BRUNSWICK CORP
Form DEF 14A
March 30, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Brunswick Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(1) Amount Previously Paid:

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March 30, 2007

Dear Brunswick Shareholder:

The Annual Meeting of Shareholders of Brunswick Corporation will be held on Wednesday, May 2, 2007, at 9:00 a.m. CDT at Brunswick s corporate offices, 1 N. Field Court, Lake Forest, Illinois.

A formal Notice of Annual Meeting and Proxy Statement describing the business to be acted on at the meeting, and a copy of Brunswick s 2006 Annual Report, are enclosed. Whether or not you plan to attend the meeting, we urge you to sign the enclosed proxy card and return it, or to vote by telephone or on the Internet, by following the instructions on your proxy card. Please vote as soon as possible so that your shares will be represented.

Thank you for your continued support of Brunswick.

Sincerely,

Dustan E. McCoy
Chairman and Chief Executive Officer
Brunswick Corporation 1 N. Field Court Lake Forest, IL 60045-4811

Telephone 847.735.4700

Notice of Annual Meeting

March 30, 2007

Dear Brunswick Shareholder:

The Annual Meeting of Shareholders of Brunswick Corporation will be held at Brunswick s corporate offices, 1 N. Field Court, Lake Forest, Illinois, on Wednesday, May 2, 2007, at 9:00 a.m. CDT for the following purposes:

(1) To elect four directors;

(2) To ratify the Audit Committee s selection of Ernst & Young LLP as our independent registered public accounting firm; and

(3) To consider other business that may properly come before the meeting.

By order of the Board of Directors,

Marschall I. Smith
Secretary
Brunswick Corporation 1 N. Field Court Lake Forest, IL 60045-4811

Telephone 847.735.4700

Proxy Statement

The Board of Directors of Brunswick Corporation (Brunswick or the Company) is soliciting proxies from Brunswick s shareholders for the annual meeting to be held at Brunswick s corporate offices, 1 N. Field Court, Lake Forest, Illinois, on Wednesday, May 2, 2007, at 9:00 a.m. CDT (the Annual Meeting). This proxy statement, together with the Notice of Annual Meeting, proxy card and Brunswick s 2006 Annual Report are first being mailed to shareholders on or about March 30, 2007.

ABOUT THE MEETING

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon matters described in the Notice of Annual Meeting that accompanies this proxy statement, including the election of four directors and the ratification of the Audit Committee s selection of Ernst & Young LLP as Brunswick s independent registered public accounting firm.

Who may vote at the Annual Meeting?

Only holders of the 90,579,238 shares of Brunswick Common Stock issued and outstanding as of the close of business on March 1, 2007 (the Record Date) will be entitled to vote at the meeting. Each holder as of the Record Date is entitled to one vote for each share of Brunswick Common Stock held.

Who can attend the meeting?

Only shareholders who owned Brunswick Common Stock as of the Record Date, or their duly appointed proxies, will be entitled to attend the Annual Meeting. If you hold your shares through a broker, bank or other nominee, you will not be admitted to the Annual Meeting unless you bring a copy of a statement (such as a brokerage statement) from your nominee reflecting your stock ownership as of the Record Date.

How do I vote?

If you are a shareholder of record, you can vote (i) by attending the Annual Meeting, (ii) by signing, dating and mailing in your proxy card, or (iii) by following the instructions on your proxy card for voting by telephone or on the Internet at *www.proxyvote.com*. The deadline for voting by telephone or on the Internet is 5:00 p.m. EDT on May 1, 2007. You may vote your shares for all, some or none of the nominees for director and for or against ratification of the Audit Committee s selection of Ernst & Young LLP as Brunswick s independent registered public accounting firm.

If you hold your shares through a broker, bank or other nominee, that institution will instruct you as to how your shares may be voted by proxy, including whether telephone or Internet voting options are available. If you hold your shares through a broker, bank or other nominee and would like to vote in person at the meeting, you must first obtain a proxy issued in your name from the institution that holds your shares.

Can I change my vote after I return my proxy card?

Yes. If you are a shareholder of record, you may change your vote at any time before the actual vote by (i) voting in person by ballot at the Annual Meeting, (ii) returning a later-dated proxy card, (iii) entering a new vote by telephone or on the Internet, or (iv) delivering written notice of revocation to Brunswick s Secretary. If you hold your shares through an institution, that institution will instruct you as to how your vote may be changed.

How do I vote my shares in Brunswick Employee Stock Plans?

If you are a participant in the Brunswick Retirement Savings Plan, the Brunswick Rewards Plan or the Brunswick Rewards Variable Profit Sharing Plan, you will not be able to vote the shares that you hold in those plans by voting in person at the Annual Meeting. Instead, you may instruct the trustee for the plan or plans you participate in how to cast the votes related to your plan shares. You may give instructions to the plan trustee for the plan or plans by mail, by telephone or on the Internet. To vote by mail, complete, sign and date the enclosed proxy card and return it in the enclosed prepaid envelope. To vote by telephone or on the Internet, please follow the instructions on the enclosed proxy card. Your vote must be received by 5:00 p.m. EDT on April 27, 2007. The trustee will vote your shares as you indicate. The trustee will vote allocated shares for which proxies are not received in the same proportion as it votes allocated shares for which it receives instructions.

Who will count the votes?

Brunswick s tabulator, Automatic Data Processing, will count the votes. Representatives of Brunswick s Shareholder Services Department will act as inspectors of election.

How will my shares be voted if I sign, date and return my proxy card?

If you sign, date and return your proxy card and indicate how you would like your shares voted, your shares will be voted as you have instructed. If you sign, date and return your proxy card but do not indicate how you would like your shares voted, your proxy will be voted for the election of the four director nominees and for the ratification of the Audit Committee s selection of Ernst & Young LLP as Brunswick s independent registered public accounting firm for 2007.

What are the Board s recommendations?

The Board recommends a vote for the election of the four director nominees. The Board and the Audit Committee recommend the ratification of the Audit Committee s selection of Ernst & Young LLP as Brunswick s independent registered public accounting firm for the 2007 fiscal year. With respect to any other matter that is properly brought before the meeting, the proxy holders will vote the proxies held by them in accordance with their best judgment.

What vote is required to approve each matter to be considered at the Annual Meeting?

Election of Directors. Directors will be elected by a plurality of the votes cast at the Annual Meeting on the election of directors. This means that the four nominees receiving the most votes For election at the Annual Meeting will be elected to the Board of Directors. Because directors are elected by a plurality, abstentions will not affect the outcome. If any one or more of the four director nominees is unable to serve, votes will be cast, pursuant to authority granted by the enclosed proxy, for the individual or individuals that the Board designates as alternates.

Ratification of Independent Registered Public Accounting Firm. The affirmative vote of the holders of a majority of the shares represented, in person or by proxy and entitled to vote, will be required for the ratification of the Audit Committee s selection of Ernst & Young LLP as Brunswick s independent registered public accounting firm. Because the vote to ratify the independent registered public accounting firm requires a majority of the shares represented and entitled to vote at the meeting, abstentions will have the same effect as votes against ratification.

What constitutes a quorum?

The Annual Meeting will be held only if a quorum is present. A quorum will be present if a majority of the 90,579,238 shares of Brunswick Common Stock issued and outstanding on the Record Date are represented, in person or by proxy, at the Annual Meeting. Shares represented by properly completed proxy cards either marked abstain or withhold authority to vote, or returned without voting instructions are counted as present for the purpose of determining whether a quorum is present. Also, if shares are held by brokers who are prohibited from exercising discretionary authority for

beneficial owners who have not given voting instructions (broker non-votes), those shares will be counted as present for quorum purposes.

How will broker non-votes be treated?

Brunswick will treat broker non-votes as present to determine whether or not there is a quorum at the Annual Meeting, but they will not be treated as entitled to vote on the proposals, if any, for which the broker indicates it does not have discretionary authority. This means that broker non-votes will not have any effect on whether a proposal passes.

Will my vote be kept confidential?

Yes. As a matter of policy, shareholder proxies, ballots and tabulations that identify individual shareholders are kept secret and are available only to Brunswick s tabulator and inspectors of election, who are required to acknowledge their obligation to keep your votes confidential.

Who pays to prepare, mail and solicit the proxies?

Brunswick pays all of the costs of preparing, mailing and soliciting proxies. Brunswick asks brokers, banks, voting trustees and other nominees and fiduciaries to forward proxy materials to the beneficial owners and to obtain authority to execute proxies. Brunswick will reimburse the brokers, banks, voting trustees and other nominees and fiduciaries upon request. In addition to solicitation by mail, telephone, facsimile, Internet or personal contact by its officers and employees, Brunswick has retained the services of Georgeson Shareholder Communications Inc. to solicit proxies for a fee of $9,900 plus expenses.

What if other matters come up during the meeting?

If any matters other than those referred to in the Notice of Annual Meeting properly come before the meeting, the individuals named in the accompanying form of proxy will vote the proxies held by them in accordance with their best judgment. Brunswick is not aware of any business other than the items referred to in the Notice of Annual Meeting that may be considered at the meeting.

Multiple individuals residing in my home are beneficial owners of shares of Brunswick Common Stock. Why did we receive only one copy of this proxy statement?

Brunswick is sending only one proxy statement to you if you share a single address with another shareholder unless we received instructions to the contrary from you. This practice, known as householding, is designed to eliminate duplicate mailings, conserve natural resources and reduce Brunswick s printing and mailing costs. If you wish to receive a separate proxy statement in the future, you may contact Brunswick Shareholder Services by telephone at 847-735-4294, by mail at 1 N. Field Court, Lake Forest, IL 60045, or by email at *services@brunswick.com.* If you receive multiple copies of the proxy statement, you can request householding by contacting Brunswick Shareholder Services. If you own your shares through a broker, bank or other holder of record, you can request householding by contacting the holder of record.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

At the Annual Meeting, you will elect four individuals to serve on the Board of Directors. The current Board of Directors, acting pursuant to a recommendation from the Nominating and Corporate Governance Committee, has nominated Nolan D. Archibald, Jeffrey L. Bleustein, Graham H. Phillips and Lawrence A. Zimmerman for election as directors to serve for terms expiring at the 2010 Annual Meeting or until their respective successors have been elected and qualified. Mr. Archibald, Mr. Bleustein, Mr. Phillips and Mr. Zimmerman have served as directors since 1995, 1997, 2002 and 2006, respectively.

Brunswick s Board of Directors has 10 members. Peter B. Hamilton and Peter Harf retired from the Board effective January 31, 2007, and March 13, 2007, respectively. In addition, Roger W. Schipke recently notified the Board that he will be retiring from the Board as of the 2007 Annual Meeting. After the Annual Meeting, the Board will have nine directors divided among three classes. One class will consist of four directors, one will consist of three directors and the third will consist of two directors. The Board of Directors will consider qualified candidates for positions on the Board.

Biographical information follows for each person nominated and each person whose term of office will continue after the Annual Meeting.

Nominees for Election for Terms Expiring at the 2010 Annual Meeting:

Nolan D. Archibald Director since 1995

Chairman, President and Chief Executive Officer of The Black & Decker Corporation, a consumer and commercial products company, since 1986; recipient of American Marketing Association s Edison Achievement Award; director of Lockheed Martin Corporation and Huntsman Corporation; age 63.

Jeffrey L. Bleustein Director since 1997

Chairman of the Board of Harley-Davidson, Inc., a motorcycle manufacturer, since 1998; Chief Executive Officer of Harley-Davidson, Inc., 1997 to 2005; President and Chief Operating Officer of the Motorcycle Division of Harley-Davidson, Inc., 1993 to 1997; member of President s Council on the 21st Century Workforce; director of Kohler Co.; age 67.

Graham H. Phillips Director since 2002

Retired; Chairman and Chief Executive Officer of Young & Rubicam Advertising, a global marketing and communications organization, 1999 to 2000; Chairman of Burson-Marsteller, the perception management division of Young & Rubicam, Inc., 1997 to 1999; Chairman and Chief Executive Officer of Ogilvy & Mather Worldwide, a marketing communications company, 1989 to 1992; age 68.

Lawrence A. Zimmerman Director since 2006

Senior Vice President and Chief Financial Officer of Xerox Corporation, a document management company, since 2002; Vice President, Finance and Planning, Server and Technology division of International Business Machines Corporation, 1996 to 1998; director of The Stanley Works; age 64.

The Board of Directors recommends a vote FOR the nominees named above.

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Directors Continuing in Office Until the 2009 Annual Meeting:

Michael J. Callahan Director since 1991

Retired; President and Chief Executive Officer and Director of Material Sciences Corporation, a manufacturer and marketer of material-based solutions, 2003 to 2004; Financial consultant, 1999 to 2003; Executive Vice President and Chief Financial Officer of FMC Corporation, a producer of chemicals for industry and agriculture, 1994 to 1999; Executive Vice President and Chief Financial Officer of Whirlpool Corporation, a manufacturer of major home appliances, 1992 to 1994; age 68.

Manuel A. Fernandez Director since 1997

Managing Director of SI Ventures, LLC, a venture capital partnership, since 1998; Chairman Emeritus of Gartner, Inc., an information technology company, since 1999; Chairman, President and Chief Executive Officer of Gartner Group, Inc., 1991 to 1999; director of The Black & Decker Corporation, Flowers Foods, Inc., and Sysco Corporation. Chairman of the University of Florida Board of Trustees; age 60.

Directors Continuing in Office Until the 2008 Annual Meeting:

Cambria W. Dunaway Director since 2006

Chief Marketing Officer of Yahoo! Inc., a global Internet destination, since June 2003; Vice President of Kids & Teens Brands for Frito Lay North America, a division of PepsiCo, Inc., from 2000 to 2003; Board member of Junior Achievement of Silicon Valley; age 44.

Dustan E. McCoy Director since 2005

Chairman of the Board and Chief Executive Officer of Brunswick Corporation since December 2005; President of the Brunswick Boat Group, 2000 to 2005; Vice President, General Counsel and Corporate Secretary of Brunswick, 1999 to 2000; Executive Vice President of Witco Corporation, a specialty chemicals company, January to September 1999; Senior Vice President, General Counsel and Corporate Secretary of Witco Corporation, 1996 to 1998; director of Louisiana-Pacific Corporation and Freeport-McMoRan Copper & Gold Inc.; age 57.

Ralph C. Stayer Director since 2002

Chairman of the Board, President and Chief Executive Officer of Johnsonville Sausage LLC since 1978; Founder of Leadership Dynamics, a consulting firm; National Trustee of Boys and Girls Clubs Midwest Region; Chairman of Marian College Board of Trustees; Board member of PAVE, an organization dedicated to improving education opportunities for urban students in Milwaukee; age 63.

CORPORATE GOVERNANCE

Overview

The Board of Directors has adopted written Principles and Practices (the Principles), a copy of which is available at Brunswick s Web site, *www.brunswick.com/company/governance/principlespractices.php*, or in print upon request by any Brunswick shareholder, to assist it in the performance of its duties and the exercise of its responsibilities. The Principles reflect the views of the Board with respect to corporate governance issues. The Board believes that good corporate governance is a source of competitive advantage for Brunswick. Good governance allows the skills, experience and judgment of the Board to support Brunswick s executive management team, enabling management to improve Brunswick s performance and maximze shareholder value.

