Arlington Asset Investment Corp.
Form 10-K/A
February 20, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

o **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)

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

Title of Each Class of Securities	Name of Each Exchange on Which Registered
Class A Common Stock, Par Value $0.01	New York Stock Exchange
6.625% Senior Notes due 2023	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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 (§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 x No o

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

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

The aggregate market value of the registrant's Class A and Class B common stock held by non-affiliates computed by reference to the last reported price at which the registrant's Class A common stock was sold on the New York Stock Exchange on June 30, 2014 was approximately $516 million. There is no public trading market for the registrant's Class B common stock; however, the Class B common stock is convertible into Class A common stock on a share-for-share basis.

As of January 30, 2015, there were 22,860,922 shares of the registrant's Class A common stock outstanding and 105,869 shares of the registrant's Class B common stock outstanding.

Documents incorporated by reference: Portions of the registrant's Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders (to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant's fiscal year end) are incorporated by reference in this Annual Report on Form 10-K in response to Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

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EXPLANATORY NOTE

On February 9, 2015, Arlington Asset Investment Corp. (the “Company”) filed its annual report on Form 10-K for the fiscal year ended December 31, 2014 (“2014 Form 10-K”).

This Form 10-K/A filing is made solely for the purpose of correcting the inadvertent omission of our auditor’s signature on its Report of Independent Registered Public Accounting Firm in Item 8. At the time of filing of the 2014 Form 10-K, we had on-hand a manually signed and dated Report of Independent Registered Public Accounting Firm. There are no other changes to the Company’s 2014 Form 10-K.

PART II.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears in a subsequent section of this report. See “Index to Consolidated Financial Statements of Arlington Asset Investment Corp.” on page F-1.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) *Financial Statements*. The Arlington Asset Investment Corp. consolidated financial statements for the year ended December 31, 2014, included in "Item 8 — Financial Statements and Supplementary Data", of this Annual Report on Form 10-K/A, are incorporated by reference into this Part IV, Item 15:

- Report of Independent Registered Public Accounting Firm (page F-2)
- Consolidated Balance Sheets — Years ended 2014 and 2013 (page F-3)
- Consolidated Statements of Comprehensive Income — Years ended 2014, 2013 and 2012 (page F-4)
- Consolidated Statements of Changes in Equity — Years ended 2014, 2013 and 2012 (page F-5)
- Consolidated Statements of Cash Flows — Years ended 2014, 2013 and 2012 (page F-8)
- Notes to Consolidated Financial Statements (page F-9)

(2) *Financial Statement Schedules*. All schedules are omitted because they are not required or because the information is shown in the financial statements or notes thereto.

(3) *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	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).
3.03	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).

4.01	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 Registrant's Current Report on Form 8-K filed on May 1, 2013).
4.02	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 Registrant's Current Report on Form 8-K filed on May 1, 2013).
4.03	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.4 of the Registration Statement on Form S-3 (333-107731) filed by Friedman, Billings, Ramsey Group Inc. on August 7, 2003).
4.04	Form of Senior Note (incorporated by reference to the Registrant's Registration Statement on Form S-3 (133-171537).
4.05	Form of 6.625% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on May 1, 2013).
4.06	Form of Certificate for Class A Common Stock (incorporated by reference to Exhibit 4.01 of the Annual Report on Form 10-K filed on February 24, 2010).
4.07	Shareholder Rights Agreement, dated June 5, 2009 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on June 5, 2009).
10.01	Friedman, Billings, Ramsey Group, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 29, 2004).*
10.02	Friedman, Billings, Ramsey Group, Inc. 1997 Stock and Annual Incentive Plan (incorporated by reference to Exhibit 10.06 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-39107) filed by Friedman, Billings, Ramsey Group, Inc. on December 19, 1997).*
10.03	Friedman, Billings, Ramsey Group, Inc. Non-Employee Director Stock Compensation Plan (incorporated by reference to Exhibit 10.07 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-39107) filed by Friedman, Billings, Ramsey Group, Inc. on December 19, 1997).*
10.04	Friedman, Billings, Ramsey Group, Inc. Amended and Restated Non-Employee Director Stock Compensation Plan (incorporated by reference to Exhibit 10.04 to the Registrant's Annual Report on Form 10-K filed on February 23, 2012).*

Exhibit Number	Exhibit Title
10.05	Arlington Asset Investment Corp. 2011 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2011).*
10.06	Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).
10.07	Form of Restricted Stock Unit Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).
10.08	Form of Restricted Stock Award Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).
10.09	Form of Performance Share Unit Award Agreement under Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 filed on July 15, 2014).
10.10	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.08 to the Registrant's Annual Report on Form 10-K filed on February 23, 2012).*
10.11	Equity Distribution Agreement, dated May 24, 2013, by and between the Company and RBC Capital Markets, LLC (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed on May 28, 2013).
10.12	Equity Distribution Agreement, dated May 24, 2013, by and between the Company and JMP Securities LLC (incorporated by reference to Exhibit 1.2 to the Registrant's Current Report on Form 8-K filed on May 28, 2013).
10.13	Equity Distribution Agreement, dated May 24, 2013, by and between the Company and Ladenburg Thalmann & Co. Inc. (incorporated by reference to Exhibit 1.3 to the Registrant's Current Report on Form 8-K filed on May 28, 2013).
10.14	Equity Distribution Agreement, dated May 24, 2013, by and between the Company and MLV & Co. LLC (incorporated by reference to Exhibit 1.4 to the Registrant's Current Report on Form 8-K filed on May 28, 2013).
11.01	Statement regarding Computation of Per Share Earnings (included in Part II, Item 8, and Note 2 to the Registrant's Consolidated Financial Statements).†
12.01	Computation of Ratio of Earnings to Fixed Charges. (incorporated by reference to Exhibit 12.01 to the Registrant's Annual Report on Form 10-K filed on February 9, 2015).
21.01	List of Subsidiaries of the Registrant. (incorporated by reference to Exhibit 21.01 to the Registrant's Annual Report on Form 10-K filed on February 9, 2015).
23.01	Consent of PricewaterhouseCoopers LLP. (incorporated by reference to Exhibit 23.01 to the Registrant's Annual Report on Form 10-K filed on February 9, 2015).
24.01	Power of Attorney (incorporated by reference to the signature page to the Registrant's Annual Report on Form 10-K filed on February 9, 2015).
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.†
32.02	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

101.INS	INSTANCE DOCUMENT**
101.SCH	SCHEMA DOCUMENT**
101.CAL	CALCULATION LINKBASE DOCUMENT**
101.LAB	LABELS LINKBASE DOCUMENT**
101.PRE	PRESENTATION LINKBASE DOCUMENT**
101.DEF	DEFINITION LINKBASE DOCUMENT**

† Filed herewith.

* Compensatory plan or arrangement.

** Submitted electronically herewith. Attached as Exhibit 101 are the following materials from the Company’s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2014 and December 31, 2013; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012; (iii) Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012; and (iv) Consolidated Statements of Cash Flows for the years ended 2014, 2013 and 2012.

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.
Date: February 20, 2015	By: /s/ J. ROCK TONKEL, JR.
	J. Rock Tonkel, Jr.
	President and Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ J. ROCK TONKEL, JR.	President, Chief Executive Officer and Director	February 20, 2015
J. ROCK TONKEL, JR.	(Principal Executive Officer)	
/s/ KURT R. HARRINGTON	Executive Vice President, Chief Financial Officer and Treasurer	February 20, 2015
KURT R. HARRINGTON	(Principal Financial Officer)	
*	Executive Chairman of the Board	February 20, 2015
ERIC F. BILLINGS		
*	Director	February 20, 2015
DANIEL J. ALTOBELLO		
*	Director	February 20, 2015
DANIEL E. BERCE		

* **DAVID W. FAEDER**	Director	February 20, 2015
* **PETER A. GALLAGHER**	Director	February 20, 2015
* **RALPH S. MICHAEL III**	Director	February 20, 2015
* By: /s/ KURT R. HARRINGTON **KURT R. HARRINGTON**	Attorney-in-Fact	February 20, 2015

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FINANCIAL STATEMENTS OF ARLINGTON ASSET INVESTMENT CORP.

