Invesco Mortgage Capital Inc.
Form 10-K/A
April 29, 2010

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, 2009

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to

Commission file number 001-34385

INVESCO MORTGAGE CAPITAL INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Maryland<br>(State or other jurisdiction of incorporation or organization) | 26-2749336<br>(I.R.S. Employer Identification No.) |
| 1555 Peachtree Street, N.E., Suite 1800<br>Atlanta, Georgia<br>(Address of principal executive offices) | 30309<br>(Zip Code) |

(404) 892-0896
(Registrant's telephone number, including area code)

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer x Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates was $164,119,000 based on the closing sales price on the New York Stock Exchange on June 30, 2009.

As of April 9, 2010, there were 16,938,046 outstanding shares of common stock of Invesco Mortgage Capital Inc.

Documents Incorporated by Reference

None

## EXPLANATORY NOTE

The purpose of this Amendment No. 1 on Form 10-K/A (this "Amendment") to our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission (the "SEC") on March 24, 2010 (our "Report"), is solely to include language in the independent registered public accounting firm's report included in Part II, Item 8 of this Amendment that an audit of our internal control over financial reporting was not required nor performed. This Amendment does not reflect a change in our results of operations or financial position as previously reported in our financial statements.

This Amendment is limited in scope to the information identified above and should be read in conjunction with our Report and our other filings with the SEC.

This Amendment does not reflect events occurring after the filing of our Report or modify or update those disclosures affected by subsequent events. Consequently, all other information is unchanged and reflects the disclosures made at the time of the filing of our Report.

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Invesco Mortgage Capital Inc.

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Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data are included under Item 15 of this Amendment.

## PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements: The financial statements contained herein are set forth on pages 4-26 of this Amendment.

(a)(2) Financial Statement Schedules:

(a)(3) Exhibits:

EXHIBIT INDEX

3.1 Articles of Amendment and Restatement of Invesco Mortgage Capital Inc., incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q, filed with the SEC on August 12, 2009.

3.2 Amended and Restated Bylaws of Invesco Mortgage Capital Inc., incorporated by reference to Exhibit 3.2 to Amendment No. 8 to our Registration Statement on Form S-11 (No. 333-151665), filed with the SEC on June 18, 2009 ("Pre-Effective Amendment No. 8").

4.1 Specimen Common Stock Certificate of Invesco Mortgage Capital Inc., incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 8.

10.1 Registration Rights Agreement, dated as of July 1, 2009, among Invesco Mortgage Capital Inc. (formally known as Invesco Agency Securities Inc.), Invesco Advisers, Inc. (formally known as Invesco Institutional (N.A.), Inc.) and Invesco Investments (Bermuda) Ltd., incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed with the SEC on August 12, 2009.

10.2 Management Agreement, dated as of July 1, 2009, among Invesco Advisers, Inc. (formally known as Invesco Institutional (N.A.), Inc.), Invesco Mortgage Capital Inc. and IAS Operating Partnership LP., incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed with the SEC on August 12, 2009.

10.3 First Amended and Restated Agreement of Limited Partnership, dated as of July 1, 2009, of IAS Operating Partnership LP., incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed with the SEC on August 12, 2009.

10.4§ Invesco Mortgage Capital Inc. 2009 Equity Incentive Plan, incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q, filed with the SEC on November 9, 2009.

10.5§ Form of Restricted Common Stock Award Agreement, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 8.

10.6§ Form of Stock Option Award Agreement, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 8.

10.7§* Form of Restricted Stock Unit Award Agreement.

21.1* Subsidiaries of the Registrant.

23.1 Consent of Grant Thornton LLP.

31.1 Certification of Richard J. King pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-oxley Act of 2002.

31.2 Certification of Donald R. Ramon pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Richard J. King pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Donald R. Ramon pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

§ Management contract or compensatory plan or arrangement.

*Previously filed

(b) Exhibits: See (a)(3) above.

(c) Financial Statement Schedules: See (a)(2) above.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Invesco Mortgage Capital Inc.

We have audited the accompanying consolidated balance sheets of Invesco Mortgage Capital Inc. (a Maryland corporation) and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity (deficit) and cash flows for the year ended December 31, 2009 and for the period from June 5, 2008 (date of inception) to December 31, 2008. These financial statements are the responsibility of Invesco Mortgage Capital Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Invesco Mortgage Capital Inc. is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Invesco Mortgage Capital Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Invesco Mortgage Capital Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of its consolidated operations and its cash flows for the year ended December 31, 2009 and for the period from June 5, 2008 (date of inception) to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania

March ––23, 2010

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

$ in thousands, except per share amounts

| ASSETS | December 31, 2009 | December 31, 2008 |
| --- | --- | --- |
| Mortgage-backed securities, at fair value | 802,592 | — |
| Cash | 24,041 | 1 |
| Restricted cash | 14,432 | — |
| Principal paydown receivable | 2,737 | — |
| Investments in unconsolidated limited partnerships, at fair value | 4,128 | — |
| Accrued interest receivable | 3,518 | — |
| Prepaid insurance | 681 | — |
| Deferred offering costs | 288 | 978 |
| Other assets | 983 | — |
| Total assets | 853,400 | 979 |
| | | |
| LIABILITIES AND EQUITY (DEFICIT) | | |
| Liabilities: | | |
| Repurchase agreements | 545,975 | — |
| TALF financing | 80,377 | — |
| Derivative liability, at fair value | 3,782 | — |
| Dividends and distributions payable | 10,828 | — |
| Accrued interest payable | 598 | — |
| Accounts payable and accrued expenses | 665 | — |
| Due to affiliate | 865 | 1,000 |
| Total liabilities | 643,090 | 1,000 |
| | | |
| Equity (Deficit): | | |
| Preferred Stock: par value $0.01 per share; 50,000,000 shares authorized, 0 shares issued and outstanding | — | — |
| Common Stock: par value $0.01 per share; 450,000,000 shares authorized, 8,887,212 shares issued and outstanding | 89 | — |
| Additional paid in capital | 172,385 | 1 |
| Accumulated other comprehensive income | 7,721 | — |
| Retained earnings (accumulated deficit) | 320 | (22) |
| Total shareholders’ equity (deficit) | 180,515 | (21) |
| | | |
| Non-controlling interest | 29,795 | — |
| Total equity (deficit) | 210,310 | (21) |
| | | |
| Total liabilities and equity | 853,400 | 979 |

