasing its reinvestment of principal payments. More specifically, principal payments received by the Federal Reserve would be reinvested only to the extent they exceed gradually rising caps until the FOMC determines that the Federal Reserve is holding no more securities than necessary to implement monetary policy efficiently and effectively. In this environment, agency MBS underperformed modestly as the market continued to contemplate the impact of the Federal Reserve's pending diminished role in the agency MBS market.

Prepayment speeds in the residential mortgage market were relatively benign in the first two months of the second quarter before increasing somewhat in June due to seasonal factors. Looking forward, near term prepayment speeds are expected to remain moderate, subject to normal seasonal variations. However, continued wage growth, home price appreciation and the recent downward movement in long-term interest rates in the second quarter of 2017 may accelerate prepayment speeds from current levels.

Housing prices continue to improve as evidenced by the S&P CoreLogic Case-Shiller U.S. National Home Price NSA index reporting a 5.5% annual gain in April 2017 and the overall index reaching a historical high. Housing prices continue to rise faster than inflation as the demand for homes has exceeded the supply of homes driven by low inventories of new or existing homes for sale as well as affordable available financing from historically low mortgage rates.

The following table presents certain key market data as of the dates indicated:

	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	Change - Second Quarter 2017
30-Year FNMA Fixed Rate MBS [1]						
3.0%	$ 103.83	$ 103.98	$ 99.20	$ 99.23	$ 99.83	$ 0.60
3.5%	105.55	105.55	102.33	102.36	102.67	0.31
4.0%	107.23	107.42	104.98	104.95	105.14	0.19

4.5%	109.17	109.55	107.39	107.30	107.27	(0.03)
U.S. Treasury Rates (UST)						
2-year UST	0.58 %	0.76 %	1.19 %	1.26 %	1.38 %	0.12 %
3-year UST	0.69 %	0.88 %	1.45 %	1.49 %	1.55 %	0.06 %
5-year UST	1.00 %	1.15 %	1.93 %	1.92 %	1.89 %	(0.03)%
7-year UST	1.28 %	1.42 %	2.25 %	2.21 %	2.14 %	(0.07)%
10-year UST	1.47 %	1.60 %	2.45 %	2.39 %	2.31 %	(0.08)%
2-year UST to 10-year UST spread	0.89 %	0.84 %	1.26 %	1.13 %	0.93 %	(0.20)%
Interest Rate Swap Rates						
2-year swap	0.73 %	1.01 %	1.45 %	1.62 %	1.62 %	0.00 %
3-year swap	0.81 %	1.07 %	1.69 %	1.81 %	1.75 %	(0.06)%
5-year swap	0.98 %	1.18 %	1.98 %	2.05 %	1.96 %	(0.09)%
7-year swap	1.15 %	1.30 %	2.16 %	2.22 %	2.11 %	(0.11)%
10-year swap	1.36 %	1.46 %	2.34 %	2.38 %	2.28 %	(0.10)%
2-year swap to 2-year UST spread	0.15 %	0.25 %	0.26 %	0.36 %	0.24 %	(0.12)%
10-year swap to 10-year UST spread	(0.11)%	(0.14)%	(0.11)%	(0.01)%	(0.03)%	(0.02)%
London Interbank Offered Rates (LIBOR)						
1-month LIBOR	0.47 %	0.53 %	0.77 %	0.98 %	1.22 %	0.24 %
3-month LIBOR	0.65 %	0.85 %	1.00 %	1.15 %	1.30 %	0.15 %

(1) Generic 30-year FNMA TBA price information, sourced from Bloomberg, provided for illustrative purposes only and is not meant to be reflective of the fair value of securities held by the Company.

Recent Government Activity

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Uncertainty over the new administration's policies, together with questions regarding the administration's ability to work with Congress in order to implement such policies, are likely to increase market and credit volatility over the remainder of 2017. We expect vigorous debate and discussion in a number of areas, including residential housing and mortgage reform, taxation, fiscal policy and monetary policy, to continue over the next few years; however, we cannot be certain if or when any specific proposal or policy might be announced, emerge from committee or be approved by Congress, and if so, what the effects on us may be.

Executive Summary

As of June 30, 2017, the Company's book value was $13.48 per common share, a decrease of 8.9% from $14.79 per common share as of March 31, 2017. The Company's tangible book value, which is calculated as shareholders' equity attributable to common shareholders less the Company's net deferred tax asset, was $12.55 per common share as of June 30, 2017, a decrease of 4.1% from $13.08 per common share as of March 31, 2017. For the quarter ended June 30, 2017, the Company declared a dividend of $0.55 per common share, resulting in an annualized economic return of 0.6% measured as the change in tangible book value plus dividends declared during the quarter.

For the second quarter of 2017, the Company had a net loss of $0.74 per diluted common share compared to net income of $0.22 per diluted common share in the prior quarter. Included in the Company's provision for income taxes and net loss for the second quarter of 2017 is an increase to the Company's valuation allowance against its deferred tax asset of $0.65 per diluted common share. The Company had non-GAAP core operating income of $0.58 per diluted common share for the second quarter of 2017 compared to $0.60 per diluted common share in the prior quarter. The second quarter 2017 earnings were also impacted by higher cost of funding as compared to the first quarter of 2017 due primarily to an increase in benchmark short-term interest rates. For further information on the use of non-GAAP core operating income, see "Management's Discussion and Analysis of Financial Condition and Results of Operation – Non-GAAP Core Operating Income."

Since the Company's fixed-rate agency MBS have generally been purchased at a premium to par value, high prepayments can have a negative impact on the Company's asset yields and interest income, while slow prepayments can have a positive impact. The actual constant prepayment rate ("CPR") for the Company's agency MBS increased to 9.03% for the second quarter of 2017 from 8.17% in the prior quarter. The average agency MBS yield was 2.85% for the second quarter of 2017, unchanged from the prior quarter.

The Company's average cost of short-term funding during the quarter ended June, 2017 was 1.08%, an increase of 18 basis points from the prior quarter attributable primarily to the increase in benchmark short-term rates driven by the Federal Reserve rate increases in both March and June of 2017. However, the impact on earnings of the rise in LIBOR during the second quarter of 2017 was mitigated by a continued narrowing of the spread between LIBOR and repurchase agreement funding rates.

As of June 30, 2017, the Company's agency investment portfolio totaled $5,340 million, comprised of $4,183 million of specified agency MBS and $1,157 million of net long TBA agency MBS. During the second quarter of 2017, the Company increased its net long TBA agency MBS position while reducing its specified agency MBS position as the implied net interest rate spread return opportunity of TBA dollar rolls was moderately higher than the net spread returns of specified agency MBS financed with repurchase agreements. During the second quarter of 2017, the Company also lowered its allocation of agency MBS investments in 3.5% coupon securities while increasing its allocation towards higher 4.0% and 4.5% coupon securities to take advantage of higher expected return opportunities.

The Company continues to maintain a substantial hedge position with the intent to protect the Company's capital and earnings potential against increased interest rates over the long-term. As of June 30, 2017, the Company's interest rate hedge position consisted primarily of interest rate swaps along with 10-year U.S. Treasury note futures and call options on 10-year U.S. Treasury note futures. The Company's average notional of its interest rate swaps and 10-year U.S. Treasury futures as a percentage of its average repurchase agreement financing and TBA commitments was increased to 74% for the quarter ended June 30, 3017 compared to 72% for the quarter ended March 31, 2017.

We believe our hedging strategy will continue to enable the Company to maintain an attractive return on its agency MBS portfolio in order to produce resilient and predictable non-GAAP core operating income that supports attractive dividends to our shareholders. In a volatile interest rate and wider spread environment, this hedging strategy will likely result in a temporary decline in book value. However, the Company would expect temporary declines in book value to be recovered over time either through higher future spread earnings if spreads remain wide, or through a reversal of temporary declines in book value if future interest rate volatility is low and spreads narrow. The consistent execution of our hedging strategy may also result in an increase in leverage during periods of temporary declines in book value or decreases in leverage during periods of temporary increases in book value.

The Company continues to utilize its tax benefits afforded to it as a C-corporation that allow it to shield substantially all of its income from the payment of cash taxes. As of June 30, 2017, the Company had estimated NOL carry-forwards of $75.4 million, NCL carry-forwards of $324.4 million and alternative minimum tax ("AMT") credit carry-forwards of $8.8 million. From a GAAP accounting perspective, the Company had a net deferred tax asset of $24.2 million, or $0.93 per share, as of June 30, 2017. As of June 30, 2017, the valuation allowance reflects a full valuation allowance against its deferred tax assets that are expected to be capital in tax nature while its remaining unreserved net deferred tax asset represents its deferred tax assets that are expected to be ordinary in tax nature.