Index to Arlington Asset Investment Corp. Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of

Arlington Asset Investment Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of changes in equity and of cash flows present fairly, in all material respects, the financial position of Arlington Asset Investment Corp. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
McLean, Virginia

February 9, 2015

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	December 31,	
	2014	2013
ASSETS		
Cash and cash equivalents	$33,832	$48,628
Receivables		
Interest	10,701	5,173
Other	1,138	212
Mortgage-backed securities, at fair value		
Available-for-sale	267,477	341,346
Trading	3,414,300	1,576,452
Other investments	1,837	2,065
Derivative assets, at fair value	1,267	8,424
Deferred tax assets, net	122,365	165,851
Deposits	160,427	45,504
Prepaid expenses and other assets	1,145	1,311
Total assets	$4,014,489	$2,194,966
LIABILITIES AND EQUITY		
Liabilities:		
Repurchase agreements	$3,179,775	$1,547,630
Interest payable	1,106	774
Accrued compensation and benefits	6,067	5,584
Dividend payable	20,195	14,630
Derivative liabilities, at fair value	124,308	33,129
Accounts payable, accrued expenses and other liabilities	1,006	1,391
Long-term debt	40,000	40,000
Total liabilities	3,372,457	1,643,138
Commitments and contingencies (Note 7)	—	—
Equity:		
Preferred stock, $0.01 par value, 25,000,000 shares authorized, none issued and outstanding	—	—
Class A common stock, $0.01 par value, 450,000,000 shares authorized, 22,860,922 and 16,047,965 shares issued and outstanding, respectively	229	160
Class B common stock, $0.01 par value, 100,000,000 shares authorized, 105,869 and 554,055 shares issued and outstanding, respectively	1	6
Additional paid-in capital	1,897,027	1,727,398
Accumulated other comprehensive income, net of taxes of $4,745 and $9,436, respectively	42,793	53,190
Accumulated deficit	(1,298,018)	(1,228,926)

Total equity	642,032	551,828
Total liabilities and equity	$4,014,489	$2,194,966

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

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Interest income	$123,547	$87,019	$64,154
Interest expense			
Interest on short-term debt	9,181	6,899	4,475
Interest on long-term debt	2,210	1,630	490
Total interest expense	11,391	8,529	4,965
Net interest income	112,156	78,490	59,189
Other loss, net			
Investment loss, net	(38,672)	(47,745)	(10,723)
Other loss	(15)	(15)	(15)
Total other loss, net	(38,687)	(47,760)	(10,738)
Operating income before other expenses	73,469	30,730	48,451
Other expenses			
Compensation and benefits	13,467	11,195	10,339
Professional services	1,529	2,561	4,118
Business development	253	145	136
Occupancy and equipment	422	427	467
Communications	201	191	202
Other operating expenses	2,197	2,072	2,184
Total other expenses	18,069	16,591	17,446
Income before income taxes	55,400	14,139	31,005
Income tax provision (benefit)	49,446	(35,322)	(152,937)
Net income	$5,954	$49,461	$183,942
Basic earnings per share	$0.30	$3.09	$18.02
Diluted earnings per share	$0.29	$3.06	$17.96
Weighted-average shares outstanding (in thousands)			
Basic	20,043	15,990	10,205
Diluted	20,397	16,189	10,242
Other comprehensive income, net of taxes			
Unrealized gains (losses) for the period on available-for-sale securities (net of taxes of $432, $12,664, and $(1,215), respectively)	$679	$19,894	$(1,909)
Reclassification			
Included in investment gain (loss), net, in the statement of comprehensive income related to sales of available-for-sale securities (net of taxes of $(5,293), $(4,162), and $(4,488), respectively)	(11,343)	(6,537)	(7,050)
Included in investment gain (loss), net, in the statement of comprehensive income related to other-than-temporary charges on available-for-sale securities (net of	267	827	9,598

taxes of $170, $527, and $6,110, respectively)			
Comprehensive (loss) income	$(4,443)	$63,645	$184,581

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

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Dollars in thousands)

	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, 2011	7,099,336	$ 71	566,112	$ 6	$ 1,508,713	$ 38,367	$ (1,363,785)	$ 183,372
Net income	—	—	—	—	—	—	183,942	183,942
Conversion of Class B shares to Class A shares	12,057	—	(12,057)	—	—	—	—	—
Issuance of Class A common stock	5,493,750	55	—	—	129,194	—	—	129,249
Repurchase of Class A common stock	(41,790)	—	—	—	(786)	—	—	(786)
Forfeitures of Class A common stock	(2,383)	—	—	—	(55)	—	—	(55)
Amortization of Class A common shares issued as stock-based awards	—	—	—	—	995	—	—	995
Other comprehensive income								
Net change in unrealized gain on available-for-sale investment securities, (net of taxes of $407)	—	—	—	—	—	639	—	639
Dividends declared	—	—	—	—	—	—	(40,063)	(40,063)
Balances, December 31, 2012	12,560,970	$ 126	554,055	$ 6	$ 1,638,061	$ 39,006	$ (1,219,906)	$ 457,293

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

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – (continued)

(Dollars in thousands)

	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, 2012	12,560,970	$ 126	554,055	$ 6	$ 1,638,061	$ 39,006	$ (1,219,906)	$ 457,293
Net income	—	—	—	—	—	—	49,461	49,461
Issuance of Class A common stock	3,492,667	34	—	—	86,930	—	—	86,964
Forfeitures of Class A common stock	(5,672)	—	—	—	(142)	—	—	(142)
Amortization of Class A common shares issued as stock-based awards	—	—	—	—	2,549	—	—	2,549
Other comprehensive income								
Net change in unrealized gain on available-for-sale investment securities, (net of taxes of $9,029)	—	—	—	—	—	14,184	—	14,184
Dividends declared	—	—	—	—	—	—	(58,481)	(58,481)
Balances, December 31, 2013	16,047,965	$ 160	554,055	$ 6	$ 1,727,398	$ 53,190	$ (1,228,926)	$ 551,828

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

ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – (continued)

(Dollars in thousands)

	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, 2013	16,047,965	$ 160	554,055	$ 6	$ 1,727,398	$ 53,190	$ (1,228,926)	$ 551,828
Net income	—	—	—	—	—	—	5,954	5,954
Conversion of Class B shares to Class A shares	448,186	5	(448,186)	(5)	—	—	—	—
Issuance of Class A common stock	6,419,247	64	—	—	166,819	—	—	166,883
Forfeitures of Class A common stock	(54,476)	—	—	—	(1,478)	—	—	(1,478)
Amortization of Class A common shares issued as stock-based awards	—	—	—	—	3,813	—	—	3,813
Other comprehensive income								
Net change in unrealized gain on available-for-sale investment securities, (net of taxes of $(4,691))	—	—	—	—	—	(10,397)	—	(10,397)
Dividends declared	—	—	—	—	—	—	(75,046)	(75,046)
Income tax benefit from stock-based compensation	—	—	—	—	475	—	—	475
Balances, December 31, 2014	22,860,922	$ 229	105,869	$ 1	$ 1,897,027	$ 42,793	$ (1,298,018)	$ 642,032

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

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ARLINGTON ASSET INVESTMENT CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities			
Net income	$5,954	$49,461	$183,942
Adjustments to reconcile net income to net cash provided by operating activities			
Investment loss, net	38,672	47,745	10,723
Net discount accretion on mortgage-backed securities	(12,570)	(9,302)	(9,888)
Deferred tax provision	48,177	70,727	7,884
Release of valuation allowance on deferred tax assets	—	(91,189)	(162,281)
Reversal of unrecognized tax benefit related to uncertain tax position and related accrued interest	—	(16,212)	—
Other	2,336	2,460	614
Changes in operating assets			
Interest receivable	(5,528)	(304)	(2,503)
Other receivables	(906)	432	(389)
Prepaid expenses and other assets	(6,328)	3,600	750
Changes in operating liabilities			
Accounts payable, accrued expenses and other liabilities and interest payable	(340)	(92)	1,457
Accrued compensation and benefits	483	4,042	(4,634)
Net cash provided by operating activities	69,950	61,368	25,675
Cash flows from investing activities			
Purchases of available-for-sale mortgage-backed securities	—	(167,682)	(54,709)
Purchases of trading mortgage-backed securities	(2,030,995)	(1,221,387)	(1,359,536)
Proceeds from sales of available-for-sale mortgage-backed securities	86,318	69,337	34,102
Proceeds from sales of trading mortgage-backed securities	65,251	914,155	352,437
Receipt of principal payments on available-for-sale mortgage-backed securities	2,378	5,238	6,628
Receipt of principal payments on trading mortgage-backed securities	212,049	165,056	83,038
(Payments for) proceeds from derivatives and deposits, net	(150,446)	42,210	(29,814)
Payments for purchased securities payable	—	—	(15,820)
Proceeds from sold securities receivable	—	26,773	41,321
Other	412	132	1,668
Net cash used in investing activities	(1,815,033)	(166,168)	(940,685)
Cash flows from financing activities			
Proceeds from repurchase agreements, net	1,632,145	50,439	849,214
Proceeds from stock issuance, net	167,148	86,964	129,249

Proceeds from long-term debt issuance, net	—	24,038	—
Dividends paid	(69,481)	(43,850)	(46,848)
Repurchase of common stock	—	—	(786)
Excess tax benefits associated with stock-based awards	475	—	—
Net cash provided by financing activities	1,730,287	117,591	930,829
Net (decrease) increase in cash and cash equivalents	(14,796)	12,791	15,819
Cash and cash equivalents, beginning of year	48,628	35,837	20,018
Cash and cash equivalents, end of year	$33,832	$48,628	$35,837
Supplemental Cash Flow Information			
Cash payments for interest	$10,959	$8,272	$4,888
Cash payments for taxes	$2,309	$667	$833

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

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ARLINGTON ASSET INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Note 1. Organization and Nature of Operations:

Arlington Asset Investment Corp. and its consolidated subsidiaries (the Company or AAIC), formerly known as Friedman, Billings, Ramsey Group, Inc. (FBR Group), is a Virginia corporation. The Company acquires and holds mortgage-related and other assets. The Company's portfolio consists primarily of agency-backed mortgage-backed securities (agency-backed MBS) and private-label residential mortgage-backed securities (private-label MBS).

Note 2. Summary of Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. 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.

Use of Estimates

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), requires the Company to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company based the estimates and assumptions on historical experience, when available, market information, and on various other factors that the Company believes to be reasonable under the circumstances, management exercises significant judgment in the final determination of the estimates. Actual results may differ from these estimates.

Cash Equivalents

Cash equivalents include demand deposits with banks, money market accounts and highly liquid investments with original maturities of three months or less that are not held for sale in the ordinary course of business. As of December 31, 2014 and 2013, approximately 99% and 89%, respectively, 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.