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

INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

| $ in thousands, except per share data | Year Ended December 31, 2009 | Period from June 5, 2008 (Date of Inception) to December 31, 2008 |
|---|---|---|
| Revenues | | |
| Interest income | 23,529 | — |
| Interest expense | 4,627 | — |
| Net interest income | 18,902 | — |
| | | |
| Other income | | |
| Gain on sale of investments | 2,002 | |
| Equity in earnings and fair value change in unconsolidated limited partnerships | 71 | — |
| Total other income | 2,073 | — |
| | | |
| Expenses | | |
| Management fee – related party | 1,513 | — |
| General and administrative | 499 | 22 |
| Insurance | 723 | — |
| Professional Fees | 729 | — |
| Total expenses | 3,464 | 22 |
| Net income (loss) | 17,511 | (22) |
| | | |
| Net income attributable to non-controlling interest | 2,417 | — |
| Net income (loss) attributable to common shareholders | 15,094 | (22) |
| Earnings per share: | | |
| Net income attributable to common shareholders (basic/diluted) | 3.37 | NM |
| Weighted average number of shares of common stock: | | |
| | | |
| Dividends declared per common share | 1.66 | — |
| Basic | 4,480 | NM |
| Diluted | 5,198 | NM |

NM = not meaningful

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)
Year Ended December 31, 2009 and for the Period from June 5, 2008 (Date of Inception) to December 31, 2008

| $ in thousands, except per share amounts | Common Stock Shares | Common Stock Amount | Additional Paid in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) | Total Shareholders Equity (Deficit) | Non-Controlling Interest | Total Equity | Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Common Shareholders | | | | | | | | |
| Balance at June 5, 2008 | — | — | — | — | — | — | — | — | — |
| Issuance of common stock | 100 | — | 1 | — | — | 1 | — | 1 | — |
| Net loss | — | — | — | — | (22) | (22) | — | (22) | (22) |
| Balance at December 31, 2008 | 100 | — | 1 | — | (22) | (21) | — | (21) | (22) |
| Net income | — | — | — | — | 15,094 | 15,094 | 2,417 | 17,511 | 17,511 |
| Comprehensive income | | | | | | | | | |
| Change in net unrealized gains and losses on available for sale securities | — | — | — | 10,980 | — | 10,980 | 1,761 | 12,741 | 12,741 |
| Change in net unrealized gains and losses on derivatives | — | — | — | (3,259) | — | (3,259) | (523) | (3,782) | (3,782) |
| Total comprehensive income | | | | | | | | | 26,470 |
| Net proceeds from common stock, net of offering costs | 8,886,200 | 89 | 172,352 | — | — | 172,441 | — | 172,441 | |
| Proceeds from private placement of OP units | | | | | | | 28,500 | 28,500 | |
| Common stock dividends | — | — | — | — | (14,752) | (14,752) | — | (14,752) | |
| Common unit dividends | — | — | — | — | — | — | (2,366) | (2,366) | |
| | 912 | — | 32 | — | — | 32 | 6 | 38 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Amortization of equity-based compensation | | | | | | | | |
| Balance at December 31, 2009 | 8,887,212 | 89 | 172,385 | 7,721 | 320 | 180,515 | 29,795 | 210,310 |

The accompanying notes are an integral part of this consolidated financial statement.

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| $ in thousands | Year Ended December 31, 2009 | Period from June 5, 2008 (Date of Inception) to December 31, 2008 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income (loss) | 17,511 | (22) |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization of mortgage-backed securities premiums and discounts, net | (1,764) | — |
| Gain on sale of mortgage-backed securities | (2,002) | — |
| Equity in earnings and fair value change in unconsolidated limited partnerships | (71) | — |
| Amortization of equity-based compensation | 38 | — |
| Changes in operating assets and liabilities | | |
| Increase in accrued interest | (3,518) | — |
| Increase in prepaid insurance | (681) | — |
| Decrease (increase) in deferred offering costs | 973 | (978) |
| Increase in other assets | (682) | — |
| Increase in accrued interest payable | 598 | — |
| Increase in due to affiliate | 756 | 1,000 |
| Increase in accounts payable and accrued expenses | 320 | — |
| Net cash provided by operating activities | 11,478 | — |
| | | |
| Cash Flows from Investing Activities | | |
| Purchase of mortgage-backed securities | (961,356) | — |
| Investment in PPIP | (4,359) | — |
| Principal payments of mortgage-backed securities | 71,961 | — |
| Proceeds from sale of mortgage-backed securities | 100,573 | — |
| Net cash used in investing activities | (793,181) | — |
| | | |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of common stock | 171,613 | 1 |
| Restricted cash | (14,432) | — |
| Proceeds from private placement of OP units | 28,500 | — |
| Proceeds from repurchase agreements | 2,766,266 | — |
| Principal repayments of repurchase agreements | (2,220,291) | — |
| Proceeds from TALF financing | 80,407 | — |
| Principal payments of TALF financing | (30) | — |
| Payments of dividends and distributions | (6,290) | — |
| Net cash provided by financing activities | 805,743 | 1 |
| | | |
| Net increase in cash | 24,040 | 1 |
| Cash, Beginning of Period | 1 | — |

| | | |
|---|---|---|
| Cash, End of Period | 24,041 | 1 |
| Supplement disclosure of cash flow information | | |
| Interest paid | 4,030 | — |
| | | |
| Non-cash investing and financing activities information | | |
| Net change in unrealized gain on available-for-sale securities and derivatives | 8,959 | — |
| | | |
| Net change in investment in PPIP | 302 | — |
| | | |
| Dividends and distributions declared not paid | 10,828 | — |

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

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INVESCO MORTGAGE CAPITAL INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 1 - Organization and Business Operations

Invesco Mortgage Capital Inc. ("Company") is a Maryland corporation focused on investing in, financing and managing residential and commercial mortgage-backed securities and mortgage loans. The Company invests in residential mortgage-backed securities ("RMBS") for which a U.S. Government agency such as the Government National Mortgage Association ("Ginnie Mae"), the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") guarantees payments of principal and interest on the securities (collectively "Agency RMBS"). The Company's Agency RMBS investments include mortgage pass-through securities and collateralized mortgage obligations ("CMOs"). The Company also invests in residential mortgage-backed securities that are not issued or guaranteed by a U.S. government agency ("Non-Agency RMBS"), commercial mortgage-backed securities ("CMBS"), and residential and commercial mortgage loans. The Company is externally managed and advised by Invesco Advisers, Inc. (the "Manager"), a registered investment adviser and an indirect, wholly-owned subsidiary of Invesco Ltd. ("Invesco"), a global investment management company.