Portfolio Overview

The following table summarizes our MBS investment portfolio at fair value as of June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017	December 31, 2016
Specified agency MBS	$4,182,529	$ 3,909,452
Inverse interest-only agency MBS	—	1,923
Total agency MBS	4,182,529	3,911,375
Net long agency TBA dollar roll positions (1)	1,156,841	720,027
Total agency investment portfolio	5,339,370	4,631,402
Private-label MBS	—	1,173
Private-label interest-only MBS	74	93
Total private-label investment portfolio	74	1,266
Total MBS investment portfolio	$5,339,444	$ 4,632,668

(1) Represents the fair value of the agency MBS which underlie our TBA forward purchase and sale commitments executed as dollar roll transactions. In accordance with GAAP, our TBA forward purchase and sale commitments are reflected on the consolidated balance sheets as a component of "derivative assets, at fair value" and "derivative liabilities, at fair value," with a collective net liability carrying value of $3,991 and a net asset carrying value of $1,156 as of June 30, 2017 and December 31, 2016, respectively.

Agency MBS Investment Portfolio

Our specified agency MBS consisted of the following as of June 30, 2017 (dollars in thousands):

	Unpaid Principal Balance	Net Unamortized Purchase Premiums	Amortized Cost Basis	Net Unrealized Gain (Loss)	Fair Value	Market Price	Coupon	Weighted Average Expected

								Remaining Life
30-year fixed rate:								
3.5%	$1,321,063	$63,350	$1,384,413	$(23,260)	$1,361,153	$103.03	3.50%	7.0
4.0%	2,529,999	145,582	2,675,581	2,410	2,677,991	105.85	4.00%	6.3
4.5%	132,812	10,828	143,640	(277)	143,363	107.94	4.50%	5.3
5.5%	20	—	20	2	22	111.66	5.50%	5.6
Total/weighted-average	$3,983,894	$219,760	$4,203,654	$(21,125)	$4,182,529	104.99	3.85%	6.5

	Unpaid Principal Balance	Net Unamortized Purchase Premiums	Amortized Cost Basis	Net Unrealized Gain (Loss)	Fair Value	Market Price	Coupon	Weighted Average Expected Remaining Life
Fannie Mae	$2,231,594	$121,992	$2,353,586	$(15,522)	$2,338,064	$104.77	3.82%	6.6
Freddie Mac	1,752,300	97,768	1,850,068	(5,603)	1,844,465	105.26	3.90%	6.5
Total/weighted-average	$3,983,894	$219,760	$4,203,654	$(21,125)	$4,182,529	104.99	3.85%	6.5

The actual CPR for the Company's agency MBS was 9.03% for the three months ended June 30, 2017. As of June 30, 2017, the Company's agency MBS was comprised of securities specifically selected for their relatively lower propensity for prepayment, which includes approximately 92% in specified pools of low balance loans while the remainder includes specified pools of loans originated in certain geographical areas, loans refinanced through the U.S. Government sponsored Home Affordable Refinance Program ("HARP") or with other characteristics selected for their relatively lower propensity for prepayment.

Our agency MBS investment portfolio also includes net long TBA positions, which are primarily the result of executing sequential series of "dollar roll" transactions that are settled on a net basis. In accordance with GAAP, we account for our net long TBA positions as derivative instruments. Information about the Company's net long TBA positions as of June 30, 2017 is as follows (dollars in thousands):

	Notional Amount: Net Long (Short) Position [1]	Implied Cost Basis [2]	Implied Fair Value [3]	Net Carrying Amount [4]
3.5% coupon purchase commitments	435,000	448,641	446,826	(1,815)
4.0% coupon purchase commitments	700,000	738,535	736,312	(2,223)
4.0% coupon sale commitments	(25,000)	(26,344)	(26,297)	47
Total net long agency TBA dollar roll positions	$ 1,110,000	$ 1,160,832	$ 1,156,841	$ (3,991)

(1) "Notional amount" represents the unpaid principal balance of the underlying agency MBS.
(2) "Implied cost basis" represents the contractual forward price for the underlying agency MBS.
(3) "Implied fair value" represents the current fair value of the underlying agency MBS.
(4) "Net carrying amount" represents the difference between the implied cost basis and the current fair value of the underlying MBS. This amount is reflected on the Company's consolidated balance sheets as a component of "derivative assets, at fair value" and "derivative liabilities, at fair value."

Economic Hedging Instruments

The Company attempts to hedge a portion of its exposure to interest rate fluctuations associated with its agency MBS primarily through the use of interest rate derivatives. Specifically, these interest rate derivatives are intended to economically hedge changes, attributable to changes in benchmark interest rates, in agency MBS fair values and future interest cash flows on the Company's short-term financing arrangements. As of June 30, 2017, the interest rate derivative instruments used by the Company were centrally cleared interest rate swap agreements and exchange-traded 10-year U.S. Treasury note futures and options on 10-year U.S. Treasury note futures.

The Company's interest rate swap agreements represent agreements to make semiannual interest payments based upon a fixed interest rate and receive quarterly variable interest payments based upon the prevailing three-month LIBOR on the date of reset. Information about the Company's outstanding interest rate swap agreements in effect as of June 30, 2017 is as follows (dollars in thousands):

	Notional Amount	Weighted-average: Fixed Pay Rate	Variable Receive Rate	Net Receive (Pay) Rate	Remaining Life (Years)	Fair Value
Years to maturity:						

Less than 3 years	$ 975,000	1.18%	1.24 %	0.06 %	1.7	$ 352
3 to less than 7 years	500,000	1.91%	1.21 %	(0.70)%	4.0	644
7 to 10 years	2,000,000	2.01%	1.23 %	(0.78)%	8.9	5,721
Total / weighted-average	$ 3,475,000	1.76%	1.23 %	(0.53)%	6.2	$ 6,717

The Company also has forward-starting interest rate swap agreements as of June 30, 2017 which have effective dates in late September 2017 and early October 2017 and mature two years from their respective effective dates. The effective dates of these forward-starting interest rate swap agreements were set to occur within reasonable proximity to the maturity dates of certain of the Company's existing interest rate swap agreements, economically extending the life of the maturing instruments. Information about the Company's forward-starting interest rate swap agreements as of June 30, 2017 is as follows (dollars in thousands):

		Weighted-average:		
	Notional Amount	Fixed Pay Rate	Term After Effective Date (Years)	Fair Value
Effective in September / October 2017	$ 375,000	1.13 %	2.0	$ 190

In addition to interest rate swap agreements, the Company's also has exchange-traded 10-year U.S. Treasury note futures that are short positions that mature on a quarterly basis. Upon the maturity date of these futures contracts in September 2017, the Company has the option to either net settle each contract in cash in an amount equal to the difference between the current fair value of the underlying 10-year U.S. Treasury note and the contractual sale price inherent to the futures contract, or to physically settle the contract by delivering the underlying 10-year U.S. Treasury note. Information about the Company's outstanding 10-year U.S. Treasury note futures contracts as of June 30, 2017 is as follows (dollars in thousands):

Maturity Date	Notional Amount	Net Fair Value
September 2017	$350,000	$ 984

In addition to exchange-traded 10-year U.S. Treasury note futures, the Company purchases and sells exchange-traded options on 10-year U.S. Treasury note futures contracts with the objective of economically hedging a portion of the sensitivity of its investments in agency MBS to significant changes in interest rates. The Company may purchase put options which provide the Company with the right to sell 10-year U.S. Treasury note futures to a counterparty, and the Company may also write call options that provide a counterparty with the option to buy 10-year U.S. Treasury note futures from the Company. In order to limit its exposure on its interest rate derivative instruments from a significant decline in long-term interest rates, the Company may also purchase contracts that provide the Company with the option to buy, or call, 10-year U.S. Treasury note futures from a counterparty. The options may be exercised at any time prior to their expiry, and if exercised, may be net settled in cash or through physical receipt or delivery of the underlying futures contracts.

Information about the Company's outstanding options on 10-year U.S. Treasury note futures contracts as of June 30, 2017 is as follows (dollars in thousands):

Notional Amount	Weighted-average Strike Price	Implied Strike	Net Fair Value

			Rate [1]	
Purchased call options:				
July 2017 expiration	$700,000	129.9	1.81 %	$ 27

[1] The implied strike rate is estimated based upon the weighted average strike price per option contract and the price of an equivalent 10-year U.S. Treasury note futures contract.

Results of Operations

Net Interest Income

Net interest income determined in accordance with GAAP primarily represents the interest income recognized from our investments in specified agency MBS and private-label MBS (including the amortization of purchase premiums and accretion of purchase discounts), net of the interest expense incurred from repurchase agreement financing arrangements or other short- and long-term borrowing transactions.

Net interest income determined in accordance with GAAP does not include TBA agency MBS dollar roll income, which we believe represents the economic equivalent of net interest income generated from our investments in non-specified fixed-rate agency MBS, nor does it include the implied net interest income or expense of our interest rate swap agreements, which are not designated as hedging instruments for financial reporting purposes. In our consolidated statements of comprehensive income prepared in accordance with GAAP, TBA agency MBS dollar roll income and the implied net interest income or expense incurred from our interest rate swap agreements are reported as a component of the overall periodic change in the fair value of derivative instruments within the line item "gain (loss) from derivative instruments, net" of the "investment gain (loss), net" section.

Investment Gain (Loss), Net

"Investment gain (loss), net" primarily consists of periodic changes in the fair value (whether realized or unrealized) of investments in MBS classified as trading securities, periodic changes in the fair value (whether realized or unrealized) of derivative instruments, gains (losses) realized upon the sale of investments in MBS classified as available-for-sale, and other-than-temporary impairment charges for investments in MBS classified as available-for-sale.