Financial Instruments

MBS transactions are recorded as purchases and sales on the date the securities are settled unless the transaction qualifies as a regular-way trade, in which case the transactions are accounted for as purchases or sales on a trade date basis. Any amounts payable or receivable for unsettled trades are recorded as "sold securities receivable" or "purchased securities payable" in the consolidated balance sheets.

Investments in MBS and marketable equity securities, if any, are classified as either available-for-sale or trading investments pursuant to accounting principles related to accounting for certain investments in debt and equity securities. These investments are carried at fair value with resulting unrealized gains and losses on available-for-sale securities reflected in accumulated other comprehensive income (loss) in the consolidated balance sheets and unrealized gains and losses on trading securities reflected in investment gain (loss), net, in the consolidated statements of comprehensive income. Investments in equity securities of non-public companies are carried at cost.

Although the Company generally intends to hold its MBS until maturity, it may, from time to time, sell any of its MBS as part of the overall management of its business. The available-for-sale designation provides the Company with the flexibility to sell its MBS in order to act on potential market opportunities or changes in economic conditions to ensure future liquidity and to meet other general corporate purposes as they arise.

Impairments

The Company evaluates available-for-sale securities for other-than-temporary impairment (OTTI) charges at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. In general, when the fair value of an available-for-sale security is less than its amortized cost at the reporting date, the security is considered impaired. In evaluating these available-for-sale securities for OTTI charges, consideration is given to (1) the length of time and the extent to which the fair value has been lower than carrying value, (2) the severity of the decline in fair value, (3) the financial condition and near-term prospects of the issuer, (4) the Company's intent to sell, and (5) whether it is more-likely-than-not the Company would be required to sell the security before anticipated recovery.

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If the Company intends to sell an impaired security, or it is more-likely-than-not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize OTTI charges through earnings equal to the entire difference between the investment security's amortized cost and its fair value at the reporting date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through other accumulated comprehensive income/(loss) on the consolidated balance sheet. Impairments recognized through other comprehensive income/(loss) do not impact earnings. Following the recognition of an OTTI through earnings, a new cost basis is established for the investment security and may not be adjusted for subsequent recoveries in fair value through earnings. However, OTTI recognized through charges to earnings may be accreted back to the amortized cost basis of the investment security on a prospective basis through interest income. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determination is based on factual information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material estimates that are susceptible to significant change.

For available-for-sale, agency-backed MBS, if it is determined that the impairment is other-than- temporary, then the amount that the fair value is below its amortized cost basis is recorded as an impairment charge and recorded through the Company's earnings. For unrealized losses that are determined to be temporary, a further evaluation is performed to determine the credit portion of the OTTI and the credit portion is recorded through the Company's statement of comprehensive income.

For available-for-sale, private-label MBS securities that have been acquired at discounts to face value due in part to credit deterioration since origination, the Company re-evaluates the undiscounted expected future cash flows and the changes in cash flows from those originally projected at the time of purchase or when last revised. The discount rate used to calculate the present value of expected future cash flows is the current yield used for income recognition purposes as compared to the discount rate used to calculate the fair value of the investment security is the current expected market rate. For those securities in an unrealized loss position, the difference between the carrying value and the net present value of expected future cash flows is recorded as OTTI charges through the Company's statement of comprehensive income.

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, not adjusted for transaction costs. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), 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;
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 assumptions of the Company and other market participants.

The Company determines fair values for the following assets and liabilities:

Mortgage-backed securities (MBS), at fair value —

Agency-backed MBS — The Company's mortgage-backed securities (MBS), the principal and interest payments on which are guaranteed by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, agency-backed MBS), are generally classified within Level 2 of the fair value hierarchy as they are valued after considering quoted market prices provided by a broker or dealer, or alternative pricing sources with reasonable levels of price transparency. The Company reviews broker or pricing service quotes to determine whether the quotes are relevant, for example, whether an active market exists to provide price transparency or whether the quote is an indicative price or a binding offer. The independent brokers and dealers providing market prices are those who make markets in or specialists with expertise in the valuation of these financial instruments.

Private-label MBS — The Company classifies non-agency-backed, or private-label, MBS within Level 3 of the fair value hierarchy because they trade infrequently and, therefore, have little or no price transparency. The Company utilizes present value techniques based on estimated cash flows of the instrument taking into consideration various assumptions derived by management and other assumptions used by other market participants. These assumptions are corroborated by evidence such as historical data, risk characteristics, transactions in similar instruments, and completed or pending transactions, when available. The significant inputs in the Company's valuation process include default rate, loss severity, prepayment rate and discount rate. In general, significant increases (decreases) in default rate, loss severity or discount rate, in isolation, would result in a significantly lower (higher) fair value measurement. However, significant increases (decreases) in prepayment rate may result in a significantly higher (lower) fair value measurement. It is difficult to generalize the interrelationships between these significant inputs as the actual results could differ considerably on an individual security basis. For example, an increase in the default rate may not increase the loss severity rate if actual losses are lower than the average. Also, changes in discount rates may be greatly influenced by market expectation at any given point based upon many variables not directly related to the MBS market. Therefore, each significant input is closely analyzed to ascertain the reasonableness for the Company's valuation purposes.

Establishing 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 assumptions, including assumptions about the future of interest rates, prepayment rates, discount rates, credit loss rates, and the timing of cash flows and credit losses. The assumptions the Company applies are specific to each security. Although the Company relies on its internal calculations to compute the fair value of these private-label MBS, the Company requests and considers indications of value, or the mark, from third-party dealers and the actual sales of private-label MBS to assist in the valuation process and calibrate the Company's model.

Other investments — The Company's other investments, which are classified within Level 3 of the fair value hierarchy, consist of investments in equity securities, investment funds and other MBS-related securities, such as interest-only MBS.

Derivative instruments — In the normal course of the Company's operations, the Company is a party to various financial instruments that are accounted for as derivatives in accordance with ASC 815, *Derivatives and Hedging* (ASC 815). The derivative instruments that trade in active markets or exchanges are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. Other derivative instruments are generally classified within Level 2 of the fair value hierarchy because they are valued using broker or dealer quotations, which are model-based calculations based on market-based inputs, including, but not limited to, contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs.

Other — Cash and cash equivalents, interest receivable, deposits, other receivable, interest payable, accounts payable, accrued expenses and other liabilities are reflected in the consolidated balance sheets at their amortized cost (which approximates fair value because of the short term nature of these instruments) and classified within Level 1 of the fair value hierarchy, except for certain cash equivalents that are held in money market funds that are classified within Level 2 of the fair value hierarchy.

Sold securities receivable, repurchase agreements and purchased securities payable are reflected in the consolidated balance sheets at the cost basis, which approximates fair value because of the short term nature of these instruments, and classified within Level 2 of the fair value hierarchy.

Long-term debt represents remaining balances of trust preferred debt and senior debt issued by the Company. Trust preferred debt is classified within Level 3 of the fair value hierarchy as the fair value is determined after considering quoted market prices provided by a broker or dealer. The independent brokers or dealers providing market prices are those who make markets in or specialists with expertise in the valuation of these financial instruments. The Company's senior debt, which is publicly traded on the New York Stock Exchange, is classified within Level 1 of the fair value hierarchy.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$33,832	$ 33,832	$48,628	$48,628
Interest receivable	10,701	10,701	5,173	5,173
Other receivables	1,138	1,138	212	212
MBS				
Agency-backed MBS	3,414,340	3,414,340	1,576,499	1,576,499
Private-label MBS				
Senior securities	—	—	7,066	7,066
Re-REMIC securities	267,437	267,437	334,233	334,233
Derivative assets	1,267	1,267	8,424	8,424
Other investments	1,837	1,837	2,065	2,065
Deposits	160,427	160,427	45,504	45,504
Financial liabilities				
Repurchase agreements	3,179,775	3,179,775	1,547,630	1,547,630
Interest payable	1,106	1,106	774	774
Long-term debt	40,000	39,200	40,000	36,620
Derivative liabilities	124,308	124,308	33,129	33,129
Accounts payable, accrued expenses and other liabilities	1,006	1,006	1,391	1,391

Repurchase Agreements

Securities sold under agreements to repurchase, which are treated as financing transactions for financial reporting purposes, are collateralized by MBS and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements. Under the repurchase agreements, the Company pledges its securities as collateral to secure the borrowing, which is equal in value to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, the Company is required to repay the borrowing and receives back its pledged collateral from the counterparty. 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.

Interest Income and Purchase Premiums and Discounts on MBS Securities

Interest income includes contractual coupon payments and the amortization of purchase premiums and accretion of discounts, if any, on the available-for-sale MBS portfolio. Interest income also includes contractual coupon payments on the trading MBS portfolio. Purchase premiums or discounts, if any, on the trading MBS portfolio are accounted for under mark-to-market accounting and the changes in value are recorded in investment gain (loss), net, on the statement of comprehensive income.

Interest income on the private-label MBS that were purchased at a discount to face value is recognized based on the security’s expected effective interest rate. At acquisition, the accretable yield is calculated as the difference between the undiscounted expected cash flows and the purchase price which is expected to be accreted into interest income over the remaining life of the security on a level-yield basis. The difference between the contractually required payments and the undiscounted expected cash flows represents the non-accretable difference. Based on actual payment activities and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change over time. Significant increases in the amount or timing of undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield. As a result, the Company may recognize higher non-cash interest income over the security’s holding period and may not realize the level of interest income recognized using the higher accretion rates. In addition, the Company may be subject to more frequent and higher non-cash OTTI charges than actual losses realized on the security as a result.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with accounting principles related to share-based payment which requires fair value method of accounting. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Expected forfeitures are included in determining share-based employee compensation cost. Share-based awards that do not require future services are expensed immediately.