The Board of Directors met eight times during 2006. All directors attended 75 percent or more of the Board meetings and meetings of committees of which they were members during 2006, except that Mr. Zimmerman was able to attend only 73 percent of such meetings because of preexisting commitments to his employer during his first year on the Board. The Principles provide that all members of the Board are requested to attend Brunswick s Annual Meeting of Shareholders in person. All members of the Board except for Mr. Fernandez attended the 2006 Annual Meeting of Shareholders. The non-management directors regularly meet without members of management present. At these meetings, Mr. Fernandez serves as the presiding director.

Brunswick Ethics Program

The Board has adopted a Code of Ethics for Senior Financial Officers and Managers (the Financial Officer Code of Ethics). The Financial Officer Code of Ethics, which applies to Brunswick s Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, and other Brunswick employees designated by the Board, sets forth standards to which these officers are to adhere in areas such as conflicts of interest, disclosure of information and compliance with law. The Financial Officer Code of Ethics supplements *Making the Right Choice: The Brunswick Guide to Conduct in the Workplace* (the Guide), which applies to all employees, officers and directors. The Financial Officer Code of Ethics is available at *www.brunswick.com/company/governance/codeofethics.php* and the Guide is available at *www.brunswick.com/company/ethics/index.php* or in print upon request by any Brunswick shareholder. If it grants a waiver of the policies set forth in the Financial Officer Code of Ethics or the Guide, Brunswick will, to the extent required by applicable law or regulation, disclose that waiver by making an appropriate statement on its Web site.

Shareholder Communications

The Principles provide that Brunswick shareholders may, at any time, communicate in writing with the Board, the presiding director, or the non-management directors as a group, by writing to such director(s) at: Brunswick Corporation, 1 N. Field Ct., Lake Forest, IL 60045; Attention: Corporate Secretary s Office (fax no. 847-735-4433; email: *corporate.secretary@brunswick.com*). Copies of written communications received at this address will be provided to the Board, the presiding director or the non-management directors as a group unless such communications are considered, in consultation with the non-management directors, to be improper for submission to the intended recipient(s). Other interested parties may also use this procedure for communicating with the Board, individual directors or any group of directors.

Director Independence

The Principles require that independent directors must constitute a substantial majority of the Board and that no more than two members of management may serve on the Board at the same time. The Principles and the rules of the New York Stock Exchange both provide that no director will be considered to be independent unless the Board affirmatively determines that the director has no material relationship with Brunswick (either directly or as a proprietor, partner, shareholder or officer of an organization that has a relationship with Brunswick). In the Principles, the Board has adopted the following categorical standards to use in determining whether a relationship between Brunswick and a director (or an organization with which a director is affiliated) will be material for the purpose of independence determinations:

- If a director is also a director, an executive officer or employee of a business organization that has made payments to, or received payments from, Brunswick for property or services, in an amount which, in any of the last three fiscal years, exceeds the greater of $1.0 million or 2 percent of the business organization s consolidated gross revenues;

- If a member of the director s immediate family is a director or an executive officer of a business organization that has made payments to, or received payments from, Brunswick for property or services, in an amount which, in any of the last three fiscal years, exceeds the greater of $1.0 million or 2 percent of the business organization s consolidated gross revenues;

- If a director or a member of the director s immediate family is also a proprietor or managing partner of any organization, or a director or executive officer of another corporation that is indebted to Brunswick, or to which Brunswick is indebted, and the total amount of either organization s indebtedness to the other, in any of the last three fiscal years, exceeds 2 percent of the total consolidated assets of either Brunswick or such other corporation; and

- If a director or a member of the director s immediate family serves as an officer, director or trustee of a charitable organization to which Brunswick makes discretionary charitable contributions, and Brunswick s charitable contributions to such organization in any of the last three fiscal years exceed the greater of $1.0 million or 2 percent of the charitable organization s consolidated gross revenues.

In addition, the Principles provide that a director will not be considered independent if:

- the director is, or within the prior three years has been, an employee of Brunswick or any of its affiliates;

- a member of the director s immediate family is, or within the prior three years has been, an executive officer of Brunswick or any of its affiliates;

- the director has a business relationship with Brunswick or is a proprietor, partner, controlling shareholder or executive officer of any organization that has a business relationship with Brunswick, unless in any such case, the Board determines that the relationship is not such that it will interfere with the director s exercise of independent business judgment;

- a director or a member of the director s immediate family is, or within the prior three years has been, employed as an executive officer of any other business organization where any of Brunswick s present executive officers serve on that business organization s compensation, nominating or directors affairs committee;

- the director is, or within the prior three years has been, a partner or employee of a present or former internal or external auditor of Brunswick and personally worked on Brunswick s audit during that time;

- a member of the director s immediate family has certain specified relationships with Brunswick s internal or external auditor; or

- the director or an immediate family member of the director has received, during any 12-month period within the prior three years, more than $100,000 in direct compensation from Brunswick (excluding fees for Board and Board committee service, pension or other forms of deferred compensation for prior service).

Applying the standards described above and set forth in the Principles, and considering all relevant facts and circumstances, the Board has made an affirmative determination that each non-management director has no material relationship with Brunswick and is otherwise independent.

Board Committees

The Board of Directors has Audit, Finance, Human Resources and Compensation, Nominating and Corporate Governance and Qualified Legal Compliance Committees. Each of these committees is comprised solely of independent directors, as that standard is determined both in the Principles and in the New York Stock Exchange Listed Company Manual. Each of the Committees may, at its sole discretion and at Brunswick s expense, obtain advice and assistance from outside legal, financial, accounting or other experts and advisors. The principal responsibilities of each of these committees are described generally below, and in detail in their respective Committee Charters, which are available at *www.brunswick.com/company/governance/committees.html* or in print upon request by any Brunswick shareholder.

Audit Committee

Members of the Audit Committee are Mr. Zimmerman (Chairman), Mr. Callahan and Mr. Stayer. The Board has determined that Mr. Callahan and Mr. Zimmerman are Audit Committee financial experts, as such term is defined by the rules of the Securities and Exchange Commission.

The Audit Committee assists the Board in overseeing Brunswick s accounting, auditing and reporting practices, its internal controls and the integrity of its financial information. The Audit Committee maintains free and open communication with, and meets separately at each regularly scheduled Board meeting with, the Board, the independent registered public accounting firm, the internal auditors and management.

The Audit Committee met nine times during 2006.

Finance Committee

Members of the Finance Committee are Mr. Schipke (Chairman) and Mr. Archibald. The Finance Committee assists the Board in overseeing Brunswick s financial structure, financial policies and procedures, capital expenditures and capital expenditure budgets, and proposals for corporate financing, short-term and long-term borrowings, the declaration and distribution of dividends, material investments and divestitures, tax strategy, insurance coverage and risk management, as well as the funding and performance of Brunswick s pension funds.

The Finance Committee met six times during 2006.

Human Resources and Compensation Committee

Members of the Human Resources and Compensation Committee are Mr. Fernandez (Chairman) and Mr. Phillips. The Human Resources and Compensation Committee s authority, which is discussed in detail in its charter, includes, among other duties, the following responsibilities:

- Annually review and approve goals and objectives relative to Brunswick s senior executives; together with the Chairman and Chief Executive Officer, evaluate the performance of senior executives in light of these criteria; and oversee management development and succession planning.

- Review on an annual basis, and make recommendations to the Board of Directors regarding, the compensation (including salary, bonus and other cash compensation) of the Chairman and Chief Executive Officer.

- Approve equity awards to the Chairman and Chief Executive Officer and compensation (including salary, bonus, stock options and other equity-based and other incentive compensation) to be paid to other senior executives, and authorize senior executives to approve awards to employees who are not senior executives based upon criteria established by the Committee.

The Committee meets in conjunction with regularly scheduled meetings of the Board of Directors and as otherwise required. Meeting materials are sent to members of the Committee six to seven days prior to the meeting. Major issues are typically reviewed during two meetings prior to being approved. For example, anticipated performance against Brunswick

Performance Plan and Strategic Incentive Plan performance criteria; potential award issues such as automatic deferrals; suggested changes to equity award terms and conditions; and proxy statement disclosures, are reviewed at the Committee s December meeting and finalized at the February meeting. Meetings are regularly attended by the Chairman and Chief Executive Officer, and Vice President and Chief Human Resources Officer. At each meeting, the Committee meets in executive session.

The Human Resources and Compensation Committee delegates to the Chairman and Chief Executive Officer responsibility for developing funding formulas for Brunswick divisions, and for evaluating senior executives performance and overseeing their development and succession planning. The Committee delegates to Brunswick s senior executives authority to allocate equity awards to employees who are not senior executives based on criteria established by the Committee, and to Brunswick s Human Resources department responsibility to oversee policies for the administration of compensation and benefit plans.

The Chairman and Chief Executive Officer is responsible for establishing strategies to achieve the Company s objectives. To ensure that executive compensation is consistent with those objectives, the Chairman and Chief Executive Officer is responsible for making recommendations to the Committee regarding the following: compensation goals and principles; the peer group of companies to be used to set compensation; selection of performance targets for incentive plans, with input from other senior executives; performance rating and compensation actions to be taken; and salary increases, incentive awards and equity grants for senior executives.

Brunswick s senior executives have no role in setting outside director compensation. The Nominating and Corporate Governance Committee of the Board of Directors has responsibility for recommending director compensation design to the Board of Directors for review and action. Brunswick s Human Resources department provides the Nominating and Corporate Governance Committee with director compensation data as reported in proxy statements, including data relating to peer group and other similarly sized companies, as well as data from published surveys.

The Human Resources and Compensation Committee has engaged Deloitte to provide advice on various aspects of Brunswick s executive compensation programs, including selecting an appropriate peer group, evaluating incentive plan performance criteria and targets, reviewing benchmarking methodology, and providing updates on trends and technical developments. The Committee meets with the consultant in executive session on a regular basis.

The Human Resources and Compensation Committee met five times during 2006.

Nominating and Corporate Governance Committee

Members of the Nominating and Corporate Governance Committee are Mr. Bleustein (Chairman), Ms. Dunaway and Mr. Phillips. The Nominating and Corporate Governance Committee assists the Board in overseeing policies and programs designed to ensure Brunswick s compliance with the highest ethical standards and with all applicable legal and regulatory requirements. Together with the Human Resources and Compensation Committee, it oversees the annual review of the Chairman and Chief Executive Officer s performance. The Committee also decides on director compensation, and guidelines to ensure appropriate diversity of perspective, background and experience in Board membership. The Committee identifies, screens, interviews and recommends to the Board potential director nominees, and oversees other matters related to Board composition, performance, standards, size and membership.

The Nominating and Corporate Governance Committee met five times during 2006.

Qualified Legal Compliance Committee

Members of the Qualified Legal Compliance Committee are Mr. Bleustein (Chairman), Mr. Phillips and Mr. Stayer. The Qualified Legal Compliance Committee receives and investigates reports made to it concerning possible material violations of law or breaches of fiduciary duty by the Company or any of its officers, directors, employees or agents. No reports were made to the Qualified Legal Compliance Committee, and therefore it did not meet, during 2006.

Director Nominations

The Nominating and Corporate Governance Committee is responsible for identifying, screening, personally interviewing and recommending director nominee candidates to the Board. The Nominating and Corporate Governance Committee considers nominees on the basis of their integrity, experience, achievements, judgment, intelligence, personal character, ability to make independent analytical inquiries, willingness to devote adequate time to Board duties, and the likelihood that they will be willing to serve on the Board for a sustained period. Additional consideration is given to achieving an overall balance of diversity of perspectives, backgrounds and experiences in Board membership.

The Nominating and Corporate Governance Committee will consider qualified director candidates who are suggested by shareholders in written submissions to Brunswick s Secretary at Brunswick Corporation, 1 N. Field Ct., Lake Forest, Illinois 60045; Attention: Corporate Secretary s Office (fax no. 847-735-4433; email: *corporate.secretary@ brunswick.com*). Any recommendation submitted by a shareholder must include the name of the candidate, a description of the candidate s educational and professional background, contact information for the candidate and a brief explanation of why the shareholder believes the candidate is suitable for election. The Nominating and Corporate Governance Committee will apply the same standards in considering director candidates recommended by shareholders as it applies to other candidates.

In addition to recommending director candidates to the Nominating and Corporate Governance Committee, shareholders may also, pursuant to procedures established in the By-laws, directly nominate one or more director candidates to stand for election at an annual or special meeting of shareholders. For an annual meeting of shareholders, a shareholder wishing to make such a nomination must deliver written notice of the nomination to Brunswick s Secretary not less than 90 days or more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. For a special meeting of shareholders, a shareholder wishing to make such a nomination must deliver written notice of the nomination to Brunswick s Secretary not later than the close of business on the tenth day following the date on which notice of the meeting is first given to shareholders. In either case, a notice of nomination submitted by a shareholder must include information concerning the nominating shareholder and the shareholder s nominee(s) as required by the By-laws.

STOCK HELD BY DIRECTORS, EXECUTIVE OFFICERS

AND PRINCIPAL SHAREHOLDERS

Each director and nominee for director, each executive officer listed in the summary compensation table, and all directors and executive officers as a group, owned the number of shares of Brunswick Common Stock set forth in the following table, with sole voting and investment power except as otherwise indicated:

Name of Individual or Persons in Group	Number of Shares Beneficially Owned as of March 1, 2007	Percent of Class
Nolan D. Archibald	60,357 (1)	*
Jeffrey L. Bleustein	53,816 (1)	*
Michael J. Callahan	77,491 (1)	*
Cambria W. Dunaway	875 (1)	*
Manuel A. Fernandez	53,211 (1)	*
Peter B. Hamilton	335,038 (2)(3)	*
Peter Harf	57,799 (1)(4)	*
Dustan E. McCoy	106,026 (2)	*
Graham H. Phillips	17,899 (1)	*
Roger W. Schipke	42,407 (1)	*
Ralph C. Stayer	39,622 (1)	*
Lawrence A. Zimmerman	8,484 (1)	*
Peter G. Leemputte	73,031 (2)	*
Patrick C. Mackey	93,352 (2)	*
Marschall I. Smith	22,092 (2)	*
All directors and executive officers as a group..	1,189,765	1.3%

* Less than 1 percent

(1) Includes the following shares of Brunswick Common Stock issuable to non-employee directors, receipt of which has been deferred until the date of the director s retirement from the Board: Mr. Archibald 30,357 shares, Mr. Bleustein 30,816 shares, Mr. Callahan 41,548 shares, Ms. Dunaway 509 shares, Mr. Fernandez 38,211 shares, Mr. Harf 36,088 shares, Mr. Phillips 11,899 shares, Mr. Schipke 42,407 shares, Mr. Stayer 5,842 shares, Mr. Zimmerman 4,984 shares and all non-employee directors as a group 242,661 shares. Also includes the following shares of Brunswick Common Stock issuable pursuant to stock options exercisable within 60 days of March 1: Messrs. Archibald 15,000 shares, Bleustein 18,000 shares, Callahan 15,000 shares, Fernandez 15,000 shares, Harf 19,211 shares, Phillips 6,000 shares and Stayer 9,180 shares. None of these shares has been pledged as security.

Excludes 15,158 shares of Brunswick Common Stock issuable to Mr. Stayer, receipt of which has been deferred. Mr. Stayer will be entitled to receive these deferred shares in predetermined installments, which will commence at varying times in accordance with his election following his retirement from the Board of Directors.