General and Administrative Expenses

"Compensation and benefits expense" includes base salaries, annual cash incentive compensation, and non-cash stock-based compensation. Annual cash incentive compensation is based on meeting estimated annual performance measures and discretionary components. Non-cash stock-based compensation includes expenses associated with stock-based awards granted to employees, including the Company's performance share units to named executive officers.

"Other general and administrative expenses" primarily consists of the following:

- professional services expenses, including accounting, legal, and consulting fees;
- insurance expenses, including liability and property insurance;
- occupancy and equipment expense, including rental costs for our facilities, and depreciation and amortization of equipment and software;
- fees and commissions related to transactions in interest rate derivative instruments;
- Board of Director fees; and
- other operating expenses, including information technology expenses, business development costs, public company reporting expenses, proxy solicitation expenses, business licenses and taxes, office supplies and other miscellaneous expenses.

Three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016

The following table presents the net income (loss) reported for the three and six months ended June 30, 2017 and 2016, respectively (dollars in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income	$31,461	$26,351	$61,804	$55,105
Interest expense	12,528	6,703	22,594	13,396
Net interest income	18,933	19,648	39,210	41,709
Investment loss, net	(15,970)	(8,947)	(17,732)	(58,837)
General and administrative expenses	4,154	7,672	9,079	12,007
(Loss) income before income taxes	(1,191)	3,029	12,399	(29,135)
Income tax provision (benefit)	16,737	(9,865)	25,073	(10,411)
Net (loss) income	(17,928)	12,894	(12,674)	(18,724)
Dividend on preferred stock	(35)	—	(35)	—
Net (loss) income (attributable) available	$(17,963)	$12,894	$(12,709)	$(18,724)

to common stock				
Diluted (loss) earnings per common share	$(0.74)	$0.56	$(0.53)	$(0.81)
Weighted-average diluted common shares outstanding	24,319	23,070	23,987	22,998

Net Interest Income

Net interest income determined in accordance with GAAP ("GAAP net interest income") decreased $0.7 million, or 3.6%, from $19.6 million for the three months ended June 30, 2016 to $18.9 million for the three months ended June 30, 2017 and decreased $2.5

million, or 6.0%, from $41.7 million for the six months ended June 30, 2016 to $39.2 million for the six months ended June 30, 2017. The decrease from the comparative periods is primarily attributable to 42 and 34 basis point increases for the three and six months ended June 30, 2017, respectively, in the average interest costs of our short-term financing arrangements due primarily to an increase in prevailing benchmark short-term interest rates, partially offset by an increase in the average balance of our specified agency MBS. As previously noted, TBA dollar roll income is not included in net interest income determined in accordance with GAAP.

The components of GAAP net interest income from our MBS portfolio, excluding interest expense on unsecured long-term debt, are summarized in the following table (dollars in thousands):

	Three Months Ended June 30,					
	2017			2016		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	$4,404,798	$ 31,397	2.85 %	$3,428,719	$ 23,408	2.73 %
Private-label MBS	1,457	43	11.80 %	118,426	2,808	9.48 %
Other	—	21		—	135	
	$4,406,255	31,461	2.86 %	$3,547,145	26,351	2.97 %
Short-term secured debt	$4,125,631	(11,314)	(1.08)%	$3,293,662	(5,509)	(0.66)%
Net interest income/spread		$ 20,147	1.78 %		$ 20,842	2.31 %
Net interest margin			1.83 %			2.35 %

	Six Months Ended June 30,					
	2017			2016		
	Average Balance	Income (Expense)	Yield (Cost)	Average Balance	Income (Expense)	Yield (Cost)
Agency MBS	$4,328,106	$ 61,683	2.85 %	$3,464,252	$ 49,063	2.83 %
Private-label MBS	1,451	80	10.98 %	116,855	5,782	9.90 %
Other	—	41		—	260	
	$4,329,557	61,804	2.86 %	$3,581,107	55,105	3.08 %
Short-term secured debt	$4,025,321	(20,173)	(1.00)%	$3,328,258	(11,009)	(0.66)%
Net interest income/spread		$ 41,631	1.86 %		$ 44,096	2.42 %
Net interest margin			1.92 %			2.46 %

The effects of changes in the composition of our investments on our GAAP net interest income from our MBS investment activities are summarized below (dollars in thousands):

	Three Months Ended June 30, 2017 vs. Three Months Ended June 30, 2016			Six Months Ended June 30, 2017 vs. Six Months Ended June 30, 2016		
	Rate [(1)]	Volume [(1)]	Total Change	Rate [(1)]	Volume [(1)]	Total Change
MBS:						

Agency MBS	$1,070	$6,919	$7,989	$310	$12,310	$12,620
Private-label MBS	551	(3,316)	(2,765)	573	(6,275)	(5,702)
Total MBS	1,621	3,603	5,224	883	6,035	6,918
Other	—	(114)	(114)	—	(219)	(219)
Short-term secured debt	(4,446)	(1,359)	(5,805)	(6,678)	(2,486)	(9,164)
	$(2,825)	$2,130	$(695)	$(5,795)	$3,330	$(2,465)

(1) The change in interest income and interest expense due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

During the three months ended June 30, 2017, the percentage allocation of our total agency MBS portfolio to net long positions in non-specified TBA securities and specified agency MBS was 14% and 86% and, respectively, and 13% and 87% for the six months ended June 30, 2017, as compared to 15% and 85% for the three and six months ended June 30, 2016 as illustrated by the following table (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
	Average Balance	Relative Allocation	Average Balance	Relative Allocation	Average Balance	Relative Allocation	Average Balance	Relative Allocation
Specified agency MBS	$4,404,798	86 %	$3,428,719	85 %	$4,328,106	87 %	$3,464,252	85 %
Net long TBA position [(1)]	711,190	14 %	609,022	15 %	633,018	13 %	602,164	15 %
Total agency MBS portfolio	$5,115,988	100 %	$4,037,741	100 %	4,961,124	100 %	4,066,416	100 %

(1) Net long TBA position average balance (average cost basis) is based upon the contractual price of the initial TBA purchase trade of each individual series of dollar roll transactions.

TBA dollar roll income decreased $0.6 million to $4.3 million for the three months ended June 30, 2017 from $3.7 million for the comparative period of 2016, and increased $0.2 million to $7.7 million for six months ended June 30, 2017 from $7.5 million for the comparative period of 2016. When adjusting our net interest income determined in accordance with GAAP to include TBA dollar roll income (which is net of implied financing costs), the total spread income earned from our aggregate MBS investment portfolio for the three months ended June 30, 2017 decreased by $0.1 million (or 0.5%) relative to the comparative period from the prior year, and for the six months ended June 30, 2017 decreased $2.3 million (or 4.4%) relative to the comparative period from the prior year. The reduction in total spread income in the current year period relative to the prior year period is due primarily to an increase in the costs of our short-term financing arrangements and the implied financing costs of our TBA dollar rolls driven primarily by an increase in prevailing short-term interest rates. The following tables provide a comparison of GAAP interest income, GAAP net interest income (excluding interest expense from long-term debt), and TBA dollar roll income for periods indicated (dollars in thousands):

	Three Months Ended June 30,		Increase (Decrease) Expressed in:	
	2017	2016	Amount	Percentage
GAAP interest income	$31,461	$26,351	$5,110	19.39 %
TBA dollar roll income [(1)]	4,298	3,719	579	15.57 %
GAAP interest income plus TBA dollar roll income	35,759	30,070	5,689	18.92 %
Interest expense on short-term debt	11,314	5,509	5,805	105.37 %
Net interest income plus TBA dollar roll income	$24,445	$24,561	$(116)	(0.47 %)

	Six Months Ended June 30,		Increase (Decrease) Expressed in:	
	2017	2016	Amount	Percentage
GAAP interest income	$61,804	$55,105	$6,699	12.16 %
TBA dollar roll income [(1)]	7,696	7,514	182	2.42 %
GAAP interest income plus TBA dollar roll income	69,500	62,619	6,881	10.99 %
Interest expense on short-term debt	20,173	11,009	9,164	83.24 %
Net interest income plus TBA dollar roll income	$49,327	$51,610	$(2,283)	(4.42 %)

(1) TBA dollar roll income is net of implied financing costs.

Investment Gain (Loss), Net

“Total investment loss, net” increased $7.0 million from a loss of $8.9 million for the three months ended June 30, 2016 to a loss of $15.9 million for the three months ended June 30, 2017. “Total investment loss, net” decreased $41.1 million from a loss of $58.8 million for the six months ended June 30, 2016 to a loss of $17.7 million for the six months ended June 30, 2017. During three and six months ended June 30, 2017, a reduction in prevailing longer-term interest rates coupled with modest MBS spread widening drove the recognition of fair value gains on our agency MBS portfolio which fell short of the fair value losses recognized on our interest rate derivative instruments.