The Company conducts its business through IAS Operating Partnership LP (the "Operating Partnership") and as its sole general partner. As of December 31, 2009, the Company owned 86.2% of the Operating Partnership and Invesco Investments (Bermuda) Ltd. owned the remaining 13.8%.

The Company finances its Agency RMBS, and may in the future finance its Non-Agency RMBS investments, primarily through short-term borrowings structured as repurchase agreements. The Manager has secured commitments for the Company with a number of repurchase agreement counterparties. In addition, the Company finances its CMBS portfolio with financings under the Term Asset-Backed Securities Lending Facility ("TALF"). The Company may finance its investments in certain Non-Agency RMBS, CMBS and residential and commercial mortgage loans by contributing capital to a partnership that invests in public-private investment funds ("PPIF") managed by the Company's Manager. In addition, the Company may use other sources of financing including investments in PPIFs, committed borrowing facilities and other private financing.

The Company intends to elect and qualify to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the provisions of the Internal Revenue Code of 1986, as amended ("Code"), commencing with the Company's taxable year ended December 31, 2009. To maintain the Company's REIT qualification, the Company is generally required to distribute at least 90% of its net income (excluding net capital gains) to its shareholders annually.

## Note 2 - Summary of Significant Accounting Policies

### Principles of Consolidation

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

### Development Stage Company

Through June 30, 2009, the Company complied with the reporting requirements for development stage enterprises. The Company incurred organizational, accounting and offering costs in connection with the Company's initial public offering (the "IPO") of its common stock. The offering and other organization costs of the IPO, which were advanced by the Manager, were paid out of the proceeds of the IPO on July 1, 2009, at which time the Company ceased reporting as a development stage company.

Use of Estimates

The accounting and reporting policies of the Company conform to Accounting Principals Generally Accepted in the United States of America ("US GAAP"). The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Examples of estimates include, but are not limited to, estimates of the fair values of financial instruments and interest income on mortgage-backed securities ("MBS"). Actual results may differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments that have original or remaining maturity dates of three months or less when purchased to be cash equivalents. At December 31, 2009, the Company had cash and cash equivalents, including amounts restricted, in excess of the Federal Deposit Insurance Corporation deposit insurance limit of $250,000 per institution. The Company mitigates its risk by placing cash and cash equivalents with major financial institutions.

Deferred Offering Costs

The Company records costs associated with stock offerings as a reduction in additional paid in capital. Deferred offering costs consist of legal and other costs of approximately $1.0 million and $0.3 million incurred through December 31, 2008 and 2009 that are related to the IPO and a follow-on equity offering, respectively. Costs related to the IPO of approximately $13.9 million incurred through December 31, 2009, were charged to capital upon the completion of the IPO on July 1, 2009. The costs incurred in connection with the follow-on offering of $0.3 million are currently being deferred, but will be charged to capital upon the closing of the follow-on offering.

Underwriting Commissions and Costs

Underwriting commissions and direct costs incurred in connection with the Company's IPO are reflected as a reduction of additional paid-in-capital.

Repurchase Agreements

The Company finances its Agency RMBS and Non-Agency RMBS investment portfolio through the use of repurchase agreements. Repurchase agreements are treated as collateralized financing transactions and are carried at their contractual amounts, including accrued interest, as specified in the respective agreements.

In instances where the Company acquires Agency RMBS or Non-Agency RMBS through repurchase agreements with the same counterparty from whom the Agency RMBS or Non-Agency RMBS were purchased, the Company accounts for the purchase commitment and repurchase agreement on a net basis and records a forward commitment to purchase Agency RMBS or Non-Agency RMBS as a derivative instrument the transaction does not comply with the criteria for gross presentation. All of the following criteria must be met for gross presentation in the circumstance where the repurchased assets are financed with the same counterparty:

- the initial transfer of and repurchase financing cannot be contractually contingent;
- the repurchase financing entered into between the parties provides full recourse to the transferee and the repurchase price is fixed;
- the financial asset has an active market and the transfer is executed at market rates; and
- the repurchase agreement and financial asset do not mature simultaneously.

For assets representing available-for-sale investment securities, which are the case with respect to the Company's portfolio of investments, any change in fair value is reported through consolidated other comprehensive income (loss) with the exception of impairment losses, which are recorded in the consolidated statement of operations.

If the transaction complies with the criteria for gross presentation, the Company records the assets and the related financing on a gross basis on its balance sheet, and the corresponding interest income and interest expense in its statements of operations. Such forward commitments are recorded at fair value with subsequent changes in fair value recognized in income. Additionally, the Company records the cash portion of its investment in Agency RMBS and Non-Agency RMBS as a mortgage related receivable from the counterparty on its balance sheet.

Fair Value Measurements

The Company discloses the fair value of its financial instruments according to a fair value hierarchy (levels 1, 2, and 3, as defined). In accordance with US GAAP, the Company is required to provide enhanced disclosures regarding instruments in the level 3 category (which require significant management judgment), including a separate reconciliation of the beginning and ending balances for each major category of assets and liabilities.

Additionally, US GAAP permits entities to choose to measure many financial instruments and certain other items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected are irrevocably recognized in earnings at each subsequent reporting date.

During 2009, the Company elected the fair value option for its investments in unconsolidated limited partnerships. The Company has the one-time option to elect fair value for these financial assets on the election date. The changes in the fair value of these instruments are recorded in equity in earnings and fair value change in unconsolidated limited partnerships in the consolidated statements of operations.

Securities

The Company designates securities as held-to-maturity, available-for-sale, or trading depending on its ability and intent to hold such securities to maturity. Trading and securities, available-for-sale, are reported at fair value, while securities held-to-maturity are reported at amortized cost. Although the Company generally intends to hold most of its RMBS and CMBS until maturity, the Company may, from time to time, sell any of its RMBS or CMBS as part of its overall management of its investment portfolio and as such will classify its RMBS and CMBS as available-for-sale securities.

All securities classified as available-for-sale are reported at fair value, based on market prices from third-party sources, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of recovery in fair value of the security and (iii) the Company's intent and ability to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. For debt securities, the amount of the other-than-temporary impairment related to a credit loss or impairments on securities that the Company has the intent or for which it is more likely than not that the Company will need to sell before recovery are recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of the other-than-temporary impairment on debt securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of consolidated shareholders’ equity in other comprehensive income with no change to the cost basis of the security.