Depending on the Company's stock price at the time restricted stock units vest, the actual tax deduction benefit may be more or less than the carrying amount of the previously recorded deferred tax asset. An increase to the tax benefit (windfall) is generated when the tax deduction exceeds the recorded deferred tax asset. This incremental excess tax benefits are recorded as an increase to additional paid-in capital. Conversely, a decrease in tax benefit (shortfall) is generated when the tax deduction is below the recorded deferred tax asset. These incremental expense results in additional income tax expense, unless it can be offset by accumulated windfall tax benefit recorded in additional paid-in capital. The gross windfall tax benefit is presented in the consolidated statements of cash flows as financing cash inflows.

Performance-Based Long-Term Incentive Program

On August 13, 2012, the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) adopted a performance-based long-term incentive program (Performance-based Program) that provides for the issuance of two types of performance share units (PSUs).

The Compensation Committee established performance goals under the Performance-based Program. Two types of PSUs may be awarded under the Performance-based Program: Book Value PSUs and Total Shareholder Return Units (TSR PSUs). The Book Value PSUs are eligible to vest based on the compound annualized growth in the Company's book value per share (*i.e.*, book value change with such adjustments as determined and approved by the Compensation Committee plus dividends on a reinvested basis) during the applicable performance period. The TSR PSUs are eligible to vest based on the Company's compound annualized total shareholder return (*i.e.*, share price change plus dividends on a reinvested basis) during the applicable performance period.

The Company accounts for the Performance-based Program in accordance with ASC 718. Therefore, the Book Value PSUs are valued at the grant date market value and the estimated compensation cost is recorded over the vesting period. The Company estimates the number of shares to be issued under the Book Value PSUs on a quarterly basis based on the actual and projected results for the remaining vesting period and any adjustments required are recognized retrospectively and over the remaining vesting period.

The TSR PSUs are also valued at the time of grant based on valuation model and the estimated compensation cost is recorded over the vesting period using straight-line basis. The valuation of the TSR PSUs is performed using Monte-Carlo simulation model (Model) using various assumptions including beginning average price, expected volatility, dividend equivalents, dividend yield, and risk-free rate of return. The Model projects stock prices on a daily basis assuming 250 trading days per year. The Model generates many future stock price paths to construct a distribution of where future stock prices might be. No remeasurement of compensation expense is required for the TSR PSUs.

The compensation costs are reversed if an employee is terminated prior to completing the required service period. The estimated shares to be granted under the Performance-based Program are included in the calculation of diluted Earnings Per Share.

Income Taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on the Company's evaluation, it is more-likely-than-not that they will not be realized. The Company recognizes tax positions in the financial statements only when it is more-likely-than-not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more-likely-than-not be realized upon settlement. A liability is established for differences between positions taken in a tax return and the financial statements.

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 the net operating loss (NOL) and net capital loss (NCL) carry-forwards.

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 changes in unrealized gains and losses related to the Company's MBS and other mortgage related assets accounted for as available-for-sale with changes in fair value recorded through shareholders' equity.

Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income or loss available to common shareholders 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 stock options, unvested shares of restricted stock and performance share units. The following table presents the computations of basic and diluted earnings per share for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,					
	2014		**2013**		**2012**	
	Basic	**Diluted**	**Basic**	**Diluted**	**Basic**	**Diluted**
Weighted average shares outstanding Common stock (in thousands)	20,043	20,043	15,990	15,990	10,205	10,205

Stock options, performance share units, and unvested restricted stock (in thousands)	—	354	—	199	—	37
Weighted average common and common equivalent shares outstanding (in thousands)	20,043	20,397	15,990	16,189	10,205	10,242
Net income applicable to common stock	$5,954	$5,954	$49,461	$49,461	$183,942	$183,942
Net income per common share	$0.30	$0.29	$3.09	$3.06	$18.02	$17.96

There were no outstanding options to purchase shares of common stock at December 31, 2014, 2013 and 2012. The diluted earnings per share for the years ended December 31, 2014, 2013 and 2012 did not include the antidilutive effect of 42,570, 26,218 and 27,808 shares, respectively, of awarded restricted stock units, stock options, and restricted stock.

Recent Accounting Pronouncements

On April 10, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. This standard was effective for the Company on January 1, 2015. The Company does not expect significant impact to the financial statements upon implementation of ASU No. 2014-08.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will be effective for the Company on January 1, 2017. Early application is not permitted. The Company is currently evaluating the impact of ASU No. 2014-09.

On August 27, 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements — Going Concern (subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, which is intended to define management’s responsibility to evaluate whether there is substantial doubt about the Company’s ability to continue as a going concern and to provide related footnote disclosures. This standard will be effective for the Company for the year ending on December 31, 2016. Early application is permitted. The Company is currently evaluating the impact of ASU No. 2014-15.

Note 3. Financial Instruments:

Fair Value Hierarchy

The following tables set forth financial instruments accounted for under ASC 820 by level within the fair value hierarchy as of December 31, 2014 and December 31, 2013. As required by ASC 820, assets and liabilities that are measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial Instruments Measured at Fair Value on a Recurring Basis

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
MBS, at fair value				
Trading				
Agency-backed MBS	$3,414,300	$—	$3,414,300	$—
Available-for-sale				
Agency-backed MBS	40	—	40	—
Private-label MBS				
Senior securities	—	—	—	—
Re-REMIC securities	267,437	—	—	267,437
Total available-for-sale	267,477	—	40	267,437
Total MBS	3,681,777	—	3,414,340	267,437
Derivative assets, at fair value	1,267	751	516	—
Derivative liabilities, at fair value	(124,308)	(124,308)	—	—
Interest-only MBS, at fair value	212	—	—	212
Total	$3,558,948	$(123,557)	$3,414,856	$267,649

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
MBS, at fair value				
Trading				
Agency-backed MBS	$1,576,452	$—	$1,576,452	$—
Available-for-sale				
Agency-backed MBS	47	—	47	—
Private-label MBS				
Senior securities	7,066	—	—	7,066
Re-REMIC securities	334,233	—	—	334,233

Total available-for-sale	341,346	—	47	341,299
Total MBS	1,917,798	—	1,576,499	341,299
Derivative assets, at fair value	8,424	8,088	336	—
Derivative liabilities, at fair value	(33,129)	(32,156)	(973)	—
Interest-only MBS, at fair value	298	—	—	298
Total	$1,893,391	$(24,068)	$1,575,862	$341,597

The total financial assets measured and reported at fair value on a recurring basis and classified within Level 3 were $267,649, or 6.67% and $341,597, or 15.56%, of the Company's total assets as of December 31, 2014 and 2013, respectively.

There were no transfers of securities in or out of Levels 1, 2 or 3 during the years ended December 31, 2014 and 2013.

Level 3 Financial Instruments Measured at Fair Value on a Recurring Basis

The fair value of the Company's Level 3, available-for-sale, private-label MBS was $267,437 and $341,299 as of December 31, 2014 and 2013, respectively. The private-label MBS are primarily senior and re-REMIC tranches in securitization trusts issued between 2005 and 2010. The senior securities represent interests in securitizations that have the first right to cash flows and absorb losses last. The re-REMIC securities represent interests in re-securitizations of senior MBS and pro-rata mezzanine securities. For re-REMIC securities, the cash flows from, and any credit losses absorbed by, the underlying MBS are allocated among the re-REMIC securities issued in the re-securitization transactions based on the re-REMIC structure. For example, prime and non-prime residential senior securities have been resecuritized to create a two-tranche structure with a re-REMIC senior security and a re-REMIC subordinated security. In these re-REMIC securities, all principal payments from the underlying securities are directed to the re-REMIC senior security until the face value is fully paid off. Thereafter, all principal payments are directed to the re-REMIC subordinated security. For pro-rata mezzanine securities, principal payments from the underlying MBS are typically allocated concurrently and proportionally to the mezzanine securities along with senior securities. The re-REMIC subordinated and mezzanine securities absorb credit losses, if any, first; however, these credit losses occur only when credit losses exceed the credit protection provided to the underlying securities. Senior, re-REMIC and mezzanine securities receive interest while any face value is outstanding.

The Company's private-label MBS were collateralized by residential prime and Alt-A mortgage loans and had the following weighted average characteristics, based on face value, as of the dates indicated:

	December 31, 2014	December 31, 2013
Original loan-to-value	68 %	69 %
Original FICO score	722	725
Three-month prepayment rate	11 %	14 %
Three-month loss severities	41 %	37 %
Weighted average coupon	2.96 %	3.34 %

The significant unobservable inputs for the valuation model include the following weighted-averages, based on face value, as of the dates indicated:

	December 31, 2014		December 31, 2013	
	Senior Securities (1)	Re-REMIC Securities	Senior Securities	Re-REMIC Securities
Discount rate	— %	5.55 %	6.00 %	6.55 %
Default rate	— %	3.09 %	9.30 %	3.62 %
Loss severity rate	— %	42.25 %	50.00 %	44.82 %
Prepayment rate	— %	11.23 %	16.30 %	11.69 %

(1) The Company did not own any senior securities on December 31, 2014.

The ranges of the significant unobservable inputs for the valuation model were as follows as of the dates indicated:

	December 31, 2014		**December 31, 2013**	
	Senior Securities (1)	**Re-REMIC Securities**	**Senior Securities**	**Re-REMIC Securities**
Discount rate	— %	5.15 – 10.00 %	6.00 %	6.00 – 10.00 %
Default rate	— %	1.00 – 8.80 %	9.30 %	0.95 – 9.60 %
Loss severity rate	— %	29.23 – 57.50 %	50.00 %	29.15 – 57.50 %
Prepayment rate	— %	7.40 – 17.70 %	16.30 %	6.40 – 19.00 %

(1) The Company did not own any senior securities on December 31, 2014.