(2) Includes the following shares of Brunswick Common Stock issuable pursuant to stock options exercisable within 60 days of March 1: Messrs. Hamilton 236,500 shares, Leemputte 27,000 shares, Mackey 58,500 shares, McCoy 65,500 shares, Smith 17,750 shares and all executive officers as a group 509,750 shares.

Includes the following shares of Brunswick Common Stock held by the Brunswick Savings Plan as of December 31, 2006: Messrs. Hamilton 774 shares, Leemputte 54 shares, Mackey 2,031 shares, McCoy 99 shares, Smith 54 shares and all executive officers as a group 3,761 shares.

Includes the following restricted units of Brunswick Common Stock issuable to officers on which the restrictions would lapse if they should leave: Messrs. Mackey 7,783 shares, McCoy 7,808 shares, Leemputte 1,704 shares and Smith 4,288 shares. Excludes the following shares of

Brunswick Common Stock issuable to officers, receipt of which has been deferred: Messrs. Leemputte 2,941 shares, Mackey 40,288 shares, McCoy 54,743 shares, Smith 60,710 shares, and all executive officers as a group 214,057 shares. These officers will be entitled to receive these deferred shares in predetermined installments which will commence at varying times, in accordance with each officer s individual election.

None of these shares has been pledged as security.

(3) Mr. Hamilton retired as Vice Chairman and President Brunswick Boat Group effective January 31, 2007.

(4) Mr. Harf retired from the Board effective March 13, 2007.

Those shareholders known to Brunswick that beneficially own more than 5 percent of Brunswick s outstanding Common Stock are:

Name and Address of Beneficial Owner	Shares Beneficially Owned as of December 31, 2006	Percent of Class
Barclays Global Investors, NA and certain of its affiliates.. 45 Fremont Street San Francisco, California 94105	8,408,177 [(1)]	9.2%
Putnam, LLC and certain of its affiliates.. One Post Office Square Boston, Massachusetts 02109	5,853,676 [(2)]	6.4%
Eminence Capital, LLC and certain of its affiliates.. 65 East 55th Street, 25th Floor New York, New York 10022	4,757,700 [(3)]	5.2%

(1) This information is based upon a Schedule 13G filed by Barclays Global Investors, NA and certain of its affiliates (Barclays) with the Securities and Exchange Commission on January 25, 2007. The Barclays reporting entities are Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited. Barclays has sole voting power over 7,593,568 shares and sole dispositive power over 8,408,177 shares, and does not have shared voting power or shared dispositive power over any shares.

(2) This information is based upon a Schedule 13G filed by Putnam, LLC and certain of its affiliates (Putnam) with the Securities and Exchange Commission on February 13, 2007. The Putnam reporting entities are Putnam, LLC, Marsh & McLennan Companies Inc., Putnam Investment Management, LLC and The Putnam Advisory Company, LLC. Putnam has shared voting power over 86,500 shares, and does not have sole voting power, sole dispositive power or shared dispositive power over any shares.

(3) This information is based upon a Form 13F filed by Eminence Capital, LLC ("Eminence") with the Securities and Exchange Commission for the period ended December 31, 2006. Eminence has sole voting power and sole dispositive power over 4,757,700 shares.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The commentary below is designed to answer the following questions regarding Brunswick s compensation programs for named executive officers (NEOs):

What are the objectives of the compensation programs?

What are the programs designed to reward?

What is each element of compensation?

Why does the company choose to pay each element?

How does the company determine the amount (and, where applicable, the formula) for each element?

How does each element and the company s decisions regarding that element fit into the overall compensation objectives and affect decisions regarding other compensation elements?

Brunswick s compensation program and key design principles are as follow:

Objectives: Compensation programs for NEOs, as well as other senior managers, are designed to:

Attract, retain and motivate the talent required to ensure Brunswick s continued success.

Ensure that compensation reinforces achievement of business objectives, execution of strategy and is consistent with results.

Reward performance in a given year, achievements over a sustained period and expectations for the future.

Reinforce Brunswick s pay-for-performance culture.

Design Principles: Brunswick believes a substantial portion of senior management compensation should be at risk. Compensation programs are designed to ensure that a significant percentage of total compensation is contingent on achievement of performance goals.

Compensation should be competitive with other employment opportunities.	A competitive compensation program is critical in attracting and retaining talent Brunswick needs to achieve its established objectives.
	Competitiveness of management compensation is assessed every two years using survey data from Hewitt Associates LLC. For 2006, Brunswick examined the executive compensation practices of a peer group of 21 publicly traded companies with annual revenue comparable to Brunswick to assess the competitiveness of total compensation and pay mix. Most, but not all, of these companies have manufacturing operations. Brunswick s target pay mix and total compensation opportunities are designed to reflect the median of this peer group. Criteria used to identify the peer group

include:

Size: Companies with revenues that generally range from one-half to two times Brunswick s revenue. Peer data is adjusted to represent a company that approximates Brunswick s revenue. To validate the appropriateness of this peer group a second group of companies with market capitalizations similar to Brunswick was identified. It was determined that there were only minor differences in compensation as reported in proxies between the two groups of companies. The data for the identified peer group was determined to be reliable for making 2007 pay decisions.

Business Focus: Publicly traded companies with representation weighted towards manufacturing, but including other industries, because the competition for talent is broader than just manufacturing companies.

Survey Participation: Peers must be participants in the Hewitt executive compensation survey.

Consistency: The peer group should be relatively stable. Companies are eliminated because of being acquired, lack of participation in the Hewitt survey, poor performance over an extended period of time, or growth beyond two times Brunswick s revenue. For 2006, two companies were added to the peer group to replace one company that was acquired and one that no longer participates in the Hewitt survey.

Competitive Compensation

The current peer group consists of:

American Standard	Cooper Industries	Harley-Davidson	Newell Rubbermaid
AutoZone	Cummins	Ingersoll Rand	PACCAR
Avery Dennison	Dover Corporation	ITT Industries	Parker Hannifin
Ball Corporation	Fortune Brands	Masco Corporation	Rockwell Automation
Black & Decker	W.W. Grainger	MeadWestvaco	Textron
Clorox			

As noted above, because Brunswick is the largest publicly traded company in the marine industry, and has revenues 22 times those of the only other publicly traded boat manufacturer, Brunswick does not have any direct competitors that are appropriate to include in the compensation peer group.

Internal equity is important.

Brunswick establishes similar compensation ranges for positions with similar characteristics and scope of responsibility, including NEO positions, even if such ranges differ somewhat from comparable positions in other companies. Balancing competitiveness with internal equity helps support management development and movement of talent throughout Brunswick worldwide. Differences in actual compensation between employees in similar positions will reflect individual performance, future potential and business unit results. This effort also helps Brunswick promote talented managers to positions with increased responsibilities and provides meaningful developmental opportunities.

Both business unit and individual performance should be rewarded.

Recognizing both business unit and individual performance in compensation helps reinforce the importance of working together and Brunswick s pay-for-performance philosophy. Incentives for NEOs are funded based on overall corporate and / or division performance and are allocated based on individual contributions. Business unit performance drives incentive funding in recognition that the collective efforts of business unit employees determine organizational morale, the level of service to customers and shareholder value creation. Individual performance also is assessed to reward contributions to business unit success.

While targeted at the median of Brunswick s peer group, actual total compensation can vary significantly from year-to- year and between business units and individuals within a given year based on performance.

Brunswick has a strong pay-for-performance culture; however, setting incentive performance targets in a company that experiences cyclical financial results is difficult. Historically, the marine industry has been negatively affected early in economic downturns and has lagged other industries during periods of economic recovery. As a result, Brunswick has experienced significant swings in funding from one performance period to another. Annual incentive funding as a percent of target from 2002 through 2006 ranged from a high of 200 percent of target to a low of 0 percent. Funding during this period averaged 90 percent of target. For a given year, funding also can vary significantly between business units. In 2006, annual incentive funding for Brunswick s business units ranged from a high of 159 percent of target to a low of 0 percent. Based on contribution to business unit success, individual awards typically range from a high of 140 percent of an individual s prorated portion of the funding pool to a low of 0 percent.

Brunswick is the largest company in the marine industry with a unique cyclical financial performance profile. Accordingly, Brunswick does not believe that there is an appropriate group of companies against which to assess relative performance.

At higher management levels, compensation increasingly focuses on longer-term

Brunswick s senior executives are responsible for setting and achieving long-term strategic goals. In support of this responsibility, compensation is weighted towards rewarding long-term value creation for shareholders. For Mr. McCoy approximately 70 percent and for other senior executives 45 percent of targeted total compensation is based on long-term performance. For Mr. McCoy approximately 15 percent and for other senior executives 25 percent of targeted total compensation is based on annual performance against established performance criteria.

shareholder value creation.

For senior executives with corporate-wide responsibilities, incentive metrics are based on Brunswick s overall results. For senior managers within a division, annual incentive metrics are based on division results with long- term incentives based on Brunswick s overall results.

What is Rewarded: NEO compensation is designed to reward achievement of: budgeted financial results, identified strategic initiatives important to future success, Brunswick stock price performance, and individual performance.

Brunswick Value Added (BVA)	BVA is defined as Economic Earnings (Economic Capital x Cost of Capital), where Economic Earnings = Earnings from Operations Taxes + After-Tax Interest on Operating Leases; Economic Capital = Total Assets (excluding Cash and Net Taxes Receivable) - Current Liabilities (excluding Short Term Debt) + Present Value of Operating Leases; and Cost of Capital = 10.0 percent Brunswick believes that over time, changes in BVA closely correlate with stock price performance. The use of BVA as an incentive plan metric is consistent with Brunswick s strategy to deploy cash in a manner that increases returns on investments. BVA recognizes that sustained profits in excess of the cost of capital reinforce Brunswick s obligation to create value for shareholders over the long term. This is especially important in a cyclical industry. Because BVA is used within Brunswick in assessing business opportunities and focusing management on the key components of value creation, managers receive extensive training on the business decisions and management practices that affect BVA.
Earnings Per Share (EPS)	EPS is used in recognition of both the effect it can have on Brunswick s stock price and the prevalence of its use by other companies. EPS is widely tracked and reported by analysts and used as a measure to evaluate Brunswick s performance.
Revenue Growth (discontinued for 2007)	For periods beginning in 2005 and 2006, revenue growth was used as one of Brunswick s performance criteria. In setting revenue growth targets, the Human Resources and Compensation Committee considered both organic growth and anticipated growth from acquisitions. Revenue growth will not be used in 2007. Revenue growth has been very difficult to use as a performance measure because of the cyclical nature of the marine industry. Over the last five years, Brunswick s annual revenue growth has ranged from -12 percent in a down cycle to 27 percent in an up cycle.
Operating Margin (discontinued for 2007)	Operating margin has been used as a business unit performance measure at the division level. Like revenue growth within a cyclical industry, operating margin can vary significantly based on the strength of the economy and can be extremely difficult to use within an incentive plan. As a result, operating margin will not be used as a performance metric for 2007.
Strategic Factors	Since 2001, improvement in four strategic factors has been used in determining incentive funding: Employee Satisfaction / Commitment, as reflected in bi-annual employee surveys. Customer Satisfaction, as assessed by an outside provider. J.D. Power results and other assessments of Brunswick are also considered. Innovation: the percentage of Brunswick s sales from new products or improved processes. Market Share, as assessed by using published information. For 2007, there will also be a focus on international business development.

Stock Price Appreciation	Stock price appreciation is a significant component of total shareholder return and thus shareholder value creation. Stock price appreciation affects the value of Brunswick s equity grants, including Stock-Settled Stock Appreciation Rights, Restricted Stock Units and Performance Shares.
Individual Performance	Individual performance is assessed via the Performance Management Process (PMP). PMP was created to help employees better understand overall Brunswick and division specific goals and their role in meeting these goals. PMP is an effective tool in assessing performance against individual goals.
	Once Brunswick and division goals are established, salaried employees (including NEOs) set individual goals aligned with the Company s strategic direction. Goals are established for specific initiatives, major responsibilities key to their position, critical success factors, and individual developmental requirements. Critical success factors are a combination of knowledge, skills and behaviors that are crucial to successful performance. They include: driving continuous improvement, teamwork, driving execution, satisfying the customer and developing self and/or others. At year end, salaried employee performance is assessed against established goals. The CEO s performance is assessed by the Nominating and Corporate Governance Committee of the Board of

Individual Performance	Directors with input from all members of the Board of Directors. Performance for other NEOs is assessed by the CEO with a review by the Nominating and Corporate Governance Committee. Individual performance affects base salary increases, annual incentives and equity grant decision making.

Elements of Compensation: A summary of each element of compensation; why it was chosen; how the amount and formula are determined; and how decisions regarding that element fit into the overall compensation objectives and affect decisions regarding other compensation elements is presented below.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Base Salary	Provides a minimum level of pay that sustained individual performance warrants. This is especially important for a company in a cyclical business, such as Brunswick s marine businesses.	Reflects: Peer median for positions with similar responsibilities and business size. An executive s responsibilities and performance, as demonstrated over time. Salaries are reviewed annually to ensure they are externally competitive, reflect individual performance and are internally equitable relative to other Brunswick executives.	Foundation of total pay, as incentives and benefits are a function of base salary. Links performance and pay. A competitive base salary in a cyclical industry is important to attracting and retaining talent.
Annual Incentive: Brunswick Performance Plan (BPP) There are approximately 325 individuals who were named participants in 2006.	Primary compensation element to recognize performance against established business goals and reward accomplishments within a given year.	Target funding is set at planned performance for the year as approved by the Board of Directors. In 2006 for corporate headquarters employees, EPS and BVA were weighted 40 percent each and revenue growth 20 percent. There was no payout if the EPS performance threshold was not achieved, even if supported by BVA and revenue growth performance. While uncapped, funding has traditionally been limited to 200 percent of an individual s target BPP award. Performance criteria are not changed during the year. For 2007, revenue growth has been eliminated as a performance criterion for corporate headquarters employees and BVA and EPS are weighted 60 percent and 40 percent, respectively. Performance criteria for division presidents and employees for 2006 were based 75 percent on division BVA and 25 percent division operating margin performance. The Human Resources and Compensation Committee may adjust funding for unusual items, but has not done so for corporate headquarters funding, except to reduce or cap funding. Target funding is equal to the sum of individual target incentives (salary paid in the year times individual percentage target) for each participant. The key reference for establishing individual BPP targets for NEOs and other employees is peer median total actual annual cash compensation minus median base salary as a percent of median base salary. For 2006,	Signals what is important and what is expected for the year from the standpoint of corporate, divisional, unit and/or individual results. Focuses executives on achieving current objectives, which are necessary to attain longer term goals. Establishes appropriate performance and annual incentive relationships. Rewards business units and individuals within those units for actual performance.

percentage of salary targets for NEOs range from 75 percent to 100 percent. For 2007, Mr. McCoy s target is being increased to 120 percent to more closely reflect peer opportunities.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
BPP		Individual awards are determined on a discretionary basis using overall funding as approved by the Human Resources and Compensation Committee and the individual's pro rata portion of approved funding as adjusted for individual performance.	
		For 2006, performance did not meet threshold payout criteria for corporate headquarters and most divisions. Performance levels that were required to support target funding in 2006 are as follow:	

For Mr. McCoy, Mr. Leemputte, Mr. Smith, other headquarters BPP participants, Mr. Hamilton and Mr. Mackey:

	100% Target
EPS	$3.39
BVA (millions)	$120
Revenue Growth	6.3%

For Life Fitness participants, including Mr. Hamilton:

	100% Target
BVA (millions)	$0.2
Operating Margin	10.7%

Life Fitness BPP funded at 87 percent of target. Mr. Hamilton received a BPP award for 2006 that reflected his tenure with Life Fitness prior to assuming responsibility for the Boat Group on March 13, 2006.