Further detail about the gains and losses recognized due to the changes in the fair value of our agency MBS, TBA transactions, and interest rate derivative instruments for the periods indicated is as follows (dollars in thousands):

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Realized losses on sale of available-for-sale investments, net	$—	$(593)	$—	$(593)
OTTI charges on available-for-sale securities	—	(1,638)	—	(1,737)
Gains on trading investments, net	15,855	27,665	11,636	78,615
TBA and specified agency MBS commitments, net:				
TBA dollar roll income	4,298	3,719	7,696	7,514
Other gains (losses) from TBA and specified agency MBS commitments, net	155	8,698	(45)	16,222
Total gains on TBA and specified agency MBS commitments, net	4,453	12,417	7,651	23,736
Interest rate derivatives:				
Net interest expense on interest rate swaps	(5,293)	(4,376)	(10,702)	(8,373)
Other losses from interest rate derivative instruments, net	(30,838)	(42,422)	(26,322)	(150,504)
Total losses on interest rate derivatives, net	(36,131)	(46,798)	(37,024)	(158,877)
Other, net	(147)	—	5	19
Investment loss, net	$(15,970)	$(8,947)	$(17,732)	$(58,837)

We recorded no other-than-temporary impairment charges for the three and six months ended June 30, 2017 on available-for-sale private-label MBS. We recorded credit related other-than-temporary impairment charges of $1.6 million and $1.7 million for the three and six months ended June 30, 2016, respectively. Credit related other-than-temporary impairment charges represent the excess of the amortized cost basis over the present value of expected future cash flows discounted at the security's existing effective interest rate used for interest income recognition.

Investments classified as trading securities primarily consist of agency MBS. The $15.9 million and $11.6 million of net gains recognized for the three and six months ended June 30, 2017 were primarily driven by a decrease in long-term interest rates partially offset by modest agency MBS spread widening. The $27.7 million and $78.6 million of net gains on trading investments recognized for the three and six months ended June 30, 2016, were primarily the result of a decrease in longer-term interest rates.

Commitments to purchase and sell MBS consist primarily of forward-settling purchases of TBA agency MBS that are generally settled on a net basis through the execution of dollar roll transactions and, to a lesser extent, certain commitments to purchase specified agency MBS that will be settled by the physical delivery of the securities. We recognized net gains of $4.5 million and $7.7 million for the three and six months ended June 30, 2017, respectively and net gains of $12.4 million and $23.7 million for the three and six months ended June 30, 2016, respectively, from forward-settling commitments to purchase and sell agency MBS, which consists of both TBA dollar roll income as well as other fair value gains and losses stemming from these forward-settling commitments.

Our interest rate derivative instruments currently consist of interest rate swaps, U.S. Treasury note futures, and options on U.S. Treasury note futures, and have historically also included Eurodollar futures, and interest rate swap futures. While we use interest rate derivatives to economically hedge a portion of our interest rate risk, we have not designated such contracts as hedging instruments for financial reporting purposes. As a result, the implied economic financing costs of our interest rate derivatives are included in the change in fair value of the instruments recognized in "investment gain (loss), net" rather than in net interest income. During periods of falling interest rates, we will generally experience losses on our interest rate derivative instruments and during periods of rising interest rates, we will generally experience gains on our interest rate derivative instruments. The $36.1 million and $37.0 million of net losses recognized for interest rate derivative instruments for three and six months ended June 30, 2017, respectively were primarily attributable to a decline in prevailing longer-term interest rates as well as the implied net economic financing costs of our interest rate swap agreements. The $46.8 million and $158.9 million of net losses recognized for interest rate derivative instruments during the three and six months ended June 30, 2016, respectively, were primarily driven by a decline in prevailing long-term interest rates during the period coupled with the implied net economic financing costs of certain of the interest rate derivatives.

The fair value of our hedging instruments is expected to fluctuate inversely relative to the change in fair value of the agency MBS portfolio. However, the degree of correlation between the price movements of our hedging instruments and those of our agency MBS portfolio may vary. While our hedging instruments are designed to protect our agency MBS portfolio from interest rate risk, they are not generally designed to protect our net book value from spread risk, which is the risk of an increase of the market spread between the yield on our agency MBS and the benchmark yield on U.S. Treasury securities or interest rate swaps.

General and Administrative Expenses

General and administrative expenses decreased by $3.5 million, or 45.5%, from $7.7 million for the three months ended June 30, 2016 to $4.2 million for the three months ended June 30, 2017. General and administrative expenses decreased by $2.9 million, or 24.2%, from $12.0 million for the six months ended June 30, 2016 to $9.1 million for the six months ended June 30, 2017.

Compensation and benefits expenses were $2.8 million for the three months ended June 30, 2017 and 2016. Compensation and benefits expenses increased by $0.9 million, or 17.0%, from $5.3 million for the six months ended June 30, 2016, to $6.2 million for the six months ended June 30, 2017.

Other general and administrative expenses decreased by $3.5 million, or 71.4%, from $4.9 million for the three months ended June 30, 2016 to $1.4 million for the three months ended June 30, 2017. Other general and administrative expenses decreased by $3.9 million, or 58.2%, from $6.7 million for the six months ended June 30, 2016, to $2.8 million for the six months ended June 30, 2017. The decrease in other general and administrative expenses is attributable primarily to $3.6 million and $4.0 million of non-recurring expenses incurred during the three and six months ended June 30, 2016, respectively, stemming from the 2016 proxy contest that were in excess of the level of expenses normally incurred for an annual meeting of shareholders.

Income Tax Provision

We recognized an income tax provision of $16.7 million and an income tax benefit of $9.9 million for the three months ended June 30, 2017 and 2016, respectively. The income tax provision for the three months ended June 30, 2017 includes the effect of an increase in the valuation allowance against the deferred tax assets of $16.8 million. We recognized an income tax provision of $25.1 million and an income tax benefit of $10.4 million for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, the Company determined that it should record a full valuation allowance against its deferred tax assets that are capital in nature consisting of its NCL carry-forwards and temporary GAAP to tax differences that are expected to result in capital losses in future periods.

A valuation allowance is provided against the deferred tax asset if, based on our evaluation, it is more-likely-than-not that some or all of the deferred tax assets will not be realized. All available evidence, both positive and negative, is considered in our determination for whether a valuation allowance for deferred tax assets is needed. Items considered in determining our valuation allowance include expectations of future earnings of the appropriate tax character, recent historical financial results, tax planning strategies, the length of statutory carry-forward periods and the expected timing of the reversal of temporary differences.

Non-GAAP Core Operating Income

In addition to the results of operations determined in accordance with generally accepted accounting principles as consistently applied in the United States (“GAAP”), we reported “non-GAAP core operating income.” We define core operating income as “economic net interest income” less “core general and administrative expenses.”

Economic Net Interest Income

Economic net interest income, a non-GAAP financial measure, represents the interest income earned net of the interest expense incurred from all of our interest bearing financial instruments as well as the agency MBS which underlie, and are implicitly financed through, our TBA dollar roll transactions. Economic net interest income is comprised of the following: periodic (i) net interest income determined in accordance with GAAP, (ii) TBA agency MBS "dollar roll" income, and (iii) net interest income or expense incurred from interest rate swap agreements.

We believe that economic net interest income assists investors in understanding and evaluating the financial performance of the Company's long-term-focused, net interest spread-based investment strategy, prior to the deduction of core general and administrative expenses.

- Net interest income determined in accordance with GAAP. Net interest income determined in accordance with GAAP primarily represents the interest income recognized from our investments in specified agency MBS and private-label MBS (including the amortization of purchase premiums and accretion of purchase discounts), net of the interest expense incurred from repurchase agreement financing arrangements or other short- and long-term borrowing transactions.

- TBA agency MBS dollar roll income. Dollar roll income represents the economic equivalent of net interest income (implied interest income net of financing costs) generated from our investments in non-specified fixed-rate agency MBS, executed through sequential series of forward-settling purchase and sale transactions that are settled on a net basis (known as "dollar roll" transactions). Dollar roll income is generated as a result of delaying, or "rolling," the settlement of a forward-settling purchase of a TBA agency MBS by entering into an offsetting "spot" sale prior to the settlement date, net settling the "paired-off" positions in cash, and contemporaneously entering another forward-settling purchase of a TBA agency MBS of the same essential characteristics for a later settlement date at a price discount relative to the spot sale. The price discount of the forward-settling purchase relative to the contemporaneously executed spot sale reflects compensation for the interest income (inclusive of expected prepayments) that, at the time of sale, is expected to be foregone as a result of relinquishing beneficial ownership of the MBS from the settlement date of the spot sale until the settlement date of the forward purchase, net of implied repurchase financing costs. We calculate dollar roll income as the excess of the spot sale price over the forward-settling purchase price, and recognize this amount ratably over the period beginning on the settlement date of the sale and ending on the settlement date of the forward purchase. In our consolidated statements of comprehensive income prepared in accordance with GAAP, TBA agency MBS dollar roll income is reported as a component of the overall periodic change in the fair value of TBA forward commitments within the line item "gain (loss) from derivative instruments, net" of the "investment gain (loss), net" section.