Interest Income Recognition

Interest income on available-for-sale MBS, which includes accretion of discounts and amortization of premiums on such MBS, is recognized over the life of the investment using the effective interest method. Management estimates, at the time of purchase, the future expected cash flows and determines the effective interest rate based on these estimated cash flows and the Company's purchase price. These estimated cash flows are updated and a revised yield is computed based on the current amortized cost of the investment. In estimating these cash flows, there are a number of assumptions subject to uncertainties and contingencies, including the rate and timing of principal payments (prepayments, repurchases, defaults and liquidations), the pass through or coupon rate and interest rate fluctuations. In addition, interest payment shortfalls due to delinquencies on the underlying mortgage loans have to be judgmentally estimated. These uncertainties and contingencies are difficult to predict and are subject to future events that may impact management's estimates and its interest income. Security transactions are recorded on the trade date. Realized gains and losses from security transactions are determined based upon the specific identification method and recorded as gain (loss) on sale of available-for-sale securities in the consolidated statement of operations.

Investments in Unconsolidated Limited Partnerships

The Company has investments in unconsolidated limited partnerships. In circumstances where the Company has a non-controlling interest but are deemed to be able to exert influence over the affairs of the enterprise the Company utilizes the equity method of accounting. Under the equity method of accounting, the initial investment is increased each period for additional capital contributions and a proportionate share of the entity's earnings and decreased for cash distributions and a proportionate share of the entity's losses.

The Company elected the fair value option for investments in unconsolidated limited partnerships. The election for investments in unconsolidated limited partnerships was made upon their initial recognition in the financial statements. The Company has elected the fair value option for the investments in unconsolidated limited partnerships for the purpose of enhancing the transparency of its financial condition.

The Company measures the fair value of the investments in unconsolidated limited partnerships on the basis of the net asset value per share of the investments as permitted in guidance effective for the interim and annual periods ending after December 15, 2009.

Dividends and distributions payable

Dividends and distributions payable represent dividends declared at the balance sheet date which are payable to common shareholders and distributions declared at the balance sheet date which are payable to non-controlling interest common unit holders of the Operating Partnership, respectively.

Earnings per Share

The Company calculates basic earnings per share by dividing net income for the period by weighted-average shares of the Company's common stock outstanding for that period. Diluted income per share takes into account the effect of dilutive instruments, such as units of limited partnership interest in the Operating Partnership ("OP Units"), stock options and unvested restricted stock, but uses the average share price for the period in determining the number of incremental shares that are to be added to the weighted-average number of shares outstanding. For the period from June 5, 2008 (date of inception) to December 31, 2008, earnings per share is not presented because it is not a meaningful measure of the Company’s performance.

Comprehensive Income

Comprehensive income is comprised of net income, as presented in the consolidated statements of operations, adjusted for changes in unrealized gains or losses on available for sale securities and changes in the fair value of derivatives accounted for as cash flow hedges.

Accounting for Derivative Financial Instruments

US GAAP provides disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. US GAAP requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Income Taxes

The Company intends to elect and qualify to be taxed as a REIT, commencing with the Company's taxable year ended December 31, 2009. Accordingly, the Company will generally not be subject to U.S. federal and applicable state and local corporate income tax to the extent that the Company makes qualifying distributions to its shareholders and provided the Company satisfies, on a continuing basis through actual investment and operating results, the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which the Company lost its REIT qualification. Accordingly, the Company's failure to qualify as a REIT could have a material adverse impact on its results of operations and amounts available for distribution to its shareholders.

A REIT's dividend paid deduction for qualifying dividends to the Company's shareholders is computed using its taxable income as opposed to net income reported on the consolidated financial statements. Taxable income, generally, will differ from net income reported on the consolidated financial statements because the determination of taxable income is based on tax regulations and not financial accounting principles.

The Company may elect to treat certain of its future subsidiaries as taxable REIT subsidiaries ("TRSs"). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. A TRS is subject to U.S. federal, state and local corporate income taxes.

While a TRS will generate net income, a TRS can declare dividends to the Company which will be included in its taxable income and necessitate a distribution to its shareholders. Conversely, if the Company retains earnings at a TRS level, no distribution is required and the Company can increase book equity of the consolidated entity. The Company has no adjustments regarding its tax accounting treatment of any uncertainties. The Company expects to recognize interest and penalties related to uncertain tax positions, if any, as income tax expense, which will be included in general and administrative expense.

Share-Based Compensation

Share-based compensation arrangements include share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Compensation cost relating to share-based payment transactions are recognized in the consolidated financial statements, based on the fair value of the equity or liability instruments issued on the date of grant.

On July 1, 2009, the Company adopted an equity incentive plan under which its independent directors, as part of their compensation for serving as directors, are eligible to receive quarterly restricted stock awards. In addition, the Company may compensate its officers under this plan pursuant to the management agreement.

Recent Accounting Pronouncements

In January 2009, the FASB issued an accounting pronouncement which amends previously issued impairment guidance to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The pronouncement also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in other related guidance. The pronouncement is effective and should be applied prospectively for financial statements issued for fiscal years and interim periods ending after December 15, 2008. The Company's adoption of the pronouncement did not have a material effect on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting pronouncement which is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary event and to more effectively communicate when an other-than-temporary event has occurred. The pronouncement applies to debt securities and requires that the total other-than-temporary impairment be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is not more likely than not that it will have to sell the security prior to its anticipated recovery. The pronouncement is effective for interim and annual periods ending after June 15, 2009. The pronouncement will be applied prospectively with a cumulative effect transition adjustment as of the beginning of the period in which it is adopted. The Company's adoption of the pronouncement did not have a material effect on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting pronouncement which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The pronouncement will be applied prospectively and retrospective application is not permitted. The pronouncement is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of the pronouncement did not have a material effect on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting pronouncement which will require an entity to provide disclosures about the fair value of financial instruments in interim financial information. The pronouncement would apply to certain financial instruments and will require entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments, in both interim financial statements as well as annual financial statements. The pronouncement is effective for interim and annual periods ending after June 15, 2009. The Company's adoption of the pronouncement did not have a material effect on the Company’s consolidated financial statements

In March 2008, the FASB issued an accounting pronouncement which requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008 and became applicable to the Company beginning in the first quarter of 2009. The

Company's adoption of the pronouncement did not have a material effect on the Company’s consolidated financial statements, but did require additional disclosures in Note 6, “Derivatives and Hedging Activities.”