Long-Term Incentives: The cyclical nature of the marine industry affects the design of long-term incentives in several ways. Because Brunswick is a cyclical company, the Human Resources and Compensation Committee structured long-term incentives to reward financial performance over two or more years and reflect changes in stock price. Retention of key executives is also important, especially because Brunswick has no defined benefit pension plan for employees hired after April 1, 1999.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Strategic Incentive Plan (SIP)	Rewards achievement of mid-term (2 year) financial and performance goals against strategic indicators of success.	SIP operates similar to BPP. Performance levels that were required to support target funding for 2005-2006 are as follow:	Reinforce management team building.

There are approximately 175 individuals who were named participants in 2006.	Two year performance cycles are consistent with lengthening the time perspective for more senior executives, yet recognize the difficulty in establishing performance criteria in a cyclical business for periods longer than two years.	**100% Target** BVA (millions) $3.15 EPS $7.00 BVA and EPS were weighted 30 percent each and strategic factors (see above under the heading What is Rewarded) were weighted 40 percent. For headquarters employees, strategic factor performance is based on the average strategic factor goal achievement of the divisions. Funding for divisional employees is based on achievement of its strategic factors and corporate EPS and BVA performance. There is no payout if the EPS performance threshold is not achieved.	Focus management team on creating value for shareholders. Use of financial and strategic objectives is more easily influenced by executive performance than is stock price.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
SIP	Basing 60 percent of funding on overall company performance increases support for management to work cooperatively as a team in order to optimize value creation for shareholders and incentive funding for participants. Long-term incentives paid in cash helps ensure stock dilution is managed below competitive run rates and dilution levels while rewarding management for financial results within the performance period.	Performance criteria are not changed during the performance period. There is no funding cap. Awards for the 2004 2005 performance period paid in 2006 in excess of 200 percent of target were awarded in the form of restricted stock units with three-year vesting (see below). Awards represent the individual s prorated portion of approved funding based on their SIP target award. The target SIP opportunity as a percent of salary for NEOs equals their BPP targets (75 percent to 100 percent in 2006). For the 2005 2006 performance period, the 60 percent financial portion of SIP did not fund. Strategic factors funded at an average of 42 percent with a range of 30 percent to 50 percent by division. SIP participants may defer both BPP and SIP awards (see below under the heading Post-Employment Compensation).	
Stock-Settled Stock Appreciation Rights (SARs) Approximately 350 individuals received awards in 2006.	Maximize the reward for management team successfully driving stock price appreciation. Widely used compensation element. Four-year ratable vesting and 10-year term are consistent with further lengthening the time perspective for senior managers. SARs are more efficient than stock options as they eliminate the need for those exercising to arrange financing of the exercise	For NEOs, SAR grant size is based on several factors: Peer median total direct target compensation minus target cash compensation (peer median base salary plus individual BPP and SIP targets). This determines the dollar value of the total equity grant target and is consistent with targeting median pay for consistently solid company and individual performance. 75 percent of targeted equity value is to be delivered by SAR grants. Grant size represents a fixed share target that is established every two years when competitive peer compensation information is updated. The fixed share target for each NEO is determined by dividing the target SAR value by a representative value per share using the average share price for the previous two years. Using the average share price for the previous two years leverages price performance. For example, the resulting fixed share grant target is larger than it would otherwise have been if the current price were used in an appreciating market and smaller when the stock	Increase linkage to shareholders by rewarding stock price appreciation and tying wealth accumulation to performance. Reinforce team performance. Lengthen planning time perspective. Provide retention through the vesting period.

price and reduce the number of issued shares.	price is declining.
Accounting for stock-settled SARs is the same as for non-qualified stock options. Accounting treatment did not influence the decision to use SARs.	The 2003 Stock Incentive Plan does not permit grant repricing. Grants have a 10-year term with 25 percent vesting per year.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Restricted Stock Units (RSUs) Approximately 80 individuals receive grants annually.	Three-year cliff vesting consistent with lengthening the time perspective for more senior executives. Support retention of individuals deemed critical to future success. Recognize effect business cycles have on stock price. It is desirable to have a portion of an executive s equity at risk, even if in the short-term the stock price might be below the price on the grant date.	Annual RSU grants for NEOs represent 25 percent of targeted equity value. A current stock price is used to determine the number of RSUs to be granted. As a result the RSU grant size varies year to year with changes in stock price. Dividend equivalents are granted in the form of additional RSUs. Thus, dividends are only distributed on shares that actually vest. RSUs vest three years from date of grant. Retention RSUs awarded to NEOs in 2006 vest 100 percent at the end of four years from date of grant.	Reinforce retention of senior executives and team performance.
In 2006, 176 individuals received RSUs as part of their SIP award.	Delivered the portion of 2004 - 2005 SIP awards that were greater than 200 percent of target.	The stock price on date of grant was used to determine the number of RSUs representative of SIP award values greater than 200 percent of target.	Changes in stock price after paying SIP awards in excess of 200 percent of target in RSUs further affect the value of the award. It also lengthens the time from the beginning of the performance period to full value realization from two years to five years (two for performance period, three for RSU cliff vesting).
Performance Shares (PSs) Only Mr. McCoy receives PS awards.	PSs rather than RSUs are granted to Mr. McCoy to further increase his pay for performance relationship.	The number of performance shares to be earned is based on average BPP payout percent for corporate headquarters employees for each of 2006, 2007 and 2008 multiplied by 20,000, the target award level. For example, if BPP payout percent is 0 percent in 2006, 100 percent in 2007 and 110 percent in 2008, average payout percent is 70 percent and 14,000 performance shares will be earned. If Mr. McCoy terminates employment before the end of the performance period, all performance shares will be forfeited, except prorata distribution at end of performance period in the event of death or disability.	Recognize Mr. McCoy s role in achieving overall results.

Stock Ownership Requirements

Brunswick adopted fixed share ownership requirements for senior executives because of the difficulty of establishing share ownership guidelines based on salary level multiples in a cyclical company.

Management Level	Ownership Requirement	Approximate Salary Multiple @ $35 per share (2 year average)
Chief Executive Officer	175,000	7.5 X
Large Group Presidents and Chief Financial Officer	45,000	3.0 X
Other Group Presidents, Controller, Chief Legal Counsel, Chief Human Resources Officer	17,500	2.0 X
Other Officers	10,000	1.5 X

Senior executives must satisfy these stock ownership requirements within five years from the later of attainment of executive officer status or promotion to a position with a higher ownership requirement. Compliance with these ownership requirements is reviewed by the Board of Directors annually. Executive officers not meeting the requirements have their SIP award automatically deferred into RSUs (with 20 percent premium). The 20 percent premium is consistent with the 20 percent premium provided to those electing to defer SIP into RSUs. The elective premium was adopted to encourage senior executives to acquire a meaningful ownership interest in the company. Shares owned include: shares directly owned, shares held in trust, share equivalents held in qualified defined contribution plan, and RSUs. Unexercised stock options or stock-settled SARs or outstanding performance shares are not counted as owned.

If a senior executive still does not meet the ownership requirements after deferral of an SIP award into RSUs, BPP is deferred into RSUs without a premium. There is no policy in place for hedging the economic risk of ownership. All NEOs currently have stock ownership levels that meet or exceed these requirements.

Claw Backs: The Human Resources and Compensation Committee can require the repayment of all or a portion of previous BPP and SIP awards or gains from stock options and SARs exercised or RSUs distributed as deemed appropriate by the Committee in the event of misconduct that causes a restatement of financial results.

Post-Employment Compensation: Post-employment compensation elements that are not offered to salaried employees in general are summarized below.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Supplemental Salaried Pension Plan	Ensure employees with covered compensation or pension above IRS defined benefit qualified plan limits receive their intended pension benefits.	The difference between an employee s earned pension and that permissible by IRS qualified limits is paid on a non-qualified basis by the company and is subject to the claims of creditors.	Provide a retirement benefit that is consistent with those who are not affected by the IRS compensation and benefit limits and reflects an individual s full career and covered pay earned.

There are approximately 35 active employees with non-qualified benefits.
Mr. Hamilton is the only NEO.

To attract Mr. Hamilton in 1995 from his previous employer, an additional 12.5 years of credited service will be used in calculating his non-qualified pension benefit. The supplemental benefit is to be offset by his pension from his previous employer.

Compensation Element	**Why Chosen**	**How Designed and Determined**	**Role Within Total Compensation**
Brunswick Restoration Plan There are approximately 300 participants in this plan.	Ensure employees with covered compensation or contributions above IRS qualified defined contribution plan limits receive their intended pension benefit.	If an employee elects to participate in the Restoration Plan, 401(k) contributions and Brunswick match on these contributions above the IRS limit are credited to this plan. Brunswick profit sharing for eligible employees is automatically credited to their Restoration Plan account.	Provide a retirement benefit consistent with that of employees who are not affected by the IRS compensation and benefit limits. Without the Restoration Plan, these individuals would not be able to take full advantage of this defined contribution pension program.
Elective Deferral There are approximately 170 SIP participants eligible to defer.	Provide eligible employees the opportunity to save in a tax-advantaged manner.	SIP participants may elect to defer up to 100 percent of Brunswick Performance Plan (BPP) and Strategic Incentive Plan (SIP) awards. SIP awards can be deferred as RSUs or cash equivalents. Cash equivalents are treated as if credited to one of the qualified defined contribution investment alternatives. Deferred RSUs are credited with a 20 percent premium that vests after three years. The 20 percent premium is intended to encourage stock ownership.	Encourage ownership of Brunswick stock thus increasing alignment of economic interests with shareholders. Provide flexibility in the individual management of long-term savings.
Automatic Deferral Messrs. McCoy, Mackey and Hamilton currently have Automatic Deferrals.	Defer compensation that would otherwise be non-tax-deductible to Brunswick by reason of IRC Section 162(m) to six months after termination. Deferred amounts earned and vested prior to 12/31/2004 are remitted to the executive at such time as tax-deductible by Brunswick.	Senior executives are required to defer receipt of compensation in excess of $1.5 million in order to limit non-deductible compensation under Section 162(m) of the tax code. Financial returns on required automatic deferrals are based on either (i) an interest rate equal to the greater of the prime rate at J.P. Morgan Chase plus 4 percentage points, or Brunswick s short-term borrowing rate or (ii) securities selected by the participant. The 4 percent increment is used to recognize that the NEO does not receive the BPP and / or SIP award otherwise earned until some time in the future, typically on retirement or other termination of employment. If the executive has an underlying elective deferral in place where SIP deferrals into RSUs were selected, the automatic deferral is treated as if in RSUs with a 20 percent premium.	Preserve tax deductibility of senior executives compensation by Brunswick.
Split-Dollar Life Insurance Replacement 12 individuals, including all NEOs, have replacement policies.	To provide an insured death benefit and allow for capital accumulation, split-dollar life insurance was implemented. Changes in tax law and Sarbanes-Oxley eliminated ability to offer split-dollar life insurance policies. To meet existing obligations, policies were restructured in January 2004.	Policies were restructured to eliminate loans and approximate as closely as possible the death benefit and cash value at maturity of the policy as originally issued. Premiums were reduced because they no longer had to support repayment of loans. Payments to executives to pay policy premium were structured so that the net present value cost to Brunswick of the program did not increase. Pre-2003 loans on these policies were grandfathered under Sarbanes-Oxley and remain outstanding. The loans must be repaid when the policy matures.	Executives with split-dollar life insurance replacements do not receive basic life insurance coverage. Executives hired since 2003 are provided only with basic life insurance coverage on the same terms as other salaried employees.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Terms and Conditions of Employment 15 individuals have agreements, including all NEOs.	Describes duties of executive and memorializes at will nature of employment relationship. Sets out a detailed listing of the executive s compensation, benefits, and perquisites. Consolidates restrictive covenants that exist during and after employment (e.g. non- competition, confidentiality, non-solicitation). Establishes limits of compensation and benefits to which an executive is entitled in the event of termination.	Agreements define severance terms if Brunswick terminates the executive or the executive terminates for Good Reason: Termination following a Change in Control: severance payment of three times the sum of the annual base salary and target BPP and SIP incentives and other benefits and perquisites for up to 36 months, including retirement benefits. Benefits will be reduced by up to 10 percent to avoid tax gross-up on benefits in excess of Section 280G excessive parachute payment limit. Termination other than following a Change in Control: severance payment of two times for Chairman and Chief Executive Officer and 1.5 times for other NEO s sum of base salary, BPP (at discretion of Chairman and Chief Executive Officer for other NEOs), and other benefits and perquisites for up to 24 months for the Chairman and Chief Executive Officer and 18 months for other NEOs, including retirement benefits. Brunswick may terminate the Terms and Conditions of Employment on six months notice, except that after a Change in Control, Brunswick may not terminate until the second anniversary of the Change in Control. There are no severance benefits for those terminating due to death, long-term disability or for cause. Change In Control means any of the following: An acquisition by any individual, entity, or group of beneficial ownership of 25 percent or more of Brunswick s common stock; The consummation of a merger, reorganization, consolidation, or sale or other disposition of all or substantially all of the assets of the company; or The approval by shareholders of a complete liquidation or dissolution of the Company. Good Reason means any of the following without the executive s express written consent: Material breach of provisions of employment agreement; Failure to provide benefits generally provided to similarly situated senior executives;	Help assure retention of executive experience, skills, knowledge, and background for the benefit of the Company, and the efficient achievement of the long-term strategy of the Company. Reinforce and encourage continued attention and dedication to duties without distraction arising from the possibility of a Change in Control. Have senior executives agree to provisions relating to non- competition and non-solicitation.

Compensation Element	Why Chosen	How Designed and Determined	Role Within Total Compensation
Terms and Conditions of Employment		Reduction in authority or responsibility; Reduction in compensation; Relocation beyond a reasonable commuting distance; and Following a Change in Control, failure to obtain a satisfactory agreement from any successor to assume and agree to abide by employment agreement terms. These reasons protect executives from being effectively demoted or having their pay reduced in an effort to force them to quit.	

Perquisites: Outlined below are the benefits for NEOs that are not offered to salaried employees in general. These low-cost, but highly valued perquisites help NEOs effectively use their limited personal time; recognize they are on call 24 hours a day, seven days a week; help enhance their understanding of Brunswick products; and protect their physical and financial health and thus Brunswick s investment in their development.