- Net interest income earned or expense incurred from interest rate swap agreements. We utilize interest rate swap agreements to economically hedge a portion of our exposure to variability in future interest cash flows, attributable to changes in benchmark interest rates, associated with future roll-overs of our short-term financing arrangements. Accordingly, the net interest income earned or expense incurred (commonly referred to as "net interest carry") from our interest rate swap agreements in combination with interest expense recognized in accordance with GAAP represents our effective "economic interest expense." In our consolidated statements of comprehensive income prepared in accordance with GAAP, the net interest income earned or expense incurred from interest rate swap agreements is reported as a component of the overall periodic change in the fair value of derivative instruments within the line item "gain (loss) from derivative instruments, net" of the "investment gain (loss), net" section.

Core General and Administrative Expenses

Core general and administrative expenses are non-interest expenses reported within the line item "total general and administrative expenses" of the consolidated statements of comprehensive income less stock-based compensation expense. For the three and six months ended June 30, 2016, core general and administrative expenses also exclude non-recurring expenses related to the 2016 proxy contest that are in excess of those normally incurred for an annual meeting of shareholders.

Non-GAAP Core Operating Income

The following table presents our computation of non-GAAP core operating income for the three and six months ended June 30, 2017 and 2016 (amounts in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
GAAP net interest income	$18,933	$19,648	$39,210	$41,709
TBA dollar roll income	4,298	3,719	7,696	7,514
Interest rate swap net interest expense	(5,293)	(4,376)	(10,702)	(8,373)
Economic net interest income	17,938	18,991	36,204	40,850
Core general and administrative expenses	(3,681)	(3,444)	(7,705)	(6,864)
Preferred stock dividend	(35)	—	(35)	—
Non-GAAP core operating income	$14,222	$15,547	$28,464	$33,986
Non-GAAP core operating income per diluted common share	$0.58	$0.67	$1.18	$1.47
Weighted average diluted common shares outstanding	24,552	23,070	24,226	23,055

The following table provides a reconciliation of GAAP pre-tax net income (loss) to non-GAAP core operating income for the three and six months ended June 30, 2017 and 2016 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
GAAP (loss) income before income taxes	$(1,191)	$3,029	$12,399	$(29,135)
Less:				
Total investment loss, net	15,970	8,947	17,732	58,837
Stock-based compensation expense	473	647	1,374	1,164
Non-recurring proxy contest related expenses	—	3,581	—	3,979
Preferred stock dividend	(35)	—	(35)	—
Add back:				
TBA dollar roll income	4,298	3,719	7,696	7,514
Interest rate swap net interest expense	(5,293)	(4,376)	(10,702)	(8,373)
Non-GAAP core operating income	$14,222	$15,547	$28,464	$33,986

Non-GAAP core operating income is used by management to evaluate the financial performance of the Company's long-term-focused, net interest spread-based investment strategy and core business activities over periods of time as well as assist with the determination of the appropriate level of periodic dividends to common stockholders. In addition, we believe that non-GAAP core operating income assists investors in understanding and evaluating the financial performance of the Company's long-term-focused, net interest spread-based investment strategy and core business activities over periods of time as well as its earnings capacity.

Periodic fair value gains and losses recognized with respect to our investments in MBS and our economic hedging instruments, which are reported in line item "total investment gain (loss), net" of our consolidated statements of comprehensive income, are excluded from the computation of non-GAAP core operating income as such gains on losses are not reflective of the economic interest income earned or interest expense incurred from our interest-bearing financial assets and liabilities during the indicated reporting period. Because our long-term-focused investment strategy for our agency MBS investment portfolio is to generate a net interest spread on the leveraged assets while prudently hedging periodic changes in the fair value of those assets attributable to changes in benchmark interest rates, we generally expect the fluctuations in the fair value of our agency MBS investments and our economic hedging instruments to largely offset one another over time.

A limitation of utilizing this non-GAAP financial measure is that the effect of accounting for "non-core" events or transactions in accordance with GAAP does, in fact, reflect the financial results of our business and these effects should not be ignored when evaluating and analyzing our financial results. For example, the economic cost or benefit of hedging instruments other than interest rate swap agreements, such as U.S. Treasury note futures or options on U.S. Treasury note futures, do not affect the computation of non-GAAP core operating income. Therefore, we believe that non-GAAP core operating income should be considered as a supplement to, and in conjunction with, net income and comprehensive income determined in accordance with GAAP.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements including ongoing commitments to repay borrowings, fund investments, meet margin calls on our short-term borrowings and hedging instruments, and for other general business purposes. Our primary sources of funds for liquidity consist of existing cash balances, short-term borrowings (for example, repurchase agreements), principal and interest payments from our investments in MBS, and proceeds from sales of MBS. Other sources of liquidity include proceeds from the offering of common stock, preferred stock, debt securities, or other securities registered pursuant to our effective shelf registration statement filed with the Securities and Exchange Commission ("SEC").

Liquidity, or ready access to funds, is essential to our business. Perceived liquidity issues may affect our counterparties' willingness to engage in transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects us or third parties. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. If we cannot obtain funding from third parties or from our subsidiaries, our results of operations could be negatively impacted.

As of June 30, 2017, our debt-to-equity leverage ratio was 11.2 to 1 measured as the ratio of the sum of our total debt to our shareholders' equity as reported on our consolidated balance sheet. In evaluating our liquidity and leverage ratios, we also monitor our "at risk" short-term financing to investable capital ratio. Our "at risk" short-term financing to investable capital ratio is measured as the ratio of the sum of our short-term recourse financing (i.e. repurchase agreement financing), net payable or receivable for unsettled securities and net contractual forward price of our TBA commitments compared to our investable capital. Our investable capital is calculated as the sum of our tangible stockholders' equity and long-term unsecured debt. Tangible stockholders' equity is measured as our stockholders' equity less our net deferred tax asset, and our long-term unsecured debt is measured as our long-term unsecured debt excluding any unamortized issuance costs. As of June 30, 2017, our “at risk” short-term financing to investable capital ratio was 12.5 to 1.

Cash Flows

As of June 30, 2017, our cash and cash equivalents totaled $73.3 million, representing a net increase of $18.5 million from $54.8 million as of December 31, 2016. Cash provided by operating activities of $43.0 million during the six months ended June 30, 2017 was attributable primarily to net interest income less our general and administrative expenses. Cash used in investing activities of $296.2 million during the six months ended June 30, 2017 was primarily generated by purchases of new agency MBS and payments for settlements and deposits for margin calls on our interest rate derivative instruments, partially offset by sales of agency MBS and the receipt of principal payments from agency MBS. Cash provided by financing activities of $271.7 million during the six months ended June 30, 2017 relates primarily to net proceeds obtained from repurchase agreements used to finance a portion of our MBS investment portfolio and proceeds received from issuance of common and preferred stock, partially offset by dividend payments to stockholders.

Sources of Funding

We believe that our existing cash balances, net investments in MBS, cash flows from operations, borrowing capacity, and other sources of liquidity will be sufficient to meet our cash requirements for at least the next twelve months. We may, however, seek debt or equity financings, in public or private transactions, to provide capital for corporate purposes and/or strategic business opportunities, including possible acquisitions, joint ventures, alliances or other business arrangements which could require substantial capital outlays. Our policy is to evaluate strategic business opportunities, including acquisitions and divestitures, as they arise. There can be no assurance that we will be able to generate sufficient funds from future operations, or raise sufficient debt or equity on acceptable terms, to take advantage of investment opportunities that become available. Should our needs ever exceed these sources of liquidity, we believe that most of our investments could be sold, in most circumstances, to provide cash. However, we may be required to sell our assets in such instances at depressed prices.

As of June 30, 2017, liquid assets consisted primarily of cash and cash equivalents of $73.3 million and net investments in MBS of $268.9 million. Cash equivalents consist primarily of money market funds invested in debt obligations of the U.S. government. The Company’s net investments in MBS is calculated as the sum of the Company’s total MBS investments at fair value and receivable for sold MBS, less the sum of the repurchase agreements outstanding and payable for purchased MBS.

Debt Capital

Long-Term Unsecured Debt

As of June 30, 2017, we had $73.8 million of total long-term unsecured debt, net of unamortized debt issuance costs of $1.5 million. Our trust preferred debt obligations with an aggregate principal amount of $15.0 million outstanding as of June 30, 2017 accrue and require the payment of interest quarterly at three-month LIBOR plus 2.25% to 3.00% and mature between 2033 and 2035. Our 6.625% Senior Notes due 2023 with a principal amount of $25.0 million outstanding as of June 30, 2017 accrue and require payment of interest quarterly at an annual rate of 6.625% and mature on May 1, 2023. Our 6.75% Senior Notes due 2025 with a principal amount of $35.3 million outstanding as of June 30, 2017 accrue and require payment of interest quarterly at an annual rate of 6.75% and mature on March 15, 2025.

Repurchase Agreements

We have short-term financing facilities that are structured as repurchase agreements with various financial institutions to fund our investments in MBS. We have obtained, and believe we will be able to continue to obtain, short-term financing in amounts and at interest rates consistent with our financing objectives. Funding for MBS through repurchase agreements continues to be available to us at rates we consider to be attractive from multiple counterparties.