In May 2009, the FASB issued an accounting pronouncement which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the pronouncement for the quarter ended June 30, 2009. The Company's adoption of the pronouncement did not have a material effect on its financial condition, results of operations, or cash flows. In February 2010, the SEC rescinded the disclosure requirement for public companies. In June 2009, the FASB issued an accounting pronouncement which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. The pronouncement eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. The pronouncement is effective for fiscal years beginning after November 15, 2009. The Company will adopt the pronouncement in fiscal 2010 and is evaluating the impact it will have on the results of operations and financial position of the Company.

In June 2009, the FASB amended the guidance for determining whether an entity is a variable interest entity. The amendments include: (i) the elimination of the exemption for qualifying special purpose entities; (ii) a new approach for determining who should consolidate a variable-interest entity; and (iii) changes to when it is necessary to reassess who should consolidate a variable-interest entity. The guidance is effective for the first annual reporting period beginning after November 15, 2009 and for interim periods within that first annual reporting period. The Company will adopt the pronouncement in fiscal 2010 and is evaluating the impact it will have on the results of operations and financial position of the Company.

In June 2009, the FASB issued an accounting pronouncement which approved the Accounting Standards Codification (the "Codification") as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. The Codification does not change current US GAAP, but is intended to simplify user access to all authoritative U.S. US GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered nonauthoritative. The pronouncement is effective for interim and annual periods ending after September 15, 2009. The Company began to use the Codification when referring to US GAAP in the Company's Quarterly Report on Form 10-Q for the interim period ended September 30, 2009. The adoption of these provisions did not have a material effect on the Company's consolidated financial statements.

In September 2009, the FASB issued guidance on Fair Value Measurements and Disclosures. Overall, for the fair value measurement of investments in certain entities that calculates net asset value per share (or its equivalent). The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in US GAAP on investments in debt and equity securities. The disclosures are required for all investments within the scope of the amendments in this update regardless of whether the fair value of the investment is measured using the practical expedient. The amendments in this update apply to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or non recurring basis and, as of the reporting entity's measurement date, if the investment meets certain criteria The amendments in this update are effective for the interim and annual periods ending after December 15, 2009.

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Recent Accounting Pronouncement Not Yet Adopted

In January 2010, the FASB updated guidance on, Improving Disclosures about Fair Value Measurements. The guidance required a number of additional disclosures regarding fair value measurements. Specifically, entities should disclose: (1) the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; (2) the reasons for any transfers in or out of Level 3; and (3) information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all the amendments are effective for interim and annual reporting periods beginning after December 15, 2009. As such, for the company, the new disclosures will be required in the Form 10-Q for the quarter ended March 31, 2010.

Note 3 - Mortgage-Backed Securities

All of the Company's MBS are classified as available-for-sale and, as such, are reported at fair value determined by obtaining valuations from an independent source. If the fair value of a security is not available from a dealer or third-party pricing service or such data appears unreliable, the Company may estimate the fair value of the security using a variety of methods including other pricing services, repurchase agreement pricing, discounted cash flow analysis, matrix pricing, option adjusted spread models and other fundamental analysis of observable market factors. At December 31, 2009, all of the Company's MBS values were based on third-party values. The following table presents certain information related to the Company's investment portfolio at December 31, 2009.

| $ in thousands | Principal Balance | Unamortized Premium (Discount) | Amortized Cost | Unrealized Gain/ (Loss) | Fair Value | Net Weighted Average Coupon (1) | Average Yield (2) |
|---|---|---|---|---|---|---|---|
| Agency RMBS: | | | | | | | |
| 15 year fixed-rate | 251,752 | 9,041 | 260,793 | 1,023 | 261,816 | 4.82 % | 3.80 % |
| 30 year fixed-rate | 149,911 | 10,164 | 160,075 | 990 | 161,065 | 6.45 % | 5.02 % |
| ARM | 10,034 | 223 | 10,257 | (281) | 9,976 | 2.52 % | 1.99 % |
| Hybrid ARM | 117,163 | 5,767 | 122,930 | 597 | 123,527 | 5.14 % | 3.55 % |
| Total Agency | 528,860 | 25,195 | 554,055 | 2,329 | 556,384 | 5.31 % | 4.07 % |
| | | | | | | | |
| MBS – CMO | 27,819 | 978 | 28,797 | 936 | 29,733 | 6.34 % | 4.83 % |
| Non-Agency MBS | 186,682 | (79,341) | 107,341 | 7,992 | 115,333 | 4.11 % | 17.10 % |
| CMBS | 104,512 | (4,854) | 99,658 | 1,484 | 101,142 | 4.93 % | 5.97 % |
| Total | 847,873 | (58,022) | 789,851 | 12,741 | 802,592 | 5.03 % | 6.10 % |

(1) Net weighted average coupon ("WAC") is presented net of servicing and other fees.
(2) Average yield incorporates future prepayment and loss assumptions.

The components of the carrying value of the Company's investment portfolio at December 31, 2009 are presented below.

| $ in thousands | |
|---|---|
| Principal balance | 847,873 |

| | |
|---|---|
| Unamortized premium | 26,174 |
| Unamortized discount | (84,196 ) |
| Gross unrealized gains | 14,595 |
| Gross unrealized losses | (1,854 ) |
| Carrying value/estimated fair value | 802,592 |

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The following table summarizes the Company's investment portfolio, at fair value, according to estimated weighted average life classifications as of December 31, 2009:

| $ in thousands | |
|---|---|
| Less than one year | — |
| Greater than one year and less than five years | 483,540 |
| Greater than or equal to five years | 319,052 |
| Total | 802,592 |

The Company assesses its investment securities for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either "temporary" or "other-than-temporary." In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, the severity and duration of the impairment, the cause of the impairment, and the Company's intent that it is more likely than not that the Company can hold the security until recovery of its cost basis. At December 31, 2009, the Company considered none of its investment securities to be other-than-temporarily impaired. Twelve securities that have unrealized losses have been in an unrealized loss position for less than twelve months.

Note 4 – Investments in Unconsolidated Limited Partnerships – Related Party

Invesco Mortgage Recovery Feeder Fund, L.P. and Invesco Mortgage Recovery Loans AIV, L.P.