The tables below set forth a summary of changes in the fair value and gains and losses of the Company's Level 3 financial assets and liabilities that are measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013.

	Year Ended December 31, 2014		
	Senior Securities	Re-REMIC Securities	Total
Beginning balance, January 1, 2014	$7,066	$ 334,233	$341,299
Total net gains (losses)			
Included in earnings	1,690	15,553	17,243
Included in other comprehensive income	(1,654)	(13,437)	(15,091)
Purchases	—	—	—
Sales	(7,029)	(79,289)	(86,318)
Payments, net	(319)	(14,994)	(15,313)
Accretion of discount	246	25,371	25,617
Ending balance, December 31, 2014	$—	$ 267,437	$267,437
The amount of net gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting date	$—	$ (420)	$(420)

	Year Ended December 31, 2013		
	Senior Securities	Re-REMIC Securities	Total
Beginning balance, January 1, 2013	$7,519	$ 191,567	$ 199,086
Total net gains (losses)			
Included in earnings	—	16,526	16,526
Included in other comprehensive income	(254)	23,469	23,215
Purchases	—	167,682	167,682
Sales	—	(69,337)	(69,337)
Payments, net	(1,092)	(21,362)	(22,454)
Accretion of discount	893	25,688	26,581
Ending balance, December 31, 2013	$7,066	$ 334,233	$ 341,299
The amount of net gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting date	$—	$ (1,270)	$ (1,270)

Gains and losses included in earnings for the years ended December 31, 2014 and 2013 are reported in the following statement of comprehensive income line descriptions:

	Other Loss, Investment Loss, net	
	2014	2013
Total gains (losses) included in earnings for the period	$ 17,243	$ 16,526
Change in unrealized gains (losses) relating to Level 3 assets still held at the reporting date	$ (420)	$ (1,270)

Level 3 Financial Instruments Measured at Fair Value on a Non-Recurring Basis

The Company also measures certain financial assets at fair value on a non-recurring basis. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairments. Due to the nature of these financial assets, enterprise values are primarily used to value these financial assets. In determining the enterprise value, the Company analyzes various financial, performance and market factors to estimate fair value, including where applicable, market trading activity. As a result, these financial assets are classified within Level 3 of the fair value hierarchy. As of December 31, 2014 and 2013, these financial assets are classified within the other investments category, represent the Company's interest in non-public equity securities and investment funds and are valued at $1,625 and $1,767, respectively. For the year ended December 31, 2013, the Company recorded a loss of $177 in the carrying value of these financial assets. For the year ended December 31, 2014, there were no changes to the carrying value of these financial assets.

MBS, at Fair Value

MBS, at fair value [1][2], consisted of the following as of the dates indicated:

	December 31, 2014					December 31, 2013				
	Fair Value	Net Unamortized Premium (Discount)	Percent of Total Fair Value	Weighted Average Life	**Weighted Average Rating** [3]	Fair Value	Net Unamortized Premium (Discount)	Percent of Total Fair Value	Weighted Average Life	**Weigh Avera Ratin**
Trading										
Fannie Mae	$2,064,465	$—	56.07 %	8.1	AAA	$997,488	$—	52.01 %	9.4	AAA
Freddie Mac	1,349,835	—	36.66 %	8.2	AAA	578,964	—	30.19 %	9.6	AAA
Available-for-sale:										
Agency-backed										
Fannie Mae	40	—	—	4.9	AAA	47	—	—	5.8	AAA
Private-label										
Senior securities	—	—	—	—	—	7,066	(4,789)	0.37 %	4.8	C-
Re-REMIC securities	267,437	(133,333)	7.27 %	10.4	NR	334,233	(202,450)	17.43 %	11.4	NR
	$3,681,777	$(133,333)	100.00%			$1,917,798	$(207,239)	100.00%		

(1) The Company's MBS portfolio was primarily comprised of fixed-rate MBS at December 31, 2014 and 2013. The weighted-average coupon of the MBS portfolio at December 31, 2014 and 2013 was 3.93% and 3.90%, respectively.

(2) As of December 31, 2014 and 2013, the Company's MBS investments with a fair value of $3,376,025 and $1,673,911, respectively, were pledged as collateral for repurchase agreements.

(3) The securities issued by Fannie Mae and Freddie Mac are not rated by any rating agency; however, they are commonly thought of as having an implied rating of “AAA.” There is no assurance, particularly given the downgrade of the U.S. credit rating to “AA+” by Standard & Poor’s during the quarter ended September 30, 2011 and Fitch Ratings Inc.’s announcement on October 15, 2013 that it had placed the U.S. credit rating on negative watch, that these securities would receive such a rating if they were ever rated by a rating agency. The weighted-average rating of the Company’s private-label senior securities is calculated based on face value of the securities.

The Company has generally purchased private-label MBS at a discount. The Company, at least on a quarterly basis, estimates the future expected cash flows based on the Company’s observation of current information and events and applies a number of assumptions related to prepayment rates, interest rates, default rates, loss severity rates, and the timing and amount of cash flows and credit losses. These assumptions are difficult to predict as they are subject to uncertainties and contingencies related to future events that may impact the Company’s estimates and its interest income.

Interest income on the private-label MBS that were purchased at a discount to face value is recognized based on the security’s expected effective interest rate. At acquisition, the accretable yield is calculated as the difference between the undiscounted expected cash flows and the purchase price which is expected to be accreted into interest income over the remaining life of the security on a level-yield basis. The difference between the contractually required payments and the undiscounted expected cash flows represents the non-accretable difference. Based on actual payment activities and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change over time. Significant increases in the amount or timing of undiscounted expected future cash flows are recognized prospectively as an adjustment to the accretable yield.

The following table presents the changes in the accretable yield on available-for-sale, private-label MBS for the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	**2013**[1]
Beginning balance	$ 326,330	$ 207,853
Accretion of discount	(25,617)	(26,581)
Reclassifications, net	(21,848)	62,141
Acquisitions	—	150,646
Sales	(76,757)	(67,729)
Ending balance	$ 202,108	$ 326,330

(1) The reclassification, net, and ending balance as of December 31, 2013 were revised from the previously reported balances of $46,319 and $310,508, respectively, to correct an immaterial error.

The Company acquired no available-for-sale, private-label MBS during 2014. For the available-for-sale, private-label MBS acquired during the year ended December 31, 2013, the contractually required payments receivable, the cash flow expected to be collected, and the fair value at the acquisition date were as follows:

	Year Ended December 31, 2013
Contractually required payments receivable	$ 420,500
Cash flows expected to be collected	318,328
Basis in acquired securities	167,682

The Company's available-for-sale MBS are carried at fair value in accordance with ASC 320, *Debt and Equity Securities* (ASC 320), the securities with resulting unrealized gains and losses reflected as other comprehensive income or loss. Gross unrealized gains and losses on these securities were the following as of the dates indicated:

	December 31, 2014			
	Amortized Cost/Cost Basis [(1)]	Unrealized		Fair Value
		Gains	Losses	
Agency-backed MBS	$36	$4	$ —	$40
Private-label MBS				
Senior securities	—	—	—	—
Re-REMIC securities	219,904	47,533	—	267,437
Total	$219,940	$47,537	$ —	$267,477

(1) The amortized cost of MBS includes unamortized net discounts of $133,333 at December 31, 2014.

	December 31, 2013			
	Amortized Cost/Cost **Basis** [(1)]	Unrealized Gains	Losses	Fair Value
Agency-backed MBS	$43	$4	$ —	$ 47
Private-label MBS				
Senior securities	5,412	1,654	—	7,066
Re-REMIC securities	273,264	60,970	(1)	334,233
Total	$278,719	$62,628	$ (1)	$ 341,346

(1) The amortized cost of MBS includes unamortized net discounts of $207,239 at December 31, 2013.

For the years ended December 31, 2014 and 2013, the Company recorded other-than-temporary impairment charges of $420 and $1,270, respectively, as a component of investment loss, net, on the consolidated statements of comprehensive income related to deterioration in credit quality on available-for-sale, private-label MBS with a cost basis of $2,174 and $11,688, respectively, prior to recognizing the other-than-temporary impairment charges.

The following table presents a summary of other-than-temporary impairment charges included in earnings for the periods indicated and cumulative other-than-temporary impairment charges recognized on the MBS held as of the dates indicated:

	Year Ended December 31,	
	2014	2013
Cumulative other-than-temporary impairment, beginning balance	$ 23,663	$ 23,768
Additions		
Other-than-temporary impairments not previously recognized	420	380
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	—	890
Reductions		
Decreases related to other-than-temporary impairments on sold securities with previously recognized other-than-temporary impairments	(5,180)	(1,375)
Cumulative other-than-temporary impairment ending balance	$ 18,903	$ 23,663

The following table presents the results of sales of MBS for the periods indicated:

Year Ended December 31,	
2014	2013

	Agency-Backed MBS	Private-Label MBS	Agency-Backed MBS	Private-Label MBS
Proceeds from sales	$65,251	$ 86,318	$914,155	$ 69,337
Gross gains	1,351	17,397	1,619	17,458
Gross losses	—	140	27,406	—

Other Investments

The Company's other investments consisted of the following as of the dates indicated:

	December 31,	
	2014	2013
Interest-only MBS	$212	$298
Non-public equity securities	975	975
Investments funds	650	792
Total other investments	$1,837	$2,065

For the years ended December 31, 2014 and 2013, the Company recorded other-than-temporary impairment charges of $29 and $84, respectively, as a component of investment loss, net, on the consolidated statements of comprehensive income on an investment in interest-only MBS.