Our repurchase agreements include provisions contained in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association ("SIFMA") and may be amended and supplemented in accordance with industry standards for repurchase facilities. Our repurchase agreements include financial covenants, with which the failure to comply would constitute an event of default under the applicable repurchase agreement. Similarly, each repurchase agreement includes events of insolvency and events of default on other indebtedness as similar financial covenants. As provided in the standard master repurchase agreement as typically amended, upon the occurrence of an event of default or termination, the applicable counterparty has the option to terminate all repurchase transactions under such counterparty's repurchase agreement and to demand immediate payment of any amount due from us to the counterparty.

Under our repurchase agreements, we may be required to pledge additional assets to our repurchase agreement counterparties in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral (commonly referred to as a "margin call"), which may take the form of additional securities or cash. Margin calls on repurchase agreements collateralized by our MBS investments primarily result from events such as declines in the value of the underlying mortgage collateral caused by factors such as rising interest rates or prepayments. Our repurchase agreements generally provide that valuations for MBS securing our repurchase agreements are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances and under certain of our repurchase agreements, our lenders have the sole discretion to determine the value of the MBS securing our repurchase agreements. In such instances, our lenders are required to act in good faith in making determinations of value. Our repurchase agreements generally provide that in the event of a margin call, we must provide additional securities or cash on the same business day that the margin call is made if the lender provides us notice prior to the margin notice deadline on such day.

To date, we have not had any margin calls on our repurchase agreements that we were not able to satisfy with either cash or additional pledged collateral. However, should we encounter increases in interest rates or prepayments, margin calls on our repurchase agreements could result in a material adverse change in our liquidity position.

Our repurchase agreements generally mature within 30 to 90 days, but may have maturities as short as one day and as long as one year. In the event that market conditions are such that we are unable to continue to obtain repurchase agreement financing for our investments in MBS in amounts and at interest rates consistent with our financing objectives, we may liquidate such investments and may incur significant losses on any such sales of MBS.

In the event that market conditions are such that we are unable to obtain financing for our investments in MBS in amounts and at interest rates consistent with our financing objectives, to the extent deemed appropriate, we may use cash to finance our investments or we may liquidate such investments. Accordingly, depending upon market conditions, we may incur significant losses on any such sales of MBS.

The following table provides information regarding our outstanding repurchase agreement borrowings as of dates and periods indicated (dollars in thousands):

	June 30, 2017	December 31, 2016
Pledged with agency MBS:		
Repurchase agreements outstanding	$3,913,699	$ 3,649,102
Agency MBS collateral, at fair value	4,102,321	3,851,269
Net amount [1]	188,622	202,167
Weighted-average rate	1.33 %	0.96 %
Weighted-average term to maturity	12.8 days	19.3 days
Maximum amount outstanding at any month-end during the period	$4,292,755	$ 3,653,114

[1] Net amount represents the value of collateral in excess of corresponding repurchase obligation. The amount of collateral at-risk is limited to the outstanding repurchase obligation and not the entire collateral balance.

To limit our exposure to counterparty risk, we diversify our repurchase agreement funding across multiple counterparties and by counterparty region. As of June 30, 2017, we had outstanding repurchase agreement balances with 16 counterparties and have master repurchase agreements in place with a total of 19 counterparties located throughout North America, Europe and Asia. As of June 30, 2017, no more than 6.2% of our stockholders' equity was at risk with any one counterparty, with the top five counterparties representing approximately 25.7% of our stockholders' equity. The table below includes a summary of our repurchase agreement funding by number of counterparties and counterparty region as of June 30, 2017 (dollars in thousands):

	Number of Counterparties	Percentage of Repurchase Agreement Funding	
North America	12	77.9	%
Europe	1	8.0	%
Asia	3	14.1	%
	16	100.0	%

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Derivative Instruments

In the normal course of our operations, we are a party to financial instruments that are accounted for as derivative financial instruments including (i) interest rate derivative instruments such as interest rate swaps, Eurodollar futures, interest rate swap futures, U.S. Treasury note futures, and put and call options on U.S. Treasury note futures, and (ii) derivative instruments that economically serve as investments such as TBA contracts.

Interest Rate Derivative Instruments

We exchange cash variation margin with the counterparties to our interest rate derivative instruments at least on a daily basis based upon daily changes in fair value as measured by the central clearinghouse through which those derivatives are cleared. In addition, the central clearinghouse requires market participants to deposit and maintain an "initial margin" amount which is determined by the clearinghouse and is generally intended to be set at a level sufficient to protect the clearinghouse from the maximum estimated single-day price movement in that market participant's contracts. The clearing exchanges have the sole discretion to determine the value of derivative instruments. In the event of a margin call, we must generally provide additional collateral on the same business day. To date, we have not had any margin calls on our derivative agreements that we were not able to satisfy. However, if we encounter significant decreases in long-term interest rates, margin calls on our derivative agreements could result in a material adverse change in our liquidity position.

As of June 30, 2017, we had outstanding interest rate swaps, 10-year U.S. Treasury note futures, and options on 10-year U.S. Treasury note futures with the following aggregate notional amount, net fair value and corresponding margin held in collateral deposit with the custodian (in thousands):

	June 30, 2017		
	Notional Amount	Net Fair Value	Collateral Deposit
Interest rate swaps [1]	$3,850,000	$6,907	$ 58,992
U.S. Treasury note futures and options on U.S. Treasury note futures	1,050,000	1,011	4,550

[1] Beginning in 2017, the Company accounts for the daily receipt or payment of cash variation margin associated with centrally cleared interest rate swaps as a legal settlement of the derivative instrument itself, as opposed to the pledge of collateral.

TBA Dollar Roll Transactions

TBA dollar roll transactions represent a form of off-balance sheet financing accounted for as derivative instruments. In a TBA dollar roll transaction, we do not intend to take physical delivery of the underlying agency MBS and will generally enter into an offsetting position and net settle the paired off position in cash. However, under certain market conditions, it may be uneconomical for us to roll our TBA contracts into future months and we may need to take or make physical delivery of the underlying securities. If we were required to take physical delivery to settle a long TBA contract, we would have to fund our total purchase commitment with cash or other financing sources and our liquidity position could be negatively impacted.

Our TBA contracts are subject to master securities forward transaction agreements published by SIFMA as well as supplemental terms and conditions with each counterparty. Under the terms of these agreements, we may be required to pledge collateral to our counterparty in the event the fair value of our TBA contracts declines and such counterparty demands collateral through a margin call. Margin calls on TBA contracts are generally caused by such factors as rising interest rates or prepayments. Our TBA contracts generally provide that valuations for our TBA commitments and any pledged collateral are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the TBA commitment and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

Equity Capital

Preferred Stock

In May 2017, the Company completed a public offering in which 135,000 shares of its 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock (the “Series B Preferred Stock”) were issued to the public at a public offering price of $24.00 per share for proceeds net of underwriting discounts and commissions and expenses of $3.0 million. The Series B Preferred Stock is publicly traded on the New York Stock Exchange under the ticker symbol “AI PrB”.

The Series B Preferred Stock has no stated maturity, is not subject to any sinking fund and will remain outstanding indefinitely unless repurchased or redeemed by the Company. Holders of Series B Preferred Stock have no voting rights, except under limited conditions, and are entitled to receive a cumulative cash dividend at a rate of 7.00% per annum of their $25.00 per share liquidation preference before holders of common stock are entitled to receive any dividends. Shares of Series B Preferred Stock are redeemable at $25.00 per share, plus accumulated and unpaid dividends (whether or not authorized or declared) exclusively at our option commencing on May 12, 2022 or earlier upon the occurrence of a change in control. Dividends are payable quarterly in arrears on the 30th day of each December, March, June and September. As of June 30, 2017, we had declared and paid all required quarterly dividends on our Series B Preferred Stock.

Equity Distribution Agreements

On May 24, 2013, we entered into separate equity distribution agreements (the “Prior Equity Distribution Agreements”) with each of RBC Capital Markets, LLC, JMP Securities LLC, Ladenburg Thalmann & Co. Inc. and MLV & Co. LLC (the “Prior Equity Sales Agents”), pursuant to which we may offer and sell, from time to time, up to 1,750,000 shares of our Class A common stock. Pursuant to the Prior Equity Distribution Agreements, shares of our common stock may be offered and sold through the Prior Equity Sales Agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933 as amended (the “Securities Act”), including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions.

During the three months ended March 31, 2017, we issued 800 shares of Class A common stock at a weighted average public offering price of $15.16 per share for proceeds net of underwriting discounts and commissions and expenses of $12 thousand under the Prior Equity Distribution Agreements. On February 23, 2017, we terminated the Prior Equity Distribution Agreements.

On February 22, 2017, we entered into new separate equity distribution agreements (the “New Equity Distribution Agreements”) with each of JMP Securities LLC, FBR Capital Markets & Co., JonesTrading Institutional Services LLC and Ladenburg Thalmann & Co. Inc. (the “New Equity Sales Agents”), pursuant to which we may offer and sell, from time to time, up to 6,000,000 shares of our Class A common stock. Pursuant to the New Equity Distribution Agreements, shares of our common stock may be offered and sold through the New Equity Sales Agents in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions. During the three months ended June 30, 2017, we issued 2,331,489 shares of Class A common stock at a weighted average public offering price of $14.51 per share for proceeds net of underwriting discounts and commissions and expenses of $33.3 million under the Prior Equity Distribution Agreements.