Compensation Element	Why Chosen	How Designed and Determined
Financial Planning	To ensure executives fully understand the value of their compensation and are in compliance with all tax filings.	NEOs can either participate in a financial counseling program with The Ayco Company, L.P. or receive a payment in April for financial planning, tax return preparation and estate planning.
Executive Product Program	The product program is designed to encourage the use of Brunswick products to enhance understanding and appreciation of Brunswick s businesses and identify product integration opportunities.	NEOs are provided with Brunswick products up to specified dollar values.
Boat Usage	To encouraging active participation in boating.	Boats made available to select senior executives are used for marketing purposes, hosting of civic events and personal use.
Excess Liability Insurance	To protect officers against the risks of operating a boat the excess liability insurance program was reestablished.	$5 million in additional coverage for claims made for bodily injury, property damage, and personal injury liability above required underlying coverage (worldwide coverage for homes, cars and boats).
Executive Physical Program	A physical program for senior executives was established in 2005 to protect Brunswick s investment in its leadership.	Senior executives are required by the Human Resources and Compensation Committee to have an annual physical examination and have rapid access to healthcare providers.
Home Security		Home security systems are installed and maintained.

	To provide security for the Chairman and Chief Executive Officer and the Vice Chairman and President - Boat Group.	
Personal Aircraft Usage	To provide for ready access to many remote plant locations Brunswick owns several aircraft.	The Chairman and Chief Executive Officer and his family may use Company aircraft for personal use up to 50 hours per year, with Company-paid tax gross-up on imputed income. Above 50 hours of personal usage there is no tax gross-up.

Compensation Element	Why Chosen	How Designed and Determined
Personal Aircraft Usage	Personal use of corporate aircraft by the Chairman and Chief Executive Officer: Provides for the security of the Chairman and Chief Executive Officer. To use limited personal time effectively. If available, other NEOs may use company aircraft for personal purposes.	Other NEOs may use Company aircraft as approved by the Chairman and Chief Executive Officer.

Total Compensation Decisions:
Total compensation decisions normally are made at the first meeting of the Human Resources and Compensation Committee and Board of Directors each year. Decisions with respect to the previous year s performance and resulting BPP and SIP awards, as well as equity awards and base salary increases for the current year, are made at this meeting. Base salary increases are generally effective the first full pay period in April.

Brunswick has not adopted a formal policy regarding the granting of equity awards when the company is in possession of material non-public information. However, equity grant terms and conditions and number of shares for NEOs and other senior executives are reviewed and approved by the Human Resources and Compensation Committee at this first meeting of the year, which is generally held the week after Brunswick publicly discloses its financial results for the previous year. The effective date of NEO equity grants is one week after the Human Resources and Compensation Committee meeting. The exercise price is set at 100 percent of the closing price on the effective date. Equity grants for new hires, if applicable, are typically made on their first day of employment. A 2006 review of equity grant dates for a 10 year period did not identify any equity grant backdating issue at Brunswick.

Compensation Committee Report

The Human Resources and Compensation Committee reviewed and discussed the Compensation Discussion & Analysis with the Chairman and Chief Executive Officer, and Senior Vice President and Chief Financial Officer.

Based on that review and discussion, the Committee recommended to the Board of Directors of Brunswick Corporation that the Compensation Discussion and Analysis be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and the Company s Proxy Statement to be filed in conjunction with the Company s 2007 Annual Meeting.

Manuel A. Fernandez, Chairman

Graham H. Phillips

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation earned by each of the Company s NEOs for the year ended December 31, 2006.

Name and Principal Position	Year	Salary (1)	Bonus	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (5)	All Other Compensation (6)	Total
Dustan E. McCoy Chairman and Chief Executive Officer	2006	$800,000	$ -	$814,173	$636,321	$328,000	$94,034	$903,430	$3,575,958
Patrick C. Mackey Executive Vice President, Chief Operating Officer - Marine and President - Mercury Marine Group	2006	$499,615	$ -	$540,710	$166,199	$204,800	$89,776	$346,753	$1,847,853
Peter G. Leemputte Senior Vice President and Chief Financial Officer	2006	$443,262	$ -	$455,207	$186,258	$181,700	$ -	$238,509	$1,504,936
Marschall I. Smith Vice President, General Counsel and Secretary	2006	$395,946	$ -	$259,812	$40,015	$121,800	$ -	$243,899	$1,061,472
Peter B. Hamilton (7) Vice Chairman and President - Brunswick Boat Group	2006	$530,961	$ -	$360,404	$85,143	$290,137	$758,308	$190,580	$2,215,533

(1) The amounts shown in this column constitute actual base salary paid. Annual salaries as of December 31, 2006, are as follow:

McCoy	Mackey	Leemputte	Smith	Hamilton
$800,000	$505,000	$450,000	$400,000	$535,000

(2)

The amounts shown in this column constitute the accrued 2006 expense relating to restricted stock units (RSUs) and performance shares granted under the 1991 and 2003 Stock Incentive Plans. Shares are expensed pursuant to Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (FAS 123R). For assumptions used in the valuation of such awards, see Note 15 to the financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006. For further information on these awards, see the Grants of Plan-Based Awards table.

(3) The amounts shown in this column constitute the accrued 2006 expense of stock-settled stock appreciation rights (SARs) and non-qualified stock options granted under the 1991 and 2003 Stock Incentive Plans. For assumptions used in the valuation of such awards, see Note 15 to the financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006. For further information on these awards, see the Grants of Plan-Based Awards table.

(4) The amounts shown in this column constitute payments made under the annual Brunswick Performance Plan (BPP) and long-term Strategic Incentive Plan (SIP). For the 2006 BPP, Mr. Hamilton received a payout related to his time as President - Life Fitness. Payments under these plans for each of the NEOs are as follow:

	McCoy	Mackey	Leemputte	Smith	Hamilton
BPP	$ -	$ -	$ -	$ -	$72,437
SIP	$328,000	$204,800	$181,700	$121,800	$217,700

From these payments, the following amounts were deferred in February 2007:

	McCoy	Mackey	Leemputte	Smith	Hamilton
BPP	$ -	$ -	$ -	$ -	$ -
SIP	$254,576	$ -	$ -	$ -	$ -

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(5) The amounts shown in this column include:

For Messrs. McCoy, Mackey and Hamilton, above-market interest paid on required automatic deferrals. Senior executives with compensation in excess of $1.5 million that is not qualified under Section 162(m) of the Internal Revenue Code automatically have such excess compensation deferred. Deferred cash equivalent balances are credited with (i) an interest rate equal to the greater of the prime rate at JP Morgan Chase plus 4 percent, or Brunswick s short-term borrowing rate or (ii) returns on securities selected by the officer. Interest earned on securities selected by the officer is a market rate of return and is therefore not included in this column. Interest credited to deferred cash equivalent balances in excess of 120 percent of the IRS Applicable Federal Rate is as follows:

	McCoy	Mackey	Hamilton
2006	$ 94,034	$ 89,776	$ 285,895

The aggregate of the increase in actuarial values of benefits under Brunswick s Salaried Pension Plan and Supplemental Pension Plan, totaling $472,413 for Mr. Hamilton.

(6) The amounts shown in this column include the following:

Defined Contribution Plan Contributions: Brunswick contributions to defined contribution programs, including both qualified and non-qualified (to provide for contributions in excess of IRS limits) per the contribution formulas detailed in the Narrative to Non-Qualified Deferred Compensation Table:

	McCoy	Mackey	Leemputte	Smith	Hamilton
Qualified					
2006	$22,000	$22,000	$22,000	$22,000	$3,960
Non-Qualified					
2006	$202,684	$159,362	$149,506	$97,035	$5,597

As noted in footnote 5, only Mr. Hamilton has a defined benefit pension benefit.

Financial Counseling: Brunswick offers financial counseling services, including tax preparation, to officers through The Ayco Company, L.P. Messrs. McCoy and Hamilton are reimbursed for financial counseling provided by firms with which they have had ongoing relationships. Prior to 2006, Mr. Mackey had also received reimbursement for services outside the Ayco program. Mr. Mackey s 2006 fees include additional fees for his initiation into the program. The incremental cost to the Company attributable to these services is based on the actual dollars reimbursed in the cases of Messrs. McCoy and Hamilton, and for all others the actual contracted rate charged by The Ayco Company to perform these services and is as follows:

	McCoy	Mackey	Leemputte	Smith	Hamilton
2006	$18,000	$12,625	$8,950	$8,950	$13,000

Product Program: In 2005, Brunswick adopted a product program for officers. This program is designed to encourage the use of Brunswick products to enhance understanding and appreciation of Brunswick s businesses and identify product integration opportunities. Officers who serve as directors, the Chief Financial Officer and the Presidents of Mercury and the Boat Group are each eligible to select products with an aggregate annual value of up to $15,000. Other officers are each eligible to select products with an aggregate annual value of up to $10,000 annually. Previously, unused amounts could be carried over to subsequent years, but were subject to forfeiture if not used by March 15, 2007. This carryover feature has since been removed from the program. The incremental cost of products selected, based on dealer costs, and gross-ups for the payment of taxes in the current period, are as follows (Mr. McCoy s Cost total includes amounts carried over from previous years):

McCoy		Mackey		Leemputte		Smith		Hamilton	
Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up

2006	$25,265	$16,461	$ -	$ -	$11,187	$7,288	$3,486	$2,271	$8,464	$5,515

Boat Program: Brunswick encourages active participation in boating on the part of Company officers. Boats made available to officers are used for marketing purposes, hosting of civic events, personal usage and to enhance product knowledge. The amounts reported are based on incremental cost to the Company, which consists of incremental dealer discounts plus slip fees, fuel and other incidentals, such as cleaning and repairs. The incremental cost to the Company attributable to personal usage, and gross-ups for the payment of taxes in the current period, are as follows:

	McCoy		Mackey		Leemputte		Smith		Hamilton	
	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up
2006	$156,518	$66,160	$38,111	$18,983	$1,109	$468	$1,676	$710	$463	$199

Personal Use of Company Aircraft: The amounts reported are based on incremental cost to the Company, which consists of an hourly cost of operating the aircraft, including fuel, maintenance and other variable costs such as meals, lodging and overtime for the crew and other incidentals, such as cleaning and repairs. The incremental cost to the Company attributable to personal use of corporate aircraft, including travel to meetings of the boards of directors of other companies, and gross-ups for the payment of taxes in the current period, are as follows:

	McCoy		Mackey		Leemputte		Smith		Hamilton	
	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up	Cost	Gross-up
2006	$108,298	$18,915	$24,210	$3,573	$16,120	$ -	$ -	$ -	$5,783	$691

Relocation: Mr. McCoy s promotion to Chairman and Chief Executive Officer resulted in his relocation from Knoxville, Tennessee to Lake Forest, Illinois. Brunswick s standard relocation policy would have provided Mr. McCoy with a three year cost of living allowance, paid annually, totaling $138,822 net of taxes. This allowance is largely attributable to higher state taxes and housing costs in Illinois. In lieu of this allowance, a one time payment of $100,000 was made to Mr. McCoy. Additionally, direct costs related to his moving expenses totaled $95,176.

Life Insurance: The Sarbanes-Oxley Act of 2002 prohibits loans to executive officers. This loan prohibition combined with changes in taxation of split-dollar life insurance forced Brunswick to restructure existing split-dollar life insurance policies. Policies were restructured in 2004 such that the net present value cost to Brunswick did not increase. Executives are now responsible for payment of annual premiums and keeping their policies current. Annual payments to executives related to premium payments are as follow:

	McCoy	Mackey	Leemputte	Smith	Hamilton
2006	$38,865	$65,776	$25,159	$106,049	$130,935
Policy Maturity Date	7/1/2014	1/1/2016	1/1/2022	7/1/2016	7/1/2014

These individuals are not provided any life insurance through the Company s basic life program for employees.

Other Benefits: Each of the NEOs also received some or all of the following perquisites and other personal benefits, none of which exceeded $25,000 or 10 percent of the perquisites and other personal benefits for that NEO: (a) an annual executive physical examination, (b) a home security system, (c) excess liability insurance, (d) spouse travel, and (e) a holiday gift. The aggregate of gross-ups provided to each NEO in relation to these items is as follows:

	McCoy	Mackey	Leemputte	Smith	Hamilton
2006	$8,962	$333	$285	$285	$2,190

(7) Mr. Hamilton retired from Brunswick effective January 31, 2007.

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non- Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	**Grant Date**	**Threshold**	**Target**	**Maximum**	**Threshold**	**Target**	**Maximum**	**All Other Stock Awards: Number of Shares of Stock or Units**	**All Other Option Awards: Number of Securities Underlying Options**	**Exercise or Base Price of Option Award ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards**
Dustan E. McCoy	1/1/2006	$200,000(1)	$800,000(1)	$1,600,000(1)							
	1/1/2006	$200,000(2)	$800,000(2)	$1,600,000(2)							
	2/14/2006								150,000(3)	$39.15	$5,782,500
	2/14/2006							6,450(4)			$252,517
	2/14/2006				5,000(5)	20,000(5)	26,000(5)				$783,000
Patrick C. Mackey	1/1/2006	$124,904(1)	$499,615(1)	$999,230(1)							
	1/1/2006	$126,250(2)	$505,000(2)	$1,010,000(2)							
	2/14/2006								20,000(3)	$39.15	$783,000
	2/14/2006							6,425(4)			$251,539
	2/14/2006							12,500(6)			$489,375
	2/14/2006							2,973(7)			$116,393
Peter. G. Leemputte	1/1/2006	$110,817(1)	$443,269(1)	$886,538(1)							
	1/1/2006	$112,500(2)	$450,000(2)	$900,000(2)							
	2/14/2006								20,000(3)	$39.15	$783,000
	2/14/2006							5,020(4)			$196,533
	2/14/2006							2,200(6)			$86,130
	2/14/2006							422 (7)			$16,521
	2/14/2006							15,000(8)			$587,250
Marschall I. Smith	1/1/2006	$74,243(1)	$296,972(1)	$593,944(1)							
	1/1/2006	$75,000(2)	$300,000(2)	$600,000(2)							
	2/14/2006								12,000(3)	$39.15	$469,800
	2/14/2006							2,899(4)			$113,496
	2/14/2006							1,300(6)			$50,895
	2/14/2006							3,450(7)			$135,068
Peter B. Hamilton	1/1/2006	$132,741(1)	$530,963(1)	$1,061,926(1)							
	1/1/2006	$133,750(2)	$535,000(2)	$1,070,000(2)							
	2/14/2006								20,000(3)	$39.15	$783,000
	2/14/2006							5,480(4)			$214,542
	2/14/2006							2,200(6)			$86,130

(1) Consists of awards under the 2006 Brunswick Performance Plan (BPP). Of the NEOs, only Mr. Hamilton earned an amount under this plan in 2006. The amount earned is reported as Non-Equity Incentive Plan Compensation in the Summary Compensation Table.

(2) Consists of awards under the Strategic Incentive Plan (SIP) with respect to a two-year performance period ending December 31, 2007. The value of the award is determined at the end of the two-year performance period by measuring actual performance vs. established financial and strategic goals.

(3) Consists of SARs awarded under the 2003 Stock Incentive Plan. Awards vest one-fourth on each of the first through fourth anniversaries of the grant date.

(4) Consists of RSUs awarded under the 2003 Stock Incentive Plan. These RSUs were granted based on the actual performance of the 2004-2005 Strategic Incentive Plan, which performed at 245 percent on average, but was capped at 200 percent for the cash payout. These RSUs were granted in lieu of the additional 45 percent cash payout. Awards vest one-third on each of the first through third anniversaries of the grant but are not released until the third anniversary of the grant, subject to continued employment or in the event of a Change in Control.