Note 4. Borrowings:

Repurchase Agreements

The Company has entered into repurchase agreements to fund its investments in MBS. Securities sold under agreements to repurchase, which are treated as financing transactions for financial reporting purposes, are collateralized by MBS and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements. Under the repurchase agreements, the Company pledges its securities as collateral to secure the borrowing, which is equal in value to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. 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 December 31, 2014 and December 31, 2013, 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 and periods indicated:

	December 31,	
	2014	2013
Outstanding balance	$3,179,775	$1,547,630
Value of assets pledged as collateral		
Agency-backed MBS	3,300,383	1,556,763
Private-label MBS	75,642	117,148
Net amount [1]	196,250	126,281
Weighted-average rate	0.40 %	0.45 %
Weighted-average term to maturity	14.1 days	13.2 days
Weighted-average outstanding balance during the year ended	$2,438,479	$1,515,137
Weighted-average rate during the year ended	0.37 %	0.45 %

(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.

Long-Term Debt

As of December 31, 2014 and 2013, the Company had $40,000 of outstanding long-term debentures. On May 1, 2013, the Company completed a public offering of $25,000 of its 6.625% Senior Notes due in 2023 and received net proceeds of $24,038 after payment of underwriting discounts and commissions and expenses. These Senior Notes will mature on May 1, 2023, and 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, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest. The interest payments on these Senior Notes are payable quarterly on February 1, May 1, August 1, and November 1 of each year, beginning on August 1, 2013. These Senior Notes are publicly traded on the New York Stock Exchange under the ticker symbol "AIW". The Company's long-term debentures consisted of the following as of the dates indicated:

	December 31, 2014		**December 31, 2013**	
	Senior Notes	**Trust Preferred Debt**	**Senior Notes**	**Trust Preferred Debt**
Outstanding Principal	$25,000	$15,000	$25,000	$15,000
Annual Interest Rate	6.625 %	LIBOR+2.25-3.00 %	6.625 %	LIBOR+2.25-3.00 %
Interest Payment Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Weighted-Average Interest Rate	6.625 %	2.98 %	6.625 %	2.99 %
Maturity	May 1, 2023	2033 – 2035	May 1, 2023	2033 – 2035
Early Redemption Date	May 1, 2016	2008 – 2010	May 1, 2016	2008 – 2010

Note 5. Derivative Financial Instruments and Hedging Activities:

In the normal course of its operations, the Company is a party to financial instruments that are accounted for as derivative financial instruments in accordance with ASC 815. These instruments may include interest rate swaps, Eurodollar futures, swap futures, and U.S. Treasury futures contracts, put options and certain commitments to purchase and sell MBS. The exchange traded derivatives such as Eurodollar futures and swap futures are cash settled on a daily basis. The Company may be required to pledge collateral for margin requirements with third-party custodians in connection with certain derivative transactions. These transactions are not under master netting agreements. In addition, certain features of the securitization structures of the Company's private-label MBS are considered derivatives under ASC 815. The Company determined that these embedded derivatives have de minimis value, if any.

During the years ended December 31, 2014 and 2013, the Company entered into various financial contracts to hedge certain MBS and related borrowings and other long-term debt. These financial contracts are not designated as hedges under ASC 815. The changes in fair value on these derivatives are recorded to net investment (loss) gain, net, in the statement of comprehensive income. For the years ended December 31, 2014 and 2013, the Company recorded net (losses) gains of $(140,353) and $58,003, respectively, on these derivatives. The Company held the following derivative instruments as of the dates indicated:

	December 31, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
No hedge designation				
Eurodollar futures				
Derivative assets	$2,445,000	$751	$8,758,000	$4,361
Derivative liabilities	38,645,000	(76,848)	6,787,000	(30,638)
Total Eurodollar futures (1)	41,090,000	(76,097)	15,545,000	(26,277)
10-year swap futures				
Derivative assets	—	—	635,500	3,727
Derivative liabilities	1,145,000	(47,460)	31,000	(18)
Total 10-year swap futures (2)	1,145,000	(47,460)	666,500	3,709
5-year U.S. Treasury note futures	—	—	100,000	(1,500)
Commitment to purchase MBS (3)	200,000	516	169,511	(973)
Commitment to sell MBS	—	—	125,000	336

(1) The $41,090,000 total notional amount of Eurodollar futures contracts as of December 31, 2014 represents the accumulation of Eurodollar futures contracts that mature on a quarterly basis between 2015 and 2019. As of December 31, 2014, the Company maintained $96,147 as a deposit and margin against the open Eurodollar futures contracts.

(2) The $1,145,000 represents the total notional amount of 10-year swap futures as of December 31, 2014, of which $780,000 of notional amount matures in March 2015 and $365,000 in notional amount matures in March 2024. As of December 31, 2014, the Company maintained $64,280 as a deposit and margin against the open 10-year swap futures contracts.

(3) The total notional amount of commitment to purchase MBS represents forward commitments to purchase fixed-rate MBS securities.

Note 6. Income Taxes:

The Company is taxed as a C corporation for federal income tax purposes.

The provision (benefit) for income taxes from operations consists of the following for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Federal	$41,819	$(20,075)	$(115,321)
State	7,627	(15,247)	(37,616)
	$49,446	$(35,322)	$(152,937)
Current	$796	$(14,860)	$1,889
Deferred	48,650	(20,462)	(154,826)
	$49,446	$(35,322)	$(152,937)

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Deferred tax assets and (liabilities) consisted of the following as of December 31, 2014 and 2013:

	2014	2013
Net operating loss carry-forward	$57,225	$71,214
Unrealized gains and losses on investments and derivatives, net	24,434	70,221
AMT credit	7,244	6,328
Accrued compensation	1,515	436
Realized gains and losses on designated derivatives, net	2,733	8,681
Other, net	582	4,303
Capital loss carry-forward	54,659	19,743
Valuation allowance on capital loss carry-forward	(26,027)	(15,075)
Net deferred tax asset	$122,365	$165,851

The provision (benefit) for income taxes results in effective tax rates that differ from the federal statutory rates. The reconciliation of the Company and its subsidiaries income tax attributable to net income computed at federal statutory rates to income tax expense was:

	December 31,		
	2014	2013	2012
Federal income tax at statutory rate	$19,390	$4,949	$10,852
State income taxes, net of federal benefit	2,161	849	1,813
Expiration of capital loss carryover	4,668	57,254	37,935
Reversal of unrecognized tax benefit related to uncertain tax position and related accrued interest, and related AMT credits	—	(11,028)	—
Federal liability on state deferred tax assets	—	1,237	7,884
Losses on MBS acquired prior to 2012	(1,178)	—	—
Tax basis adjustments	(1,656)	—	—
Other, net	34	2,606	945
Valuation allowance	26,027	(91,189)	(212,366)
Total income tax provision (benefit)	$49,446	$(35,322)	$(152,937)

During the year ended December 31, 2012, the Company recorded $152,937 of income tax benefit as a result of releasing $162,519 of valuation allowance previously provided for certain deferred tax assets. The amount of the valuation allowance released by the Company represents a portion of deferred tax assets that was deemed more-likely-than-not that the Company will realize the benefits based on the analysis where the positive evidences outweighed the negative evidences. The Company's framework for assessing the recoverability of deferred tax assets required consideration of all available evidence, including:

- the sustainability of recent operating profitability;

- the predictability of future operating profitability of the character necessary to realize the deferred tax assets; and

- the carry-forward periods for the net operating loss and capital loss carry-forwards.

The determination to release valuation allowance as of December 31, 2012 was based upon the Company meeting the criteria in the framework.

Effective December 31, 2013, the Company contributed 40 of its private-label MBS with $367,642 in face value in a taxable contribution (Contribution) to Rosslyn REIT Trust. Rosslyn REIT Trust (formerly known as FBR REIT Asset Trust) was formed on December 27, 2007 as a Maryland real estate investment trust and elected to be taxed as a REIT for U.S. federal income tax purposes effective January 1, 2014, upon filing its federal income tax return for that year. The Company owns all the common shares of Rosslyn REIT Trust and all of the preferred shares are owned by outside investors. The Contribution resulted in taxable capital gains of $68,041. The Company utilized net capital loss carry-forwards to offset the capital gain recognized on the Contribution for tax purposes.

With the completion of IRS examination of the Company's tax years 2009 and 2010 without any adjustment and the expiration of the statute of limitation on 2009 state tax return, the Company reversed $12,810 of unrecognized tax benefits related to an uncertain tax position and $3,402 of related accrued interest during the year ended December 31, 2013. The Company also reversed deferred taxes associated with accrued interest and AMT credits of $5,184 related to the unrecognized tax benefits previously recorded.

As of December 31, 2014, the Company had an NCL carry-forward of $140,512 that can be used to offset future capital gains. $50,754 of capital losses expired in 2014. In addition, as of December 31, 2014, the Company had an NOL carry-forward of $147,107, which can be used to offset future taxable income. The NOL carry-forward will begin to expire in 2027. The valuation allowance relates to the estimated amount of NCLs that are more-likely-than-not to expire unused in 2019.

As of December 31, 2014 and 2013, the Company had no unrecognized tax benefits.

As of December 31, 2014, the Company has assessed the need for recording a provision for any uncertain tax position and has made the determination that such provision is not necessary.