As of June 30, 2017, we had 3,668,511 shares of Class A common stock available for sale under the New Equity Distribution Agreements.

On May 16, 2017, we entered into a new separate equity distribution agreement (the “Series B Preferred Equity Distribution Agreement”) with JonesTrading Institutional Services LLC (the “Series B Preferred Equity Agent”), pursuant to which we may offer and sell, from time to time, up to 1,865,000 shares of our Series B Preferred Stock. Pursuant to the Series B Preferred Equity Distribution Agreement, shares of our Series B Preferred stock may be offered and sold through the Series B Preferred Equity Sales Agent in transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange or, subject to the terms of a written notice from us, in privately negotiated transactions. During the three months ended June 30, 2017, we issued 21,310 shares of Series B Preferred stock at a weighted average public offering price of $24.41 per share for proceeds net of underwriting discounts and commissions and expenses of $0.5 million under the Series B Preferred Equity Distribution Agreement.

As of June 30, 2017, we had 1,843,690 shares of Series B Preferred stock available for sale under the Series B Preferred Equity Distribution Agreement

Share Repurchase Program

The Company's Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to 2.0 million shares of its Class A common stock. As of June 30, 2017, 1,951,305 shares of Class A common stock remained available for repurchase under the repurchase program.

Off-Balance Sheet Arrangements

As of June 30, 2017 and December 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities ("VIEs"), established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Our economic interests held in unconsolidated VIEs are limited in nature to those of a passive holder of MBS issued by a securitization trust. As of June 30, 2017 and December 31, 2016, we had not consolidated for financial reporting purposes any securitization trusts as we do not have the power to direct the activities that most significantly impact the economic performance of such entities. Further, as of June 30, 2017 and December 31, 2016, we had not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide funding to any such entities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the exposure to loss resulting from changes in market factors such as interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. The primary market risks that we are exposed to are interest rate risk, prepayment risk, extension risk, credit risk, spread risk, liquidity risk and regulatory risk. See "Item 1 — Business" in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of our risk management strategies.

Interest Rate Risk

We are exposed to interest rate risk in our MBS portfolio. Our investments in MBS are financed with short-term borrowing facilities such as repurchase agreements, which are interest rate sensitive financial instruments. Our exposure to interest rate risk fluctuates based upon changes in the level and volatility of interest rates, mortgage prepayments, and in the shape and slope of the yield curve, among other factors. Through the use of interest rate derivative instruments, we attempt to economically hedge a portion of our exposure to changes, attributable to changes in benchmark interest rates, in certain MBS fair values and future interest cash flows on our short-term financing arrangements. Our primary interest rate derivatives include interest rate swaps as well as U.S. Treasury note futures and options on U.S. Treasury note futures. Historically, we have also utilized Eurodollar futures and interest rate swap futures.

Changes in both short- and long-term interest rates affect us in several ways, including our financial position. As interest rates increase, the fair value of fixed-rate agency MBS may be expected to decline, prepayment rates may be expected to decrease and duration may be expected to extend. However, an increase in interest rates results in an increase in the fair value of our interest rate derivative instruments. Conversely, if interest rates decline, the fair value of fixed-rate agency MBS is generally expected to increase while the fair value of our interest rate derivatives is expected to decline.

The tables that follow illustrate the estimated change in fair value for our current investments in agency MBS and derivative instruments under several hypothetical scenarios of interest rate movements. For the purposes of this illustration, interest rates are defined by the U.S. Treasury yield curve. Changes in fair value are measured as percentage changes from their respective fair values presented in the column labeled "Value." Our estimate of the change in the fair value of agency MBS is based upon the same assumptions we use to manage the impact of interest rates on the portfolio. The interest rate sensitivity of our agency MBS and TBA commitments is derived from The

Yield Book, a third-party model. Actual results could differ significantly from these estimates. The effective durations are based on observed fair value changes, as well as our own estimate of the effect of interest rate changes on the fair value of the investments, including assumptions regarding prepayments based, in part, on age and interest rate of the mortgages underlying the MBS, prior exposure to refinancing opportunities, and an overall analysis of historical prepayment patterns under a variety of historical interest rate conditions.

The interest rate sensitivity analyses illustrated by the tables that follow have certain limitations, most notably the following:

- The 50 and 100 basis point upward and downward shocks to interest rates that are applied in the analyses represent parallel shocks to the forward yield curve. The analyses do not consider the sensitivity of stockholders' equity to changes in the shape or slope of the forward yield curve.
- The analyses assume that spreads remain constant and, therefore, do not reflect an estimate of the impact that changes in spreads would have on the value of our MBS investments or our LIBOR-based derivative instruments, such as our interest rate swap agreements.
- The analyses assume a static portfolio and do not reflect activities and strategic actions that management may take in the future to manage interest rate risk in response to significant changes in interest rates or other market conditions.

- The yield curve that results from applying an instantaneous parallel 100 basis point decrease in interest rates may reflect an interest rate of less than 0% in certain portions of the curve. The results of the analysis included in the applicable tables to follow reflect the effect of these negative interest rates.
- The analyses do not reflect any estimated changes in the fair value of our investments in private-label MBS.
- The analyses do not reflect any changes in the value of our net deferred tax asset, including any changes to the assumptions that would be incorporated into the determination of the deferred tax asset valuation allowance.

These analyses are not intended to provide a precise forecast. Actual results could differ materially from these estimates (dollars in thousands, except per share amounts):

	June 30, 2017		
	Value	Value with 50 Basis Point Increase in Interest Rates	Value with 50 Basis Point Decrease in Interest Rates
Agency MBS	$4,182,529	$ 4,080,589	$ 4,257,884
TBA commitments	(3,991)	(31,293)	13,522
10-year U.S. Treasury note futures	984	14,690	(12,722)
Interest rate swaps	6,907	107,266	(93,452)
Options on U.S. Treasury note futures	27	—	3,277
Equity available to common stock	350,719	335,514	332,772
Book value per common share	$13.48	$ 12.89	$ 12.79
Book value per common share percent change		(4.34)%	(5.12)%

	June 30, 2017		
	Value	Value with 100 Basis Point Increase in Interest Rates	Value with 100 Basis Point Decrease in Interest Rates
Agency MBS	$4,182,529	$ 3,961,469	$ 4,304,437
TBA commitments	(3,991)	(64,249)	23,449
10-year U.S. Treasury note futures	984	28,395	(26,427)
Interest rate swaps	6,907	207,625	(193,811)
Options on U.S. Treasury note futures	27	—	22,317
Equity available to common stock	350,719	297,503	294,227
Book value per common share	$13.48	$ 11.43	$ 11.31
Book value per common share percent change		(15.17)%	(16.11)%

Spread Risk

Our investments in MBS expose us to “spread risk.” Spread risk, also known as “basis risk,” is the risk of an increase in the spread between market participants’ required rate of return (or “market yield”) on our MBS and prevailing benchmark interest rates, such as the U.S. Treasury or interest rate swap rates.

The spread risk inherent to our investments in agency MBS and the resulting fluctuations in fair value of these securities can occur independent of changes in prevailing benchmark interest rates and may relate to other factors impacting the mortgage and fixed income markets, such as actual or anticipated monetary policy actions by the U. S. Federal Reserve, liquidity, or changes in market participants' required rates of return on different assets. While we use interest rate derivative instruments to attempt to mitigate the sensitivity of our net book value to changes in prevailing benchmark interest rates, such instruments are generally not designed to mitigate spread risk inherent to our investment in agency MBS. Consequently, the value of our agency MBS and, in turn, our net book value, could decline independent of changes in interest rates.

The tables that follow illustrate the estimated change in fair value for our investments in agency MBS and TBA commitments under several hypothetical scenarios of agency MBS spread movements. Changes in fair value are measured as percentage changes from their respective fair values presented in the column labeled "Value." The sensitivity of our agency MBS and TBA commitments to changes in MBS spreads is derived from The Yield Book, a third-party model. The analysis to follow reflects an assumed spread duration for our investment in agency MBS of 5.5 years, which is a model-based assumption that is dependent upon the size and composition of our investment portfolio as well as economic conditions present as of June 30, 2017.

These analyses are not intended to provide a precise forecast. Actual results could differ materially from these estimates (dollars in thousands, except per share amounts).