The Company invested in certain Non-Agency RMBS, CMBS and residential and commercial mortgage loans by contributing equity capital to a legacy securities PPIF managed by the Manager, Invesco Mortgage Recovery Feeder Fund, L.P. (the "Fund"). In addition the Manager identified a whole loan transaction, which resulted in the Company being admitted into an alternative investment vehicle, the Invesco Mortgage Recovery Loans AIV, L.P. (an "AIV"). The Company's overall commitment in the Fund and AIV is $25.0 million, of which $4.1 million has been called as of December 31, 2009. The Fund and AIV limited partnership agreements provide for additional subscriptions of limited partners within six months of the initial closing. As of December 31, 2009, the Fund and AIV have accepted additional subscriptions, which effectively dilute the Company's initial ownership interest in the Fund and AIV. In connection, with the dilution of the Company's interest in the Fund and AIV the Company is entitled to receive approximately $1.0 million as a return of capital, which is subject to future capital calls. The Company realized approximately $63,000 of equity in earnings and $8,000 of unrealized appreciation from these investments for the year ended December 31, 2009.

The non-controlling, unconsolidated ownership interests in these entities are accounted for under the equity method. Capital contributions, distributions, and profit and losses of the entity are allocated in accordance with the terms of the partnership agreement. Such allocations may differ from the stated percentage interests, if any, as a result of preferred returns and allocation formulas as described in such agreements. The Company has made the fair value election for both investments in unconsolidated limited partnerships. The fair value measurement for the investment in unconsolidated limited partnerships is based on the net asset value per share of the investment, or its equivalent.

Note 5 – Borrowings

Repurchase Agreements

The Company has entered into repurchase agreements to finance a portion of its portfolio of investments. The repurchase agreements bear interest at a contractually agreed rate. The repurchase obligations mature and reinvest every thirty to ninety days and have a weighted average aggregate interest rate of 0.26% at December 31, 2009. These repurchase agreements are being accounted for as secured borrowings since the Company maintains effective control of the financed assets.

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Under the repurchase agreements, the respective lender retains the right to mark the underlying collateral to fair value. A reduction in the value of pledged assets would require the Company to provide additional collateral or fund margin calls.

The following table summarizes certain characteristics of the Company's repurchase agreements at December 31, 2009:

| $ in thousands Purchase Agreement Counterparties | Amount Outstanding | Percent of Total Amount Outstanding | | Company MBS Held as Collateral |
|---|---|---|---|---|
| Credit Suisse | 109,697 | 20 | % | 110,501 |
| Barclay's Bank | 62,279 | 12 | % | 64,228 |
| RBS Securities | 83,093 | 15 | % | 86,503 |
| Deutsche Bank | 115,764 | 21 | % | 113,804 |
| Goldman Sachs | 175,142 | 32 | % | 182,731 |
| Total | 545,975 | 100 | % | 557,767 |

TALF Financing

Under the TALF, the Federal Reserve makes non-recourse loans to borrowers to fund purchases of asset-backed securities. The Company has secured borrowings of $80.4 million under the TALF at a weighted average interest rate of 3.82% at December 31, 2009. The TALF loans are non-recourse, however they are secured by $101.1 million of CMBS, and mature in July, August and December 2014.

At December 31, 2009, the TALF financing agreements had the following remaining maturities:

| $ in thousands | |
|---|---|
| 2010 | — |
| 2011 | — |
| 2012 | — |
| 2013 | — |
| 2014 | 80,377 |
| Thereafter | — |
| Total | 80,377 |

Note 6 - Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its investments, debt funding, and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company finances its activities primarily through repurchase agreements, which are generally settled on a short-term basis, usually from one to three months. At each settlement date, the Company refinances each repurchase agreement at the market interest rate at that time. Since the interest rate on its repurchase agreements change on a one to three month basis, the Company is exposed to changing interest rates. The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. For the year ended December 31, 2009, the Company recorded no unrealized swap gain / losses in earnings as hedge ineffectiveness.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest is accrued and paid on the Company's repurchase agreements. During the next twelve months, the Company estimates that an additional $7.2 million will be reclassified as an increase to interest expense.

The Company is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 62 months.

As of December 31, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk:

| Counterparty | Notional Amount $ in thousands | Maturity Date | Fixed Interest Rate in Contract |
|---|---|---|---|
| The Bank of New York Mellon | 175,000 | 08/05/2012 | 2.07% |
| SunTrust Bank | 100,000 | 07/15/2014 | 2.79% |
| Credit Suisse International | 100,000 | 02/24/2015 | 3.26% |
| Total/Weighted Average | 375,000 | | 2.58% |

At December 31, 2009, the Company's counterparties hold approximately $14.4 million of cash margin deposits and approximately $6.4 million in agency RMBS as collateral against its swap contracts. The cash is classified as restricted cash and the agency RMBS is included in the total mortgage-backed securities on our consolidated balance sheet.

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the balance sheet as of December 31, 2009 and December 31, 2008.

$ in thousands

| Asset Derivatives | | | | Liability Derivatives | | | |
|---|---|---|---|---|---|---|---|
| As of December 31, 2009 | | As of December 31, 2008 | | As of December 31, 2009 | | As of December 31, 2008 | |
| Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value | Balance Sheet | Fair Value |
| Interest rate swap asset | — | Interest rate swap asset | — | Interest rate swap liability | 3,782 | Interest rate swap liability | — |

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Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The table below presents the effect of the Company's derivative financial instruments on the statement of operations for the year ended December 31, 2009.

$ in thousands

| Derivative type for cash flow Hedge | Amount of loss recognized in OCI on derivative (effective portion) | Location of loss reclassified from accumulated OCI into income (effective portion) | Amount of loss reclassified from accumulated OCI into income (effective portion) | Location of loss recognized in income on derivative (ineffective portion) | Amount of loss recognized in income on derivative (ineffective portion) |
|---|---|---|---|---|---|
| Interest Rate Swap | 6,420 | Interest Expense | 2,638 | Other Expense | — |

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties. Some of those agreements contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the company could also be declared in default on its derivative obligations.

The Company has an agreement with one of its derivative counterparties that contains a provision where if the Company's net asset value declines by certain percentages over specified time periods, then the Company could be declared in default on its derivative obligations. The Company also has an agreement with one of its derivative counterparties that contains a provision where if the Company's shareholders' equity declines by certain percentages over specified time periods, then the Company could be declared in default on its derivative obligations.

The Company has an agreement with one of its derivative counterparties that contain a provision where if the Company fails to maintain a minimum shareholders' equity or market value of $100 million, then the Company could be declared in default on its derivative obligations.

As of December 31, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $3.8 million. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of approximately $14.4 million. If the Company had breached any of these provisions at December 31, 2009, it could have been required to settle its obligations under the agreements at their termination value.