(5) Consists of performance shares awarded under the 2003 Stock Incentive Plan. Performance shares convert to shares of Brunswick common stock at the end of a three-year performance period. The final award is determined by multiplying 20,000 by the three-year average percent payout of our 2006, 2007 and 2008 BPP, not to exceed 26,000 shares.

(6) Consists of RSUs awarded under the 2003 Stock Incentive Plan as part of these executive officers annual compensation package. Awards vest in full on the third anniversary of the grant date, subject to continued employment or in the event of a Change in Control.

(7) Consists of RSUs awarded under the 2003 Stock Incentive Plan. This award represents a 20 percent premium credited to deferral of the cash portion of the 2004-2005 SIP incentive the executive elected to defer in RSUs. Awards vest in full on the third anniversary of the grant date, subject to continued employment, or in the event of a Change in Control.

(8) Consists of RSUs awarded under the 2003 Stock Incentive Plan as part of a one-time retention grant for select NEOs. Awards vest in full on the fourth anniversary of the grant date, subject to continued employment or in the event of a Change in Control.

Narrative to Summary Compensation Table and Plan-Based Awards Table

Terms and Conditions of Employment

In January 2007, executive Terms and Conditions of Employment were modified to incorporate a double trigger (effective termination of employment by the Company following a Change in Control of the Company) for senior executives other than the Chairman and Chief Executive Officer, rather than the modified single trigger (executive decision to terminate employment following a Change in Control of the Company) in earlier agreements. In addition to incorporating a double trigger, agreements were revised to include all employment terms and conditions. The Terms and Conditions of Employment confirm that employment is at will and outline the senior executives roles and responsibilities and the compensation and benefits provided in exchange for their services. Eligibility for certain perquisites is also addressed.

The Terms and Conditions of Employment also contain provisions regarding termination of employment. Please see *Other Potential Post-Employment Payments* for an additional discussion of the Terms and Conditions of Employment.

Awards

Grants of RSUs were made to all NEOs in 2006 pursuant to the Brunswick 2003 Stock Incentive Plan. RSUs were granted in the following four categories: annual grants, retention grants, SIP deferral premiums and 2004-2005 SIP payout grants above the 200 percent earned award. Annual RSU grants and SIP deferral premium RSU grants vest three years from the date of grant, while SIP RSU grants above the 200 percent earned award vest one-third on each of the first through third anniversaries of the date of grant, and retention grants vest four years from the date of

grant. The number of RSUs awarded under the annual, SIP deferral premium and SIP payout above 200 percent is as follows: Mr. McCoy, 6,450 units; Mr. Mackey, 21,898 units; Mr. Leemputte, 7,642 units; Mr. Smith, 7,649 units; and Mr. Hamilton, 7,680 units. Mr. Leemputte received 15,000 units under the retention grant and was the only NEO who received this grant. Dividend equivalencies are credited to RSUs during the vesting period.

A performance share grant of 20,000 shares was made in 2006 to Mr. McCoy. The number of performance shares earned is to be based on the average BPP payout percent for corporate headquarters employees for each of 2006, 2007 and 2008 multiplied by 20,000 (the target award level) to a maximum of 130 percent of target. The 2006 BPP payout was 0 percent.

Grants of SARs were made to all NEOs in 2006 pursuant to the Brunswick 2003 Stock Incentive Plan. SARs are granted annually and vest one-fourth on each of the first through fourth anniversaries of the grant date. The number of shares represented by the SARs awarded under the annual grant is as follows: Mr. McCoy, 150,000 shares; Mr. Mackey, 20,000 shares; Mr. Leemputte, 20,000 shares; Mr. Smith, 12,000 shares; and Mr. Hamilton, 20,000 shares.

In 2006, potential awards were granted to the NEOs under the 2006-2007 SIP. Payout of SIP is contingent on attainment of established financial and strategic goals at the end of the two-year performance period. For the 2006-2007 performance period, BVA and EPS comprise the financial goals. The strategic goals consist of initiatives tied to customer satisfaction, market share growth, product innovation and employee satisfaction.

In 2006, potential awards were granted to the NEOs under the 2006 BPP. Payout of BPP is contingent on attainment of established financial goals. Messrs. McCoy, Mackey, Leemputte, Smith and Hamilton are on the corporate BPP. Their BPP measures were weighted 40 percent on EPS, 40 percent on BVA and 20 percent on revenue growth. Mr. Hamilton was on a divisional BPP while serving as President - Life Fitness. His BPP measures were weighted 75 percent on BVA and 25 percent on operating margin. In 2006, only Mr. Hamilton earned an award under the 2006 BPP based on his time as President-Life Fitness. This award is reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards [1]					Stock Awards [2]			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock Held That Have Not Vested	Market Value of Shares or Units of Stock Held That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Va lue of Unearned Shares, Units or Other Rights That Have Not Vested
Dustan E. McCoy	3,000	3,000	-	$21.83	4/30/2013	12,559	$400,619	20,000	$638,000
	6,000	6,000	-	$38.36	2/18/2014	1,654	$52,749		
	5,000	15,000	-	$46.12	1/31/2015	6,570	$209,572		
	-	150,000	-	$39.15	2/14/2016	25,464	$812,293		
						5,248	$167,400		
Patrick C. Mackey	22,500	-	-	$19.92	2/6/2011	12,559	$400,619		
	6,000	3,000	-	$21.83	4/30/2013	1,654	$52,749		
	6,000	6,000	-	$38.36	2/18/2014	12,732	$406,147		
	5,000	15,000	-	$46.12	1/31/2015	6,544	$208,759		
	-	20,000	-	$39.15	2/14/2016	3,028	$96,604		
Peter G. Leemputte	1,750	1,750	-	$21.83	4/30/2013	12,559	$400,619		
	2,500	1,250	-	$26.55	8/15/2013	1,654	$52,749		
	3,000	6,000	-	$38.36	2/18/2014	2,241	$71,482		
	5,000	15,000	-	$46.12	1/31/2015	5,113	$163,108		
	-	20,000	-	$39.15	2/14/2016	15,278	$487,376		
						1,064	$33,942		
						363	$11,564		
						430	$13,707		
Marschall I. Smith	1,750	1,750	-	$21.83	4/30/2013	6,279	$200,310		
	1,750	3,500	-	$38.36	2/18/2014	1,033	$32,968		
	3,000	9,000	-	$46.12	1/31/2015	1,324	$42,239		
	-	12,000	-	$39.15	2/14/2016	3,514	$112,096		
						2,052	$65,447		
						2,605	$83,085		
						2,952	$94,180		
Peter B. Hamilton	30,000	-	-	$19.9375	7/28/2008	8,372	$267,080		
	40,000	-	-	$22.875	4/21/2009	1,240	$39,562		
	45,000	-	-	$18.875	7/26/2010	2,241	$71,482		
	90,000	-	-	$19.92	2/6/2011	5,582	$178,055		
	9,000	3,000	-	$21.83	4/30/2013				
	6,000	6,000	-	$38.36	2/18/2014				
	3,750	11,250	-	$46.12	1/31/2015				
	-	20,000	-	$39.15	2/14/2016				

(1) Options vest at a rate of 25 percent per year over the first four years of the 10-year option term.

(2) Annual RSU grants vest three years from date of grant. RSUs awarded under the annual SIP premium vest one-third per year for three years. Retention RSUs awarded in 2006 vest 100 percent at the end of four years from the date of grant. For vesting of the performance share grant awarded to Mr. McCoy, see the discussion of performance shares under Compensation Element in the Compensation Discussion & Analysis.

OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards (1)	
Name	Number of Shares Acquired On Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Dustan E. McCoy	-	-	12,533	$491,544
Patrick C. Mackey	-	-	14,616	$576,663
Peter G. Leemputte	-	-	13,553	$483,213
Marschall I. Smith	-	-	9,775	$387,417
Peter B. Hamilton	-	-	12,533	$491,544

(1) Includes the following number of vested RSUs awarded under the annual SIP premium deferred on February 4, 2003, and vesting on January 13, 2006, using a market price of $40.86/share:

McCoy	Mackey	Leemputte	Smith	Hamilton
-	2,083	1,020	2,464	-
$ -	$85,119	$41,695	$100,680	$ -

PENSION BENEFITS

Name	Plan Name	Number of Years Credited Service (1)	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
Peter B. Hamilton	Salaried Pension Plan	11.08	$830,099	$ -
	Supplemental Salaried Pension Plan	23.58	$3,698,268	$ -

(1) Under an agreement with Brunswick, Mr. Hamilton s years of service credited under the Supplemental Salaried Pension Plan include credit for 12.5 years of service with a previous employer. Mr. Hamilton s pension under this plan will be reduced by the pension he receives from that employer. The values shown in the above table include this reduction.

Narrative to Pension Benefits Table

The Salaried Pension Plan is a non-contributory plan providing for benefits following retirement under a formula based upon age, years of participation in the plans up to 30 years and the average of the three highest consecutive years earnings (salaries, annual BPP and commissions, but excluding payouts under the SIP). Participation in the salaried pension plan is frozen, with no new participants being added after April 1, 1999.

Assumptions used in determining the present value of Mr. Hamilton s accumulated benefit are as follow:

Retirement at age 65
Pre- and Post-Retirement Mortality according to the 1994 GAM table for annuity benefits
Pre- and Post-Retirement Mortality as specified in Revenue Ruling 2001-62 for lump sum benefits
5.75 percent discount rate for annuity benefits

4.73 percent interest rate (the November 2005 30-year Treasury Rate) for lump sum benefits
12.5 years of service credit from his prior employer per his Special Service Agreement
Offset of $4,088 per month of accrued benefit from his prior employer

NON-QUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY [(1)]	Registrant Contributions in Last FY	Aggregate Earnings in Last FY [(2)]	Aggregate Withdrawals / Distributions	Aggregate Balance at Last FYE
Dustan E. McCoy	$1,463,127	$202,684	$(97,108)	$ -	$5,412,744
Patrick C. Mackey	$1,303,969	$299,041	$326,015	$ -	$6,087,364
Peter G. Leemputte	$154,833	$161,022	$10,925	$ -	$1,873,528
Marschall I. Smith	$749,204	$252,198	$(298,204)	$ -	$3,021,948
Peter B. Hamilton	$730,062	$5,597	$569,094	$ -	$5,088,429

(1) 100 percent of the amount for each NEO in this column is reported in the Summary Compensation Table.

(2) Amounts in this column include above-market interest previously reported in the Change in Pension Value and Non-qualified Deferred Compensation Earnings column of the Summary Compensation Table.

Narrative to Non-Qualified Deferred Compensation Table

The Non-Qualified Deferred Compensation table presents amounts deferred in 2006 under the Elective Incentive Deferred Compensation, Restoration (non-qualified plan to provide for contributions in excess of IRS limits) and Automatic Deferred Compensation plans plus effect of previous deferrals.

Under the Elective Incentive Deferred Compensation Plan participants may defer up to 100 percent of BPP and SIP awards. Deferrals may be made as cash or stock. Cash deferrals are credited with earnings and losses based on the rate of return of mutual funds selected by the executive. The investment options mirror those of the qualified 401(k) plan and are managed by the participant in the same manner. Stock deferrals are valued on the same bases as Brunswick common stock and are credited with a 20 percent premium with a three-year vesting period.

Under the Restoration Plan, participants may defer up to 40 percent of their base salary, BPP and SIP. Deferrals are credited with earnings and losses based on the rate of return of mutual funds selected by the executive. The investment options mirror those of the qualified 401(k) plan and are managed by the participant in the same manner. Brunswick contributes to this plan according to the following formulas:

Rewards Plan Participants (Messrs. McCoy, Mackey, Leemputte and Smith): One dollar for every dollar contributed by the employee, up to 3 percent of annual pay, and 50 cents for every dollar on the next 2 percent, plus an annual 3 percent profit sharing contribution and a variable profit sharing contribution up to 6 percent based on company performance.

Brunswick Retirement Savings Plan Participants (Mr. Hamilton): 5 percent of employee contributions, up to 6 percent of annual pay, plus an annual discretionary contribution of up to 25 percent of employee contributions as determined by the board of directors.

The rate of return in 2006 for each fund and the NEOs who selected those funds in the Elective Incentive Deferred Compensation Plan and the Restoration Plan are indicated in the following table:

Fund	Rate of Return	McCoy	Mackey	Leemputte	Smith	Hamilton
Brunswick Short Term Bond	4.4%	X	X	X	X	
Vanguard Total Bond Market Index	(0.7)%		X	X		
Vanguard Wellington	6.8%		X			
Royce Premier	4.7%					
Vanguard 500 Index	13.6%		X	X	X	
Vanguard Morgan Growth	7.2%				X	
Vanguard Windsor II	10.9%		X	X	X	
Vanguard Total Int l Stock Index	23.8%		X			X
Brunswick ESOP Company Stock	(21.7)%		X		X	

Under the Automatic Deferred Compensation Plan, participants are required to defer annual earnings in excess of $1.5 million to protect the tax deductibility to the Company of such compensation under Section 162(m) of the Internal Revenue Code. Deferred cash equivalent balances are credited with (i) an interest rate equal to the greater of the prime rate at JP Morgan Chase plus 4 percent, or Brunswick s short-term borrowing rate or (ii) returns on securities selected by the executive. If the executive has an election in place to defer their SIP into stock, automatic deferrals are deferred as stock and are credited with a 20 percent premium with a three-year vesting period.

Distributions of cash deferrals are made after the passage of six months post termination. Stock deferrals may be distributed upon vesting of the 20 percent premium, depending on the distribution selection made at the time of the deferral election.

Other Potential Post-Employment Payments

Brunswick has entered into severance and Change in Control agreements with certain of its senior executives, including each of the NEOs, incorporated in the Terms and Conditions of Employment.

Agreements

Under an agreement with Brunswick dated September 18, 2006, Mr. McCoy is entitled to certain severance benefits if his employment is terminated by Brunswick other than for cause or disability. The agreement defines termination to include resignation by Mr. McCoy for Good Reason, including a Change in Control of Brunswick or other substantial changes in the terms and conditions of Mr. McCoy s employment.

If a termination covered by the agreement occurs prior to a Change in Control, Mr. McCoy is entitled to a severance payment equal to two times the sum of (i) annual salary, (ii) targeted annual award under the BPP, and (iii) the Company s profit-sharing, 401(k) match and other Company contributions made on his behalf to the Company s tax-qualified and non-qualified defined contribution plans during the 12-month period prior to the date of termination. If the termination occurs after a Change in Control, Mr. McCoy is entitled to a severance payment equal to three times the sum of (i) annual salary, (ii) the larger of targeted annual award for the year of termination or the year in which the Change in Control occurs, (iii) most recent full-cycle target award under the Strategic Incentive Plan, and (iv) the Company s profit sharing, 401(k) match and other Company contributions made on his behalf to the Company s tax-qualified and non-qualified defined contribution plans during the 12-month period prior to the date of termination. In addition to these severance payments, Mr. McCoy would be entitled to receive: any annual BPP award earned for the preceding year that had not yet been paid at the time of termination; and benefits, financial counseling and excess liability insurance for up to two years (three years if there is a Change in Control). If termination occurs following a Change in Control, Mr. McCoy is entitled to a full gross-up for any excise tax on excess payments which exceed 110 percent of the safe harbor limit. In addition, Mr. McCoy would fully vest in all outstanding stock options, stock appreciation rights, performance shares and restricted stock unit awards.