	June 30, 2017		
	Value	Value with 10 Basis Point Increase in Agency MBS Spreads	Value with 10 Basis Point Decrease In Agency MBS Spreads
Agency MBS	$4,182,529	$4,159,441	$4,205,617
TBA commitments, net	(3,991)	(10,114)	2,133
Equity available to common stock	350,719	321,508	379,931
Book value per common share	$13.48	$12.35	$14.60
Book value per common share percent change		(8.33)%	8.33%

	June 30, 2017		
	Value	Value with 25 Basis Point Increase in Agency MBS Spreads	Value with 25 Basis Point Decrease In Agency MBS Spreads
Agency MBS	$4,182,529	$4,124,809	$4,240,249
TBA commitments, net	(3,991)	(19,299)	11,318
Equity available to common stock	350,719	277,691	423,748
Book value per common share	$13.48	$10.67	$16.28
Book value per common share percent change		(20.82)%	20.82%

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our Board of Directors in its sole discretion pursuant to our variable dividend policy; in each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

Cautionary Statement About Forward-Looking Information

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission (“SEC”) or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” similar expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, as such, may involve known and unknown risks, uncertainties and assumptions. The forward-looking statements we make in this Quarterly Report on Form 10-Q include, but are not limited to, statements about the following:

- the availability and terms of, and our ability to deploy, capital and our ability to grow our business through our current strategy focused on acquiring primarily residential mortgage-backed securities (“MBS”) that are either issued by U.S. government agencies or guaranteed as to principal and interest by U.S. government agencies or U.S. government sponsored agencies (“agency MBS”), and MBS issued by private organizations (“private-label MBS”);
- our ability to forecast our tax attributes, which are based upon various facts and assumptions, and our ability to protect and use our net operating losses (“NOLs”) and net capital losses (“NCLs”) to offset future taxable income, including whether our shareholder rights plan (“Rights Plan”) will be effective in preventing an ownership change that would significantly limit our ability to utilize such losses;
- our business, acquisition, leverage, asset allocation, operational, investment, hedging and financing strategies and the success of these strategies;
- the effect of changes in prepayment rates, interest rates and default rates on our portfolio;

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- the effect of governmental regulation and actions on our business, including, without limitation, changes to monetary and fiscal policy and tax laws;
- our ability to quantify and manage risk;
- our ability to roll our repurchase agreements on favorable terms, if at all;
- our liquidity;
- our asset valuation policies;
- our decisions with respect to, and ability to make, future dividends;
- investing in assets other than MBS or pursuing business activities other than investing in MBS;
- our ability to maintain our exclusion from the definition of "investment company" under the Investment Company Act of 1940, as amended (the "1940 Act");
- our decision to not elect to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code; and
- the effect of general economic conditions on our business.

Forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently in our possession. These beliefs, assumptions and expectations may change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements, before making an investment in our securities:

- the overall environment for interest rates, changes in interest rates, interest rate spreads, the yield curve and prepayment rates, including the timing of increases in the Federal Funds rate by the U.S. Federal Reserve;
- current conditions and further adverse developments in the residential mortgage market and the overall economy;
- potential risk attributable to our mortgage-related portfolios, including changes in fair value;
- our use of leverage and our dependence on repurchase agreements and other short-term borrowings to finance our mortgage-related holdings;
- the availability of certain short-term liquidity sources;
- competition for investment opportunities, including competition from the U.S. Department of Treasury ("U.S. Treasury") and the U.S. Federal Reserve, for investments in agency MBS, as well as the timing of the termination by the U.S. Federal Reserve of its purchases of agency MBS;
- the federal conservatorship of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government;
- mortgage loan prepayment activity, modification programs and future legislative action;
- changes in, and success of, our acquisition, hedging and leverage strategies, changes in our asset allocation and changes in our operational policies, all of which may be changed by us without shareholder approval;
- failure of sovereign or municipal entities to meet their debt obligations or a downgrade in the credit rating of such debt obligations;
- fluctuations of the value of our hedge instruments;
- fluctuating quarterly operating results;
- changes in laws and regulations and industry practices that may adversely affect our business;
- volatility of the securities markets and activity in the secondary securities markets in the United States and elsewhere;
- our ability to successfully expand our business into areas other than investing in MBS and our expectations of the returns of expanding into any such areas; and

- the other important factors identified in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016 under the caption “Item 1A — Risk Factors”.

These and other risks, uncertainties and factors, including those described elsewhere in this Quarterly Report on Form 10-Q, 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.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, with the participation of our Chief Executive Officer, J. Rock Tonkel, Jr., and our Chief Financial Officer, Richard E. Konzmann, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in civil lawsuits, legal proceedings and arbitration matters that we consider to be in the ordinary course of our business. There can be no assurance that these matters individually or in the aggregate will not have a material adverse effect on our financial condition or results of operations in a future period. We are also subject to the risk of litigation, including litigation that may be without merit. As we intend to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future litigation against us could materially affect our financial condition, results of operations and liquidity. Furthermore, we operate in highly-regulated markets that currently are under intense regulatory scrutiny, and we have received, and we expect in the future that we may receive, inquiries and requests for documents and information from various federal, state and foreign regulators. In addition, one or more of our subsidiaries have received requests to repurchase loans from various parties in connection with the former securitization business conducted by a subsidiary. We believe that the continued scrutiny of MBS, structured finance, and derivative market participants increases the risk of additional inquiries and requests from regulatory or enforcement agencies and other parties. We cannot provide any assurance that these inquiries and requests will not result in further investigation of or the initiation of a proceeding against us or that, if any such investigation or proceeding were to arise, it would not materially adversely affect our Company.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Title

3.01 Amended and Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q filed on November 9, 2009).

3.02 Articles of Amendment to the Amended and Restated Articles of Incorporation designating the shares of 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, $0.01 par value per share (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form 8-A filed on May 9, 2017).

3.03 Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on July 28, 2011).

3.04 Amendment No. 1 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on February 4, 2015).

3.05 Amendment No. 2 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed on October 26, 2016).

Exhibit Number	Exhibit Title
4.01	Form of Indenture governing the Senior Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.02	Form of Indenture governing the Subordinated Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.03	Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 1, 2013).
4.04	First Supplemental Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on May 1, 2013).
4.05	Form of Senior Note (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.06	Form of Subordinated Note (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.07	Form of 6.625% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed by the Company on May 1, 2013).
4.08	Form of Certificate for Class A common stock (incorporated by reference to Exhibit 4.01 of the Annual Report on Form 10-K filed with the SEC on February 24, 2010).
4.09	Shareholder Rights Agreement, dated June 5, 2009 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the SEC on June 5, 2009).
4.10	Second Supplemental Indenture, dated as of March 18, 2015, between the Company, Wells Fargo Bank, National Association, as Trustee and The Bank of New York Mellon, as Series Trustee (incorporated by reference to Exhibit 4.3 to the Company's Form 8-A filed on March 18, 2015).
4.11	Form of 6.750% Notes due 2025 (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by the Company on March 17, 2015).
4.12	Form of specimen certificate representing the shares of 7.00% Series B Perpetual Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement of Form 8-A filed on May 9, 2017).
10.01	Equity Distribution Agreement, dated May 16, 2017, by and between the Company and JonesTrading Institutional Services LLC (incorporated by reference to Exhibit 1.1 of the Registrant's Current Report on Form 8-K filed on May 17, 2017).
12.01	Computation of Ratio of Earnings to Fixed Charges.*

31.01	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.02	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
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101.SCH	SCHEMA DOCUMENT***
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Exhibit Number	Exhibit Title
101.PRE	PRESENTATION LINKBASE DOCUMENT***
101.DEF	DEFINITION LINKBASE DOCUMENT***

* Filed herewith.
** Furnished herewith.
*** Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2017 and December 31, 2016; (ii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016; (iii) Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2017 and the Year Ended December 31, 2016; and (iv) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARLINGTON ASSET INVESTMENT CORP.
By: /s/ RICHARD E. KONZMANN
Richard E. Konzmann
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Date: August 4, 2017

EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.01	Amended and Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 9, 2009).
3.02	Articles of Amendment to the Amended and Restated Articles of Incorporation designating the shares of 7.00% Series B Cumulative Perpetual Redeemable Preferred Stock, $0.01 par value per share (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-A filed on May 9, 2017).
3.03	Amended and Restated Bylaws, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 28, 2011).
3.04	Amendment No. 1 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2015).
3.05	Amendment No. 2 to the Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 26, 2016).
4.01	Form of Indenture governing the Senior Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.02	Form of Indenture governing the Subordinated Debt Securities by and between the Company and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.03	Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 1, 2013).
4.04	First Supplemental Indenture dated as of May 1, 2013 between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on May 1, 2013).
4.05	Form of Senior Note (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.06	Form of Subordinated Note (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3 (File No. 333-215384) filed on December 30, 2016).
4.07	Form of 6.625% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed by the Company on May 1, 2013).
4.08	

Form of Certificate for Class A common stock (incorporated by reference to Exhibit 4.01 of the Annual Report on Form 10-K filed with the SEC on February 24, 2010).

4.09 Shareholder Rights Agreement, dated June 5, 2009 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the SEC on June 5, 2009).

4.10 Second Supplemental Indenture, dated as of March 18, 2015, between the Company, Wells Fargo Bank, National Association, as Trustee and The Bank of New York Mellon, as Series Trustee (incorporated by reference to Exhibit 4.3 to the Company's Form 8-A filed on March 18, 2015).

4.11 Form of 6.750% Notes due 2025 (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by the Company on March 17, 2015).

4.12 Form of specimen certificate representing the shares of 7.00% Series B Perpetual Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement of Form 8-A filed on May 9, 2017).

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