Note 7 - Financial Instruments

US GAAP defines fair value, provides a consistent framework for measuring fair value under US GAAP and ASC 820 expands fair value financial statement disclosure requirements. ASC 820 does not require any new fair value measurements and only applies to accounting pronouncements that already require or permit fair value measures, except for standards that relate to share-based payments.

Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect the Company's market assumptions. These inputs into the following hierarchy:

• Level 1 Inputs – Quoted prices for identical instruments in active markets.

• Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

• Level 3 Inputs – Instruments with primarily unobservable value drivers.

The fair values, on a recurring basis, of the Company's MBS, investments in unconsolidated limited partnerships and interest rate hedges based on the level of inputs are summarized below:

| | December 31, 2009 Fair Value Measurements Using | | | |
|---|---|---|---|---|
| $ in thousands | Level 1 | Level 2 | Level 3 | Total at Fair Value |
| Assets | | | | |
| Mortgage-backed securities | — | 802,592 | — | 802,592 |
| Investments in unconsolidated limited partnerships | — | — | 4,128 | 4,128 |
| Total | — | 802,592 | 4,128 | 806,720 |
| | | | | |
| Liabilities | | | | |
| Derivatives | — | 3,782 | — | 3,782 |
| Total | — | 3,782 | — | 3,782 |

The fair value of the TALF debt and repurchase agreements are based on an expected present value technique. This method discounts future estimated cash flows using rates the Company determined best reflect current market interest rates that would be offered for loans with similar characteristics and credit quality. At December 31, 2009 the TALF debt had a fair value of $80.0 million and a carrying value of $80.4 million and the repurchase agreements had a fair value of $546.1 million and a carrying value of $546.0 million.

Changes in assets measured at fair value using Level 3 inputs for the year ended December 31, 2009 include unrealized gains of $71,000.

Note 8 - Related Party Transactions

The Company is externally managed and advised by the Manager. Pursuant to the terms of the management agreement, effective July 1, 2009, the Manager provides the Company with its management team, including its officers, along with appropriate support personnel. Each of the Company's officers is an employee of Invesco or one of Invesco's affiliates. The Company does not have any employees. With the exception of the Company's Chief Financial Officer, the Manager is not obligated to dedicate any of its employees exclusively to the Company, nor is the Manager or its employees obligated to dedicate any specific portion of its or their time to the Company's business. The Manager is at all times subject to the supervision and oversight of the Company's board of directors and has only such functions and authority as the Company delegates to it.

Management Fee

The Company pays the Manager a management fee equal to 1.50% of the Company's shareholders' equity per annum, which is calculated and payable quarterly in arrears. For purposes of calculating the management fee, shareholders' equity is equal to the sum of the net proceeds from all issuances of equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount paid to repurchase common stock since inception, and excluding any unrealized gains, losses or other items that do not affect realized net income (regardless of whether such items are included in other comprehensive income or loss, or in net income). This amount will be adjusted to exclude one-time events pursuant to changes in US GAAP, and certain non-cash items after discussions between the Manager and the Company's independent directors and approval by a majority of the Company's independent directors.

Shareholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of shareholders' equity shown on the Company's consolidated financial statements. The Company treats outstanding limited partner interests (not held by the Company) as outstanding shares of capital stock for purposes of calculating the management fee.

The Manager has agreed to reduce the management fee payable in respect of any equity investment the Company may decide to make in any legacy securities or legacy loan PPIF if managed by the Manager or any of its affiliates. However, the Manager's management fee will not be reduced in respect of any equity investment the Company may decide to make in a legacy securities or legacy loan PPIF managed by an entity other than the Manager or any of its affiliates. Because the Company pays the Manager a management fee pursuant to the management agreement, the Company does not pay any management or investment fees with respect to the investment in the Invesco PPIP Fund managed by the Manager. The Manager waives all such fees.

For the year ended December 31, 2009, the Company incurred management fees of approximately $1.5 million of which approximately $756,000 was accrued but had not been paid.

Expense Reimbursement

Pursuant to the management agreement, the Company is required to reimburse the Manager for operating expenses related to the Company incurred by the Manager, including certain salary expenses and other expenses related to legal, accounting, due diligence and other services. The Company's reimbursement obligation is not subject to any dollar limitation.

The Company incurred costs, originally paid by Invesco, of approximately $1.1 million and $1.0 million for the years ended December 31, 2009 and 2008, respectively. Included in these costs $92,000 was capitalized as deferred offering costs for the year ended December 31, 2009. In addition, approximately $366,000 and $22,000 were expensed for the year ended December 31, 2009 and 2008, respectively and approximately $660,000 was charged against equity as a cost of raising capital for the year ended December 31, 2009. As of December 31, 2009, the Company owed the Manager approximately $109,000 for these expenses.

Termination Fee

A termination fee is due to the Manager upon termination of the management agreement by the Company equal to three times the sum of the average annual management fee earned by the Manager during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter.

Note 9 – Shareholders' Equity (Deficit)

Securities Convertible into Shares of Common Stock

As of the completion of the Company's IPO on July 1, 2009, (i) the limited partners who hold OP Units of the Operating Partnership have the right to cause the Operating Partnership to redeem their OP Units for cash equal to the market value of an equivalent number of shares of common stock, or at the Company's sole discretion, it may purchase their OP Units by issuing one share of common stock for each OP Unit redeemed, and (ii) the Company adopted an equity incentive plan which includes the ability of the Company to grant securities convertible to the Company's common stock to the executive officers, independent directors and personnel of the Manager.

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Registration Rights

The Company entered into a registration rights agreement with regard to the common stock and OP Units owned by the Manager and Invesco Investments (Bermuda) Ltd., respectively, upon completion of the Company's IPO and any shares of common stock that the Manager may elect to receive under the management agreement or otherwise. Pursuant to the registration rights agreement, the Company has granted to the Manager and Invesco Investments (Bermuda) Ltd., (i) unlimited demand registration rights to have the shares purchased by the Manager or granted to it in the future and the shares that the Company may issue upon redemption of the OP Units purchased by Invesco Investments (Bermuda) Ltd. registered for resale, and (ii) in certain circumstances, the right to "piggy-back" these shares in registration statements the Company might file in connection with any future public offering so long as the Company retains the Manager under the management agreement. The registration rights of the Manager and Invesco Investments (Bermuda) Ltd., with respect to the common stock and OP Units that they purchased simultaneously with the Company's IPO, will only begin to apply on and after June 25, 2010.