The Company is subject to examination by the U.S. Internal Revenue Service (IRS), and state and local authorities in jurisdictions where the Company has significant business operations.

Note 7. Commitments and Contingencies:

Contractual Obligations

The Company has contractual obligations to make future payments in connection with borrowings and non-cancelable lease agreements and other contractual commitments. The following table sets forth these contractual obligations by fiscal year:

	2015	2016	2017	2018	2019	Thereafter	Total
Borrowings (1)	$ —	$—	$—	$—	$—	$ 40,000	$40,000
Minimum rental and other contractual commitments (2)	15	446	458	471	483	497	2,370
	$ 15	$446	$458	$471	$483	$ 40,497	$42,370

(1) This table excludes interest payments to be made on the Company's long-term debt securities. Based on the weighted average interest rate of 3.01%, approximately $113 in accrued interest on the current outstanding principal will be paid for the quarter ending March 31, 2015 on the $15,000 of trust preferred debt. Interest on the trust preferred debt is based on the 3-month LIBOR; therefore, actual coupon interest will likely differ from this estimate. The trust preferred debt will mature beginning in October 2033 through July 2035. As of December 31, 2014, approximately $414 in accrued interest on the current outstanding principal will be paid for the quarter ending March 31, 2015 on the $25,000 of Senior Notes. The Senior Notes have an annual interest rate of 6.625% and will mature on May 1, 2023.

(2) Equipment and office rent expense for 2014, 2013 and 2012 was $249, $243 and $263, respectively.

The Company also has short-term repurchase agreement liabilities of $3,179,775 as of December 31, 2014. See Note 4 for further information.

Note 8. Shareholders' Equity:

The Company has authorized share capital of 450,000,000 shares of Class A common stock, par value $0.01 per share; 100,000,000 shares of Class B common stock, par value $0.01 per share; and 25,000,000 shares of undesignated preferred stock. 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 convert to shares of Class A common stock at the option of the Company in certain circumstances including (i) upon sale or other transfer, (ii) at the time the holder of such shares of Class B common stock ceases to be affiliated with the Company and (iii) upon the sale of such shares in a registered public offering. The Company's Board of Directors has the authority, without further action by the shareholders, to issue preferred stock in one or more series and to fix the terms and rights of the preferred stock. Such actions by the Board of Directors could adversely affect the voting power and other rights of the holders of common stock. Preferred stock could thus be issued quickly with terms that could delay or prevent a change in control of the Company or make removal of management more difficult. At present, the Company has no plans to issue any preferred stock.

Conversion of Class B Common Stock to Class A Common Stock

During the year ended December 31, 2014, several holders of the Company's Class B common stock converted an aggregate of 448,186 shares of Class B common stock into 448,186 shares of Class A common stock. There were no conversions of shares of Class B common stock into shares of Class A common stock during the year ended December 31, 2013. Holders of shares of Class A common stock are entitled to one vote for each share on all matters voted on by shareholders, and the holders of shares of Class B common stock are entitled to three votes per share on all matters voted on by shareholders. Under the Company's Articles of Incorporation, shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis.

Share Repurchases

From time to time, the Company repurchases shares of its Class A common stock under a share repurchase program authorized by the Board of Directors in July 2010 (Repurchase Program), pursuant to which the Company is authorized to repurchase up to 500,000 shares of its Class A common stock.

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.

The Company had no share repurchase activities during the years ended December 31, 2014 and 2013. During the year ended December 31, 2012, the Company repurchased 41,790 shares of its Class A common stock with an average price of $18.79 per share, resulting in total cost of $786.

As of December 31, 2014, and 2013, 205,485 shares of Class A common stock remain available for repurchases under the Repurchase Program.

Equity Offerings

During the years ended December 31, 2014 and 2013, the Company completed public offerings as follows:

Closing date of the offering	March 13, 2013	March 28, 2014	September 8, 2014
Shares sold to public	3,000,000	2,750,000	2,750,000
Shares sold pursuant to the underwriter over-allotment	450,000	312,500	412,500
Total shares of Class A common stock	3,450,000	3,062,500	3,162,500
Public offering price per share	$ 25.50	$ 27.40	$ 27.61
Net proceeds [(1)]	$ 86,964	$ 81,669	$ 85,214

(1) Net of underwriting discounts and commissions and expenses.

Dividends

Pursuant to the Company's variable dividend policy, the Board of Directors evaluates dividends on a quarterly basis and, in its sole discretion, approves the payment of dividends. The Company's dividend payments, if any, may vary significantly from quarter to quarter. The Board of Directors has approved and the Company has declared the following dividends to date in 2014:

Quarter Ended	Dividend Amount	Declaration Date	Record Date	Pay Date
December 31	$ 0.875	December 18	December 31	January 30, 2015
September 30	0.875	September 17	September 29	October 31
June 30	0.875	June 11	June 30	July 31
March 31	0.875	March 13	March 31	April 30

The Board of Directors has approved and the Company declared and paid the following dividends for 2013:

Quarter Ended	Dividend Amount	Declaration Date	Record Date	Pay Date
December 31	$ 0.875	December 19	December 31	January 31, 2014
September 30	0.875	September 18	September 30	October 31
June 30	0.875	June 17	June 28	July 31
March 31	0.875	March 15	March 28	April 30

Long-Term Incentive Plan

On April 7, 2014, the Board of Directors adopted the Arlington Asset Investment Corp. 2014 Long-Term Incentive Plan (2014 Plan). The 2014 Plan was approved by the Company's shareholders and became effective on July 15, 2014.

Under the 2014 Plan, a maximum number of 2,000,000 shares of Class A common stock of the Company, subject to adjustment as set forth in the 2014 Plan, were authorized for issuance and may be issued to employees, directors, consultants and advisors of the Company and its affiliates. As of December 31, 2014, 1,998,774 shares remained available for issuance under the 2014 Plan. The 2014 Plan replaced the Arlington Asset Investment Corp. 2011 Long-Term Incentive Plan (2011 Plan). No additional grants will be made under the 2011 Plan. However, previous grants under the 2011 Plan will remain in effect subject to the terms of the 2011 Plan and the applicable award agreement, and shares of Class A common stock may be issued under the 2011 Plan. The shares of Class A common stock to be issued under the 2011 Plan are subject to the achievement of performance measures and/or vesting. As of December 31, 2014 and December 31, 2013, 308,934 and 443,504 shares, respectively, remained available for issuance under the 2011 Plan.

Under the 2014 Plan, the Compensation Committee of the Company's Board of Directors may grant options, stock appreciation rights (SARs), restricted stock and restricted stock units (RSUs), performance awards and/or other stock-based awards. However, no participant may be granted (i) options or SARs during any twelve month period covering more than 300,000 shares or (ii) restricted stock, RSUs, performance awards and/or other stock-based awards denominated in shares that are intended to qualify as performance based compensation under Section 162(m) that permit the participant to earn more than 300,000 shares for each twelve months in the vesting or period on which performance is measured (Performance Period). These share limits are subject to adjustment in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, reverse stock split, spin-off, extraordinary cash dividend or similar transaction or other change in corporate structure affecting the share. In addition, during any calendar year no participant may be granted performance awards that are denominated in cash and that are intended to qualify as performance based compensation under Section 162(m) under which more than $10,000 may be earned for each twelve months in the Performance Period. Each of the individual award limits described in this paragraph will be multiplied by two during the first calendar year in which the participant commences employment with the Company and its affiliates. The 2014 Plan will terminate on the tenth anniversary of its effective date unless sooner terminated by the Board of Directors. The Company uses a fair value based measurement method in accounting for all share based payment transactions.

Performance-Based Long-Term Incentive Program

On August 13, 2012, the Compensation Committee of the Board of Directors of the Company adopted a performance-based long-term incentive program (Performance-based Program) that provides for the issuance of two types of performance share units (PSUs).

The Compensation Committee established performance goals under the Performance-based Program. Two types of PSUs may be awarded under the Performance-based Program: Book Value PSUs and Total Shareholder Return Units (TSR PSUs). The Book Value PSUs are eligible to vest based on the compound annualized growth in the Company's book value per share (*i.e.*, book value change with such adjustments as determined and approved by the Compensation Committee plus dividends on a reinvested basis) during the applicable performance period. The TSR PSUs are eligible to vest based on the Company's compound annualized total shareholder return (*i.e.*, share price change plus dividends on a reinvested basis) during the applicable performance period.

PSUs do not have any voting rights. No dividends are paid on outstanding PSUs during the applicable performance period. Instead, dividend equivalents are accrued on outstanding PSUs during the applicable performance period, deemed invested in shares of Class A common stock and are paid out in shares of Class A common stock at the end of the performance period to the extent that the underlying PSUs vest. Upon settlement, vested PSUs are converted into shares of the Company's Class A common stock on a one-for-one basis. The PSUs and dividend equivalents are settled in whole shares of Class A common stock with a cash payment in lieu of any fractional share.

The right to receive shares of Class A common stock upon vesting of PSUs at the end of the applicable performance period is subject to both continued employment and the achievement of the Company performance goals established by the Compensation Committee. The employment requirement, but not the performance requirement, is waived in the event the awardee dies, becomes disabled or retires; provided, however, that if the awardee dies, becomes disabled or retires before the first anniversary of the grant date, the number of PSUs that are earned under the performance targets are pro-rated. If an awardee is terminated without "cause," the Compensation Committee, in the exercise of its discretion, determines whether any of the PSUs have been earned, provided that the Compensation Committee may not approve a payout that exceeds the number of PSUs earned under the performance targets. In the event of a change of control, the number of PSUs that are earned for each performance period are determined immediately prior to the change of control based on actual performance and vests subject to continued employment for the remainder of the original performance period, subject to accelerated vesting in certain circumstances.