The definition of Change in Control includes: (i) the acquisition of 25 percent or more of the outstanding voting stock of Brunswick by any person other than an employee benefit plan of Brunswick; (ii) a tender offer for stock of Brunswick that has not been negotiated and approved by Brunswick s Board of Directors once (a) the offeror owns or has accepted for payment 25 percent or more of the outstanding voting stock of Brunswick, or (b) three business days before the offer is to terminate, unless the offer is withdrawn first, if the offeror could own 50 percent or more of the outstanding voting stock of Brunswick as a result of the offer; (iii) the failure of the incumbent Board of Directors to constitute a majority of Brunswick s Board of Directors, excluding new directors who (a) are approved by a vote of at least 75 percent of the members of the incumbent Board of Directors and (b) did not join the Board following a contested election of directors; (iv) a merger of Brunswick with another corporation, other than a merger in which Brunswick s shareholders receive at least 75 percent of the voting stock outstanding after the merger or a merger effected to implement a recapitalization of Brunswick in which no person acquires more than 25 percent of Brunswick s voting stock; or (v) a complete liquidation or dissolution of Brunswick or sale of substantially all of Brunswick s assets.

The terms of the agreement require Mr. McCoy to consent to certain confidentiality, non-competition and non-solicitation provisions, and to execute a general release.

Brunswick s other NEOs are entitled to severance and Change in Control benefits substantially similar to those described above for Mr. McCoy, except that after a Change in Control, benefits are paid only upon effective termination, and in the case of effective termination prior to a Change in Control, the multiplier used to determine severance benefits is one and one-half times (1.5x), and payout under the BPP is at the discretion of the Chairman and Chief Executive Officer.

The terms of the agreement require the other NEOs to consent to certain confidentiality, non-competition and non-solicitation provisions, and to execute a general release.

Payment Obligations Under Termination Scenarios

The following table indicates the Company s payment obligations resulting from effective termination before and after a Change in Control. For purposes of the estimated payments following the table, a December 31, 2006, termination date is assumed.

	Termination prior to Change in Control	**Termination after Change in Control**
Payment equal to multiple of Base Salary, BPP and Defined Contribution plan contributions	X[(1)]	X[(2)]
Payment equal to multiple of SIP		X[(3)]
Stock Options/SARs		X[(4)]
RSUs		X[(5)]
Perquisites [(6)]	X	X
Benefits [(7)]	X	X
Excise Tax Gross-Up [(8)]		X

(1) Payment is two times the sum of salary, BPP and defined contribution plan contributions for Mr. McCoy and one and one half times the salary and defined contribution plan contributions for the other NEOs. The amounts payable to each NEO are as follow:

McCoy	**Mackey**	**Leemputte**	**Smith**	**Hamilton**
$3,940,548	$904,198	$924,501	$778,923	$816,945

Payment of BPP is at the discretion of the Chairman and Chief Executive Officer and would represent the following amounts if paid at target:

Mackey	Leemputte	Smith	Hamilton
$505,000	$450,000	$300,000	$535,000

(2) Payment multiple is three times for all NEOs. The amounts payable to each NEO would be as follow:

McCoy	Mackey	Leemputte	Smith	Hamilton
$5,910,822	$3,323,396	$3,199,002	$2,457,846	$3,238,889

(3) Payment multiple is three times for all NEOs. The amounts payable to each NEO would be as follow:

McCoy	Mackey	Leemputte	Smith	Hamilton
$2,400,000	$1,515,000	$1,350,000	$900,000	$1,605,000

(4) All unvested stock options/SARs immediately vest. The values of each NEO s unvested holdings as of December 29, 2006, using a market price of $31.90/share are as follow:

McCoy	Mackey	Leemputte	Smith	Hamilton
$30,210	$30,210	$24,310	$17,623	$ -

(5) All unvested RSUs and performance shares immediately vest. The values of each NEO s unvested holdings as of December 29, 2006, using a market price of $31.90/share are as follow:

McCoy	Mackey	Leemputte	Smith	Hamilton
$2,304,634	$1,068,275	$1,175,335	$393,203	$556,178

(6) In the case of termination prior to a Change in Control, financial planning and excess liability insurance continue for two years for the CEO and 1.5 years for the other NEOs. In lieu of continuing financial counseling and excess liability insurance, Brunswick may, in its discretion, make a cash payment to the NEO of equal value. The incremental cost to the company of financial planning and excess liability insurance delivered for each NEO is as follows:

McCoy	Mackey	Leemputte	Smith	Hamilton
$38,000	$14,925	$14,925	$14,925	$21,000

In the case of termination following a Change in Control, financial planning and excess liability insurance continue for three years for all NEOs. In lieu of continuing financial counseling and excess liability insurance, Brunswick may, in its discretion, make a cash payment to the NEO of equal value. The incremental cost to the company of financial planning and excess liability insurance delivered for each NEO would be as follows:

McCoy	Mackey	Leemputte	Smith	Hamilton
$57,000	$29,850	$29,850	$29,850	$42,000

(7) Each of the NEOs is entitled to Company-provided continuation of benefits for the NEOs and eligible dependents, on substantially the same terms of such coverage that are in existence immediately prior to the NEO s date of termination, until the earlier of: (A) the date on which the NEO becomes employed by another employer, or (B) the end of the NEO s severance period (which is 24 months for the Chairman and Chief Executive Officer and 18 months for the other NEOs in the case of termination prior to a Change in Control, and 36 months for all NEOs in the case of termination following a Change in Control); provided, however, that such coverage shall run concurrently with any coverage available to the NEO and eligible dependents under COBRA; and provided further, however, that the NEO shall immediately notify the Company if he becomes covered under Medicare or another employer s group health plan, at which time the Company s provision of medical coverage for the NEO and eligible dependents at the subsidized rate will cease.

The estimated present value of these benefits provided during the severance period, based on current COBRA rates, is as follows:

	McCoy	Mackey	Leemputte	Smith	Hamilton
Severance	$ 18,652	$ 13,989	$ 21,162	$ 19,729	$ 16,359
Change in Control	$ 27,938	$ 27,938	$ 43,324	$ 39,458	$ 32,718

As a defined benefit plan participant, Mr. Hamilton receives additional credited years of service for 18 months in the case of severance and 36 months in the case of a Change in Control. The estimated present value of Mr. Hamilton s additional pension benefit is as follows:

	Hamilton
Severance	$ 774,033
Change in Control	$ 2,507,957

(8) If any element of compensation or benefit provided to any NEO as a result of a Change in Control constitutes an excess parachute payment and subjects such NEO to the excise tax pursuant to Section 4999 of the Code, then the payment shall be grossed up to cover the excise tax and any additional income tax attributable to the excise tax gross-up. If it is determined that the aggregate amount of the payment that would be payable to the NEO does not exceed 110 percent of the safe harbor limit (amount that could be paid to the NEO without giving rise to any liability for excise taxes) no excise tax gross-up shall be made, and the payment to the NEO shall be reduced to the largest amount which would not cause any excise taxes to be payable by the NEO.

Had a termination occurred on December 31, 2006, as a result of a Change in Control, the following additional gross-up payments would be required:

McCoy	Mackey	Leemputte	Smith	Hamilton
$3,623,743	$2,100,770	$1,888,240	$1,179,558	$2,596,972

DIRECTOR COMPENSATION

Director Summary Compensation Table

The table below summarizes the Compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2006.

Name [(1)]	Fees Earned or Paid in Cash [(2)]	Stock Awards [(3)]	Option Awards [(4)]	Non-Equity Incentive Plan Compensation [(5)]	Change in Pension Value and Non-qualified Deferred Compensation Earnings [(6)]	All Other Compensation [(7)]	Total
Nolan D. Archibald	$100,084	$47,631	-	-	-	$30,084	$177,799
Jeffrey L. Bleustein	$110,023	$37,600	-	-	-	$5,539	$153,162
Michael J. Callahan	$119,966	$37,600	-	-	-	$3,189	$160,755
Cambria W. Dunaway	$ -	$16,250	-	-	-	$899	$17,149
Manuel A. Fernandez	$119,932	$49,567	-	-	-	$15,988	$185,487
Peter Harf	$107,494	$48,343	-	-	-	$1,905	$157,742
Graham H. Phillips	$107,495	$37,600	-	-	-	$17,843	$162,938
Roger W. Schipke	$107,495	$37,600	-	-	-	$25,399	$170,494
Ralph B. Stayer	$117,482	$49,330	-	-	-	$26,883	$193,695
Lawrence A. Zimmerman	$80,655	$55,088	-	-	-	$11,389	$147,132

(1) Dustan E. McCoy, the Company s Chairman and Chief Executive Officer, and Peter B. Hamilton, the Company s former Vice Chairman and President Brunswick Boat Group, are not included as they were employees of the Company and received no compensation for their services as directors. The compensation received by Messrs. McCoy and Hamilton as employees of the Company is shown in the Summary Compensation Table on page 25.

(2) Amounts in this column reflect 2006 annual fees earned by each non-employee director. The following table shows the amount of fees that each director elected to receive in the form of Common Stock rather than cash. As explained further below, directors may elect to take their cash fees in the form of currently distributable Common Stock (at market value) or deferred Common Stock (with a 20 percent premium).

Name	Fees Paid in Common Stock
Nolan D. Archibald	$100,084
Jeffrey L. Bleustein	$55,025
Michael J. Callahan	$59,966
Cambria W. Dunaway	$ -
Manuel A. Fernandez	$119,932
Peter Harf	$107,494
Graham H. Phillips	$53,747
Roger W. Schipke	$53,747
Ralph B. Stayer	$117,482
Lawrence A. Zimmerman	$80,655

(3) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year in accordance with FAS 123R. Amounts in this column include both the 2006 annual RSU grants and, for directors who have elected to receive a portion of their fee in deferred Common Stock, the portion of any such grant of deferred Common Stock that is attributable to the 20 percent premium that is applied in determining the size of all such grants. For assumptions used in the valuation of such awards, see Note 15 to the financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The grant date fair value of awards in this column is as follows:

Name	Grant Date Fair Value of 2006 Annual RSU Grant	Grant Date Fair Values of Shares Attributable to 20% Premium Applied to Deferral of Fees
Nolan D. Archibald	$37,600	$10,031
Jeffrey L. Bleustein	$37,600	$ -
Michael J. Callahan	$37,600	$ -
Cambria W. Dunaway	$16,250	$ -
Manuel A. Fernandez	$37,600	$11,967
Peter Harf	$37,600	$10,743
Graham H. Phillips	$37,600	$ -
Roger W. Schipke	$37,600	$ -
Ralph B. Stayer	$37,600	$11,730
Lawrence A. Zimmerman	$47,013	$8,075

The following table discloses certain additional information with respect to stock awards to non-employee directors:

Name	Aggregate Number of Stock Awards Outstanding at December 31, 2006
Nolan D. Archibald	2,052
Jeffrey L. Bleustein	2,052
Michael J. Callahan	2,052
Cambria W. Dunaway	509
Manuel A. Fernandez	2,052

Peter Harf	2,052
Graham H. Phillips	2,052
Roger W. Schipke	2,052
Ralph B. Stayer	2,052
Lawrence A. Zimmerman	1,273

(4) This column is not applicable because non-employee directors do not receive options.

(5) This column is not applicable because non-employee directors do not participate in any non-equity incentive plans.

(6) This column is not applicable because non-employee directors do not participate in any defined benefit or actuarial pension plans (including supplemental plans) or receive any dividends on deferred compensation.

(7) The amounts shown in this column include the value of the following perquisites and benefits provided to directors:
Product Program: The incremental cost to Brunswick of products provided, and gross-ups for taxes incurred in prior periods and paid in the current year, are as follows:

Name	Product Cost	Gross-up
Nolan D. Archibald	$12,702	$12,759
Jeffrey L. Bleustein	$ -	$ 3,892
Michael J. Callahan	$ -	$ 533
Manuel A. Fernandez	$ 2,457	$ 4,897
Peter Harf	$ -	$ -
Graham H. Phillips	$14,511	$ 1,296
Roger W. Schipke	$ 8,453	$12,408
Ralph B. Stayer	$12,874	$10,369
Lawrence A. Zimmerman	$10,490	$ -

Other Perquisites and Benefits: In addition to the availability of the product program described above, each director received a holiday gift from the Company valued at $899. In addition, Messrs. Archibald, Fernandez and Stayer took advantage of Brunswick s boat leasing program for directors that allowed them to lease boats without additional charges during 2006. Brunswick also paid travel expenses for the spouses of Messrs. Fernandez and Schipke in conjunction with Board meetings, paid life insurance premiums for Messrs. Callahan and Schipke under a former group term insurance policy, and paid a dental claim for Mr. Schipke under a former policy.

Narrative to Director Compensation Table

Annual Fee and Deferred Stock Awards. Directors who are not employees are entitled to an annual fee of $100,000. The presiding director and the director who is the chair of the Audit Committee are entitled to an additional fee of $20,000 each, and the other members of the Audit Committee are entitled to an additional fee of $10,000 due to the increased time commitment required of those directors. The director who chairs the Human Resources and Compensation Committee also is entitled to an additional annual fee of $10,000. The directors who chair the Finance and Nominating and Corporate Governance Committees are entitled to an additional annual fee of $7,500. Each director who serves on more than one committee is entitled to an additional annual fee of $7,500, unless the director already receives additional fees for serving on both committees. One-half of each director s annual fee, including additional annual fees, is paid in Brunswick Common Stock, the number of shares of which is determined by the closing price of Brunswick Common Stock on the date of the award. The receipt of these shares may be deferred until a director retires from the Board. Each director may elect to have the remaining one-half paid as follows:

In cash;

In Brunswick Common Stock distributed currently; or

In deferred Brunswick Common Stock with a 20 percent premium.

For directors who elect to receive deferred Brunswick Common Stock, the number of shares to be received upon retirement is determined by multiplying the cash amount by 1.2, then dividing that amount by the closing price of Brunswick Common Stock on the date of award.

Each non-employee director is also entitled to an annual grant, on the date of the Annual Meeting, of 1,000 Restricted Stock Units (RSUs), deferred until the director retires from the Board. A director joining the Board during the

3 13,506 (2,255) 11

Subordinated, interest-only	3,721	(3,005)	1	1,358	(140)	3	5,079	(3,145)	4
Agency MBS									
Residential	659,701	(3,286)	11	681,541	(9,155)	11	1,341,242	(12,441)	22
Commercial	56,937	(672)	3	-	-	-	56,937	(672)	3
Interest-only	90,386	(3,121)	14	9,643	(1,768)	3	100,029	(4,889)	17
Total	$975,840	$(22,443)	89	$799,814	$(40,879)	77	$1,775,654	$(63,322)	166

December 31, 2014

(dollars in thousands)

Unrealized Loss Position for Less than 12 Months

Unrealized Loss Position for 12 Months or More

Total

Estimated Fair Value

Unrealized Losses

Number of Securities

Estimated Fair Value

Unrealized Losses

Number of Securities

Estimated Fair Value

Unrealized Losses

Number of Securities

Non-Agency RMBS									
Senior	$29,789	$(355)	3	$-	$-	-	$29,789	$(355)	3
Senior, interest-only	23,479	(3,066)	24	96,754	(34,401)	53	120,233	(37,467)	77
Subordinated	19,380	(7)	2	11,605	(302)	4	30,985	(309)	6
Subordinated, interest-only	4,373	(2,709)	2	1,074	(257)	2	5,447	(2,966)	4
Agency MBS									
Residential	219,808	(198)	7	701,442	(13,001)	11	921,250	(13,199)	18
Interest-only	112,014	(3,616)	12	10,467	(1,404)	3	122,481	(5,020)	15
Total	$408,843	$(9,951)	50	$821,342	$(49,365)	73	$1,230,185	$(59,316)	123

At March 31, 2015, the Company did not intend to sell any of its RMBS that were in an unrealized loss position, and it was not more likely than not that the Company would be required to sell these RMBS before recovery of their amortized cost basis, which may be at their maturity. With respect to RMBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these RMBS is either expressly prohibited, not probable, or is limited to specified events of default, none of which have occurred as of March 31, 2015.