Public Offerings and Private Placement

On June 25, 2009, the Company entered into (i) a binding underwriting agreement with a group of underwriters to sell 8,500,000 shares of the Company's common stock for $20.00 per share for an aggregate offering price of $170 million, and (ii) a share purchase agreement with the Manager to purchase 75,000 shares of the Company's common stock at $20.00 per share or for an aggregate offering price of $1.5 million. Concurrently, Invesco Investments (Bermuda) Ltd. entered into a securities purchase agreement with the Operating Partnership to purchase 1,425,000 OP Units at $20.00 per unit for an aggregate offering price of $28.5 million.

On July 1, 2009, the Company completed its IPO pursuant to which it sold 8,500,000 shares of common stock to the public at a price of $20.00 per share, for net proceeds of $164.8 million. Concurrent with the IPO, the Company completed a private offering in which it sold 75,000 shares of common stock to the Manager at a price of $20.00 per share and the Operating Partnership sold 1,425,000 units of limited partnership interest to Invesco Investments (Bermuda) Ltd., a wholly-owned subsidiary of Invesco, at a price of $20.00 per unit. The net proceeds to the Company from this private offering was $30.0 million. The Company did not pay any underwriting discounts or commissions in connection with the private offering.

On July 27, 2009, the underwriters in the Company's IPO exercised their over-allotment option to purchase an additional 311,200 shares of common stock at a price of $20.00 per share, for net proceeds of $6.1 million. Collectively, the Company received net proceeds from the IPO and the concurrent private offering of approximately $200.9 million.

Share-Based Compensation

The Company established the 2009 Equity Incentive Plan for grants of restricted common stock and other equity based awards to the directors, officers and employees of the Manager (the "Incentive Plan"). Under the Incentive Plan, a total of 1,000,000 shares are reserved for issuance. Unless terminated earlier, the Incentive Plan will terminate in 2019, but will continue to govern the unexpired awards. The Company recognized compensation expense of approximately $38,000 for the year ended December 31, 2009. The Company issued 912 shares of restricted stock pursuant to this plan to the Company's non-executive directors. The fair market value of the shares granted was determined by the closing stock market price on the date of grant.

Dividends

On October 13, 2009, the Company declared a dividend of $0.61 per share of common stock. The dividend was paid on November 12, 2009 to shareholders of record as of the close of business on October 23, 2009.

On December 17, 2009, the Company declared a dividend of $1.05 per share of common stock. The dividend was paid on January 27, 2010 to shareholders of record as of the close of business on December 31, 2009.

Note 10 – Earnings per Share

Earnings per share for the year ended December 31, 2009 is computed as follows:

| | |
|---|---|
| $ in thousands | |
| Numerator (Income) | |
| Basic Earnings | |
| Net income available to common shareholders | 15,094 |
| Effect of dilutive securities: | |
| Income allocated to non-controlling interest | 2,417 |
| Dilutive net income available to shareholders | 17,511 |
| | |
| Denominator (Weighted Average Shares) | |
| Basic Earnings: | |
| Shares available to common shareholders | 4,480 |
| Effect of dilutive securities: | |
| OP Units | 718 |
| Dilutive Shares | 5,198 |

Note 11 – Non-controlling Interest - Operating Partnership

Non-controlling interest represents the aggregate OP Units in the Operating Partnership held by limited partners (the "Unit Holders"). Income allocated to the non-controlling interest is based on the Unit Holders ownership percentage of the Operating Partnership. The ownership percentage is determined by dividing the numbers of OP Units held by the Unit Holders by the total number of dilutive shares. The issuance of additional shares of beneficial interest (the "Common Shares" or "Share") or OP Units changes the percentage ownership of both the Unit Holders and the Company. Since a unit is generally redeemable for cash or Shares at the option of the Company, it is deemed to be equivalent to a Share. Therefore, such transactions are treated as capital transactions and result in an allocation between shareholders' equity and non-controlling interest in the accompanying consolidated balance sheet to account for the change in the ownership of the underlying equity in the Operating Partnership. As of December 31, 2009, non-controlling interest related to the aggregate limited partnership units of 1,425,000, represented a 13.8% interest in the Operating Partnership. Income allocated to the Operating Partnership non-controlling interest for the year ended December 31, 2009 was approximately $2.4 million. Distributions paid and payable to the non-controlling interest was approximately $0.9 million and $1.5 million, respectively.

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Note 12 - Summarized Quarterly (Unaudited)

The following is a presentation of the quarterly results of operations for the year ended December 31, 2009 (summarized quarterly results for 2008 are not meaningful and are therefore omitted).

| $ in thousands, except per share data<br>Quarter Ended 2009 | December 31 | September 30 | June 30 | March 31 |
|---|---|---|---|---|
| Revenues | | | | |
| Interest income | 12,546 | 10,983 | — | — |
| Interest expense | 2,557 | 2,070 | — | — |
| Net interest income | 9,989 | 8,913 | — | — |
| | | | | |
| Other income (loss) | | | | |
| Gain on sale of investments | 2,002 | — | — | — |
| Other Income (expense) | 84 | (13) | — | — |
| Total other income (loss) | 2,086 | (13) | — | — |
| Expenses | 1,605 | 1,727 | 84 | 48 |
| Net income (loss) | 10,470 | 7,173 | (84) | (48) |
| | | | | |
| Net income attributable to non-controlling interest | 1,447 | 970 | — | — |
| Net income (loss) attributable to common shareholders | 9,023 | 6,203 | (84) | (48) |
| Earnings per share: | | | | |
| Net income attributable to common shareholders (basic/diluted) | 1.02 | 0.70 | NM | NM |

NM = not meaningful

Note 13 - Subsequent Events

Dividends

On December 17, 2009, the Company declared a dividend of $1.05 per share of common stock for the fourth quarter 2009. The dividend was paid on January 27, 2010 to shareholders of record as of the close of business on December 31, 2009.

Follow-on Public Offering

On January 15, 2010, the Company completed a public offering of 7,000,000 shares of common stock and an issuance of additional 1,050,000 shares of common stock pursuant to the underwriters' full exercise of their over-allotment option at $21.25 per share. Net proceeds to the Company were $162.7 million, net of issuance costs of approximately $8.4 million.

Share-Based Compensation

The Company issued 834 shares of restricted stock pursuant to the Incentive Plan to the Company's non-executive directors on February 19, 2010. The fair market value of the shares granted was determined by the closing stock market price on the date of grant.

SIGNATURES

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

Invesco Mortgage Capital Inc.

By: /s/ Richard J. King
Richard J. King
President and Chief Executive Officer
Date: April 29, 2010