Except as described above or as the Compensation Committee at any time may otherwise determine, an awardee will forfeit the right to any PSUs if he or she terminates employment before the payment date.

The Compensation Committee of the Board of Directors of the Company approved the following grants to the participants in the Performance-based Program:

	Year Ended December 31,		
	2012	2013	2014
Grant date	August 13, 2012	July 1, 2013	July 1, 2014
Shares granted			
Book Value PSUs	30,177	34,221	35,126
TSR PSUs	41,735	34,567	35,593

For the grants made in 2012 (2012 PSU Grants), the Compensation Committee awarded PSUs with an aggregate grant date fair value equal to 75% of the awardee's base salary, with 50% of the total grant date fair value represented by Book Value PSUs and 50% of the total grant date fair value represented by TSR PSUs. To facilitate the implementation of the Performance-based Program, the Compensation Committee established both a two-year and three-year performance period for the initial grant of PSUs. A portion of the Book Value PSUs and TSR PSUs are eligible for vesting at the end of the second year following the grant date, and a portion of the Book Value PSUs and TSR PSUs are eligible for vesting at the end of the third year following the grant date. The actual number of shares of Class A common stock that will be issued to each participant at the end of the applicable performance period will vary between 0% and 200% of the number of PSUs granted, depending on performance results. If the threshold level of performance goals are not achieved, no PSUs are earned. If the initial performance threshold is met, participants will be eligible to receive 50% of the granted PSUs for Company performance at the threshold level, 100% of the granted PSUs for Company performance at the target level and 200% of the granted PSUs for Company performance at the maximum level, with linear interpolation for achievement falling between the performance levels. During 2014, the Company issued 37,725 and 52,424 shares for the vesting of Book Value PSUs and TSR PSUs, respectively, related to the 2012 PSU Grants.

For the grants made in 2013 (2013 PSU Grants) and 2014 (2014 PSU Grants), the Compensation Committee awarded PSUs with an aggregate grant date fair value equal to 100% of the awardee's base salary, with 50% of the total grant date fair value represented by Book Value PSUs and 50% of the total grant date fair value represented by TSR PSUs. The Compensation Committee established a three-year performance period. The Book Value PSUs and TSR PSUs will be eligible for vesting at the end of the third year following the respective grant dates. The actual number of shares of Class A common stock that will be issued to each participant at the end of the applicable performance period will vary between 0% and 250% of the number of PSUs granted, depending on performance results. If the threshold level of performance goals are not achieved, no PSUs are earned. If the initial performance threshold is met, participants will be eligible to receive 50% of the granted PSUs for Company performance at the threshold level, 100% of the granted PSUs for Company performance at the target level and 250% of the granted PSUs for Company performance at the maximum level, with linear interpolation for achievement falling between the performance levels.

The Company recorded $2,457 and $1,485 in compensation expenses related to the Performance-based Program during the years ended December 31, 2014 and 2013, respectively.

Restricted Stock

The Company grants restricted common shares to employees that vest ratably over a three year period or cliff-vest after two to four years for various purposes based on continued employment over these specified periods. As of December 31, 2014 and 2013, a total of 117,112 and 57,673 shares, respectively, of such restricted Class A common stock were outstanding with unamortized deferred compensation of $2,181 and $838, respectively. A summary of these unvested restricted stock awards is presented below:

	Number of Shares	Weighted-average Grant-date Fair Value	Weighted-average Remaining Vested Period
Share Balance as of December 31, 2011	15,206	$ 35.40	2.0
Granted	25,500	22.99	—
Forfeitures	—	—	—
Vestitures	(5,871)	47.60	—
Share Balance as of December 31, 2012	34,835	24.24	2.2
Granted	36,000	26.74	—
Forfeitures	—	—	—
Vestitures	(13,162)	24.65	—
Share Balance as of December 31, 2013	57,673	25.71	2.0
Granted	84,602	26.84	—
Forfeitures	—	—	—
Vestitures	(25,163)	25.64	—
Share Balance as of December 31, 2014	117,112	26.54	1.9

For the years ended December 31, 2014, 2013, and 2012, the Company recognized $927, $632 and $279, respectively, of compensation expense related to this restricted stock plan.

In addition, as part of the Company's satisfaction of incentive compensation earned for past service under the Company's variable compensation programs, employees may receive restricted Class A common stock in lieu of cash payments. These restricted Class A common stock shares are issued to an irrevocable trust and are not returnable to the Company. No such shares were issued in 2014, 2013 and 2012. As of December 31, 2014, 2013, and 2012, the Company had 9,155 vested shares with an weighted-average grant-date fair value of $310.40 of the undistributed restricted stock issued to the trust.

Director Stock Compensation Plan

The Company also grants options, stock or restricted stock units (RSUs) in lieu of or in addition to annual director fees to non-employee directors. The Board approved annual awards of RSUs equal in value to $80 to each director to be made in conjunction with the annual shareholders meeting. On June 6, 2014, the non-employee directors received an annual grant of an aggregate of 14,440 RSUs having an aggregate grant date fair value of $400 based on the closing sale price of the Class A common stock on the New York Stock Exchange on June 11, 2014 of $27.70. In addition to the annual grant of RSUs, the Company also granted 1,081 additional RSUs to the non-employee directors in lieu of certain cash payments for services as Lead Independent Director or as a chairman of one of the Board's standing committees. Vested RSUs are convertible to Class A common stock upon the director ceasing to be a member of the Board. All options, stock and RSUs awarded to non-employee directors are non-transferable other than by will or the laws of descent and distribution. During 2014, 2013, and 2012, the Company granted 15,521, 15,616 and 20,204 RSUs, respectively. For the years ended December 31, 2014, 2013, and 2012, the Company recognized $430, $430 and $431, respectively, of director fees related to these RSUs.

Note 9. Financial Instruments with Off-Balance-Sheet Risk and Credit Risk:

As of December 31, 2014 and 2013, the Company had not entered into any transactions involving financial instruments that would expose the Company to significant related off-balance-sheet risk.

Note 10. Revisions to Previously Reported Financial Statements:

During the preparation of the 2013 consolidated financial statements, the Company concluded that the federal tax rate used to calculate deferred tax assets as of December 31, 2012 was incorrect and should have been lower than the statutory rate given the effects of recognizing a U.S. federal deferred income tax liability associated with state deferred tax assets. Although the impact of this change was not material to the consolidated financial statements as of and for the year ended December 31, 2012, the Company revised its previously reported consolidated financial statements and disclosures as of and for the year ended December 31, 2012. The following tables set forth the effected line items within the Company's previously reported consolidated financial statements for the year ended December 31, 2012.

	Year Ended December 31, 2012		
	As Previously Reported	Adjustment	As Revised
Consolidated Statement of Comprehensive Income			

Income tax benefit	$(160,821)	$ 7,884	$(152,937)
Net income	191,826	(7,884)	183,942
Earnings per share – Basic	18.80	(0.78)	18.02
Earnings per share – Diluted	18.73	(0.77)	17.96
Other comprehensive income, net of taxes			
Unrealized gains (losses) for the period on available-for-sale securities, net of taxes	(1,843)	(66)	(1,909)
Comprehensive income	192,444	(7,863)	184,581

	Year Ended December 31, 2012		
	As Previously Reported	Adjustment	As Revised
Consolidated Statement of Changes in Equity			
Net income	$191,826	$ (7,884)	$183,942
Net change in unrealized gain on available-for-sale securities, net of taxes	618	21	639
Accumulated other comprehensive income, net of taxes	38,985	21	39,006
Accumulated deficit	(1,212,022)	(7,884)	(1,219,906)
Total equity	465,156	(7,863)	457,293

	Year Ended December 31, 2012		
	As Previously Reported	Adjustment	As Revised
Consolidated Statement of Cash Flows			
Net income	$191,826	$ (7,884)	$ 183,942
Deferred tax provision	—	7,884	7,884

Note 11. Quarterly Data (Unaudited):

The following tables set forth selected information for each of the fiscal quarters during the years ended December 31, 2014 and 2013. The selected quarterly data is derived from unaudited financial statements of the Company and has been prepared on the same basis as the annual, audited financial statements to include, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary for fair statement of the results for such periods.

Note: The sum of quarterly earnings per share amounts may not equal full year earnings per share amounts due to differing average outstanding shares amounts for the respective periods.

	Net Interest Income	Net Income (Loss)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
2014				
First Quarter	$ 21,582	$ 7,033	$ 0.42	$ 0.41
Second Quarter	27,387	18,839	0.95	0.94
Third Quarter	30,325	12,847	0.62	0.61
Fourth Quarter	32,862	(32,765)	(1.43)	(1.43)
Total Year	$ 112,156	$ 5,954	0.30	0.29

	Net Interest Income	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
2013				
First Quarter	$ 16,724	$3,177	$ 0.23	$ 0.23
Second Quarter	20,925	3,194	0.19	0.19
Third Quarter	20,681	3,093	0.19	0.18
Fourth Quarter	20,160	39,997 (1)	2.40	2.36
Total Year	$ 78,490	$49,461	3.09	3.06

(1) Reflects $185 increase in net income as a result of an out of period adjustment (that is related to the immaterial revision as disclosed in Note 10, Revisions to Previously Reported Financial Statements) for the first three quarters of the year ended December 31, 2013.