Gross unrealized losses on the Company’s Agency pass-through MBS were $13 million at both March 31, 2015 and December 31, 2014. Given the inherent credit quality of Agency MBS, the Company does not consider any of the current impairments on its Agency pass-through MBS to be credit related. In evaluating whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, the Company considers the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company’s current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at March 31, 2015 and December 31, 2014, unrealized losses on its Agency MBS were temporary.

Gross unrealized losses on the Company’s Non-Agency RMBS (excluding Non-Agency RMBS IO strips which are accounted for under the fair value option with changes in fair value recorded in earnings) were $3 million and $1 million at March 31, 2015 and December 31, 2014, respectively. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but rather are due to other factors. The Company has reviewed its Non-Agency RMBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in cash flows expected to be collected for such RMBS, which considers recent bond performance and expected future performance of the underlying collateral.

A summary of the OTTI included in earnings for the quarters ended March 31, 2015 and 2014 is presented below.

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
	(dollars in thousands)	
Total other-than-temporary impairment losses	$ (1,052)	$ (400)
Portion of loss recognized in other comprehensive income (loss)	(6,763)	(1,134)
Net other-than-temporary credit impairment losses	$ (7,815)	$ (1,534)

The following table presents a roll forward of the credit loss component of OTTI on the Company’s Non-Agency RMBS for which a portion of loss was previously recognized in OCI. The table delineates between those securities that are recognizing OTTI for the first time as opposed to those that have previously recognized OTTI.

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
	(dollars in thousands)	
Cumulative credit loss beginning balance	$ 507,548	$ 524,432
Additions:		
Other-than-temporary impairments not previously recognized	7,815	1,534
Reductions for securities sold or deconsolidated during the period	(1,319)	(1,670)
Increases related to other-than-temporary impairments on securities with previously recognized other-than-temporary impairments	-	-
	(158)	(2,813)

Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security		
Cumulative credit loss ending balance	$ 513,886	$ 521,483

Cash flows generated to determine net other-than-temporary credit impairment losses recognized in earnings are estimated using significant unobservable inputs. The significant inputs used to measure the component of OTTI recognized in earnings for the Company's Non-Agency RMBS are summarized as follows:

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		For the Quarter Ended	
		March 31, 2015	March 31, 2014
Loss Severity			
	Weighted Average	69%	72%
	Range	51% - 78%	43% - 80%
60+ days delinquent			
	Weighted Average	22%	36%
	Range	15% - 33%	17% - 47%
Credit Enhancement (1)			
	Weighted Average	10%	8%
	Range	0% - 18%	0% - 14%
3 Month CPR			
	Weighted Average	8%	11%
	Range	5% - 15%	10% - 11%
12 Month CPR			
	Weighted Average	8%	12%
	Range	3% - 16%	11% - 19%

(1) Calculated as the combined credit enhancement to the Re-REMIC and underlying from each of their respective capital structures.

The following tables present a summary of unrealized gains and losses at March 31, 2015 and December 31, 2014. IO MBS included in the tables below represent the right to receive a specified portion of the contractual interest cash flows of the underlying principal balance of specific securities. At March 31, 2015, IO MBS had a net unrealized loss of $19 million and had an amortized cost of $573 million. At December 31, 2014, IO MBS had a net unrealized loss of $27 million and had an amortized cost of $427 million. The fair value of IOs at March 31, 2015 and December 31, 2014 was $554 million, and $400 million, respectively. All changes in fair value of IOs are reflected in Net Income in the Consolidated Statements of Operations and Comprehensive Income.

March 31, 2015
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 817,742	$ -	$ 817,742	$ (935)	$ -	$ (935)
Senior, interest-only	-	24,105	24,105	-	(38,985)	(38,985)

Subordinated	108,637	-	108,637	(2,255)	-	(2,255)
Subordinated, interest-only	-	117	117	-	(3,145)	(3,145)
Agency MBS						
Residential	85,564	-	85,564	(12,441)	-	(12,441)
Commercial	8,958	-	8,958	(672)	-	(672)
Interest-only	-	3,701	3,701	-	(4,889)	(4,889)
Total	$ 1,020,901	$ 27,923	$ 1,048,824	$ (16,303)	$ (47,019)	$ (63,322)

December 31, 2014
(dollars in thousands)

	Gross Unrealized Gain Included in Accumulated Other Comprehensive Income	Gross Unrealized Gain Included in Accumulated Deficit	Total Gross Unrealized Gain	Gross Unrealized Loss Included in Accumulated Other Comprehensive Income	Gross Unrealized Loss Included in Accumulated Deficit	Total Gross Unrealized Loss
Non-Agency RMBS						
Senior	$ 843,680	$ -	$ 843,680	$ (355)	$ -	$ (355)
Senior, interest-only	-	17,378	17,378	-	(37,467)	(37,467)
Subordinated	108,091	-	108,091	(309)	-	(309)
Subordinated, interest-only	-	194	194	-	(2,966)	(2,966)
Agency MBS						
Residential	108,802	-	108,802	(13,199)	-	(13,199)
Interest-only	-	1,326	1,326	-	(5,020)	(5,020)
Total	$ 1,060,573	$ 18,898	$ 1,079,471	$ (13,863)	$ (45,453)	$ (59,316)

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Changes in prepayments, actual cash flows, and cash flows expected to be collected, among other items, are affected by the collateral characteristics of each asset class. The Company chooses assets for the portfolio after carefully evaluating each investment's risk profile.

The following tables provide a summary of the Company's RMBS portfolio at March 31, 2015 and December 31, 2014.

	March 31, 2015				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency RMBS					
Senior	$ 3,723,013	$ 56.75	$ 78.68	3.9 %	14.6 %
Senior, interest-only	$ 6,175,346	$ 4.84	$ 4.60	1.7 %	13.0 %
Subordinated	$ 711,445	$ 53.61	$ 68.56	3.1 %	13.2 %
Subordinated, interest-only	$ 214,350	$ 4.36	$ 2.95	0.8 %	9.4 %
Agency MBS					
Residential pass-through	$ 6,060,500	$ 105.17	$ 106.38	3.9 %	2.4 %
Commercial pass-through	$ 432,042	$ 102.68	$ 104.60	4.0 %	4.1 %
Interest-only	$ 5,888,224	$ 4.51	$ 4.49	1.0 %	5.9 %

(1) Bond Equivalent Yield at period end.

	December 31, 2014				
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)
Non-Agency RMBS					
Senior	$ 3,435,362	$ 55.09	$ 79.63	4.3 %	15.9 %
Senior, interest-only	$ 5,221,937	$ 4.35	$ 3.97	1.6 %	14.4 %
Subordinated	$ 690,599	$ 50.18	$ 65.79	3.1 %	10.6 %
Subordinated, interest-only	$ 216,403	$ 4.43	$ 3.14	0.9 %	9.2 %
Agency MBS					
Pass-through	$ 7,774,266	$ 104.96	$ 106.19	4.0 %	3.2 %
Interest-only	$ 3,884,523	$ 4.89	$ 4.79	0.9 %	3.1 %

(1) Bond Equivalent Yield at period end.

The following table presents the weighted average credit rating, based on the lowest rating available, of the Company's Non-Agency RMBS portfolio at March 31, 2015 and December 31, 2014.

	March 31, 2015	December 31, 2014
AAA	0.7%	0.9%
AA	0.4%	0.4%
A	0.0%	0.0%
BBB	0.3%	0.4%
BB	2.6%	1.9%
B	4.7%	5.6%
Below B or not rated	91.3%	90.8%
Total	100.0%	100.0%

Actual maturities of MBS are generally shorter than the stated contractual maturities. Actual maturities of the Company's MBS are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal. The following tables provide a summary of the fair value and amortized cost of the Company's MBS at March 31, 2015 and December 31, 2014 according to their estimated weighted-average life classifications. The weighted-average lives of the MBS in the tables below are based on lifetime expected prepayment rates using an industry prepayment model for the Agency MBS portfolio and the Company's prepayment assumptions for the Non-Agency RMBS. The prepayment model considers current yield, forward yield, steepness of the interest rate curve, current mortgage rates, mortgage rates of the outstanding loan, loan age, margin, and volatility.

March 31, 2015
(dollars in thousands)

	Weighted Average Life				
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					
Non-Agency RMBS					
Senior	$ 823	$ 416,994	$ 1,637,858	$ 873,756	$ 2,929,431
Senior interest-only	1,062	60,607	157,264	64,950	283,883
Subordinated	-	55,323	285,019	147,458	487,800
Subordinated interest-only	-	-	5,080	1,245	6,325
Agency MBS					
Residential	-	6,380,492	66,635	-	6,447,127
Commercial	-	-	30,401	421,500	451,901
Interest-only	-	86,305	177,811	-	264,116
Total fair value	$ 1,885	$ 6,999,721	$ 2,360,068	$ 1,508,909	$ 10,870,583
Amortized cost					
Non-Agency RMBS					
Senior	$ 472	$ 325,679	$ 1,187,714	$ 598,759	$ 2,112,624
Senior interest-only	1,821	70,303	164,522	62,117	298,763
Subordinated	-	42,109	218,386	120,923	381,418
Subordinated interest-only	-	-	8,225	1,128	9,353
Agency MBS					
Residential	-	6,310,311	63,693	-	6,374,004
Commercial	-	-	29,883	413,732	443,615
Interest-only	-	85,793	179,511	-	265,304
Total amortized cost	$ 2,293	$ 6,834,195	$ 1,851,934	$ 1,196,659	$ 9,885,081

December 31, 2014

(dollars in thousands)

	Weighted Average Life				
	Less than one year	Greater than one year and less than five years	Greater than five years and less than ten years	Greater than ten years	Total
Fair value					

Non-Agency RMBS					
Senior	$ 1,656	$ 306,309	$ 1,678,226	$ 749,589	$ 2,735,780
Senior interest-only	515	60,403	110,800	35,498	207,216
Subordinated	-	80,414	245,438	128,496	454,348
Subordinated interest-only	-	-	5,447	1,358	6,805
Agency MBS					
Residential	-	4,237,658	3,781,890	235,871	8,255,419
Interest-only	-	82,994	103,109	-	186,103
Total fair value	$ 2,171	$ 4,767,778	$ 5,924,910	$ 1,150,812	$ 11,845,671
Amortized cost					
Non-Agency RMBS					
Senior	$ 1,205	$ 255,009	$ 1,129,932	$ 506,309	$ 1,892,455
Senior interest-only	1,294	65,291	124,996	35,724	227,305
Subordinated	-	58,448	188,502	99,616	346,566
Subordinated interest-only	-	-	8,413	1,164	9,577
Agency MBS					
Residential	-	4,173,986	3,750,831	234,999	8,159,816
Interest-only	-	83,659	106,138	-	189,797
Total amortized cost	$ 2,499	$ 4,636,393	$ 5,308,812	$ 877,812	$ 10,825,516

The Non-Agency RMBS portfolio is subject to credit risk. The Company seeks to mitigate credit risk through its asset selection process. The Non-Agency RMBS portfolio is primarily collateralized by what the Company classifies as Alt-A first lien mortgages. An Alt-A mortgage is a type of U.S. mortgage that, for various reasons, is considered riskier than A-paper, or prime, and less risky than subprime, the riskiest category. Alt-A interest rates, which are determined by credit risk, therefore tend to be between those of prime and subprime home loans. Typically, Alt-A mortgages are characterized by borrowers with less than full documentation, lower credit scores and higher loan-to-value ratios. The Company periodically reviews and evaluates its criteria for certain types of mortgages. Beginning in the third quarter of 2014, the Company revised its criteria for Alt-A mortgage securities to include Non-Agency RMBS where (i) the underlying collateral has weighted average FICO scores between 680 and 720 or (ii) for instances where FICO scores are greater than 720, RMBS have 30% or less of the underlying collateral composed of full documentation loans. This change was made to conform the Company’s definition more closely to industry standards. At March 31, 2015 and December 31, 2014, 66% and 65% of the Non-Agency RMBS collateral was classified as Alt-A, respectively. At March 31, 2015 and December 31, 2014, 19% and 24% of the Non-Agency RMBS collateral was classified as prime, respectively. The remaining Non-Agency RMBS collateral is classified as sub-prime.

The Non-Agency RMBS in the Portfolio have the following collateral characteristics at March 31, 2015 and December 31, 2014.

	March 31, 2015				December 31, 2014	
Weighted average maturity (years)			24.7			22.5
Weighted average amortized loan to value (1)			71.4	%		67.5 %
Weighted average FICO (2)			693			679
Weighted average loan balance (in thousands)		$	323			$332
Weighted average percentage owner occupied			81.7	%		83.0 %
Weighted average percentage single family residence			75.6	%		65.5 %
Weighted average current credit enhancement			1.7	%		1.7 %
Weighted average geographic concentration of top four states	CA		32.1	%	CA	31.7 %
	FL		8.3	%	FL	8.4 %
	NY		7.4	%	NY	7.8 %
	NJ		2.2	%	NJ	2.9 %

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The table below presents the origination year of the underlying loans related to the Company's portfolio of Non-Agency RMBS at March 31, 2015 and December 31, 2014.

Origination Year	March 31, 2015		December 31, 2014	
1999	0.1	%	0.2	%
2000	0.6	%	0.6	%
2001	1.8	%	2.1	%
2002	0.4	%	0.4	%
2003	2.2	%	2.5	%
2004	3.7	%	3.9	%
2005	21.4	%	20.4	%
2006	31.0	%	28.5	%
2007	35.4	%	37.6	%
2008	2.0	%	2.1	%
2013	0.7	%	0.9	%
2014	0.7	%	0.8	%
Total	100.0	%	100.0	%

Gross realized gains and losses are recorded in "Net realized gains (losses) on sales of investments" on the Company's Consolidated Statements of Operations and Comprehensive Income. The proceeds and gross realized gains and gross realized losses from sales of investments for the quarters ended March 31, 2015 and 2014 are as follows:

For the Quarter Ended	
March 31, 2015	March 31, 2014
(dollars in thousands)	

Proceeds from sales	$	2,241,617	$	100,256
Gross realized gains		30,296		8,469
Gross realized losses		(731)		(92)
Net realized gain	$	29,565	$	8,377

Included in the gross realized gains for the quarter ended March 31, 2015 in the table above are exchanges of securities with a fair value of $7 million where the Company exchanged its investment in a re-remic security for the underlying collateral supporting the group related to the exchanged asset. These exchanges were treated as non-cash sales and purchases and resulted in a realized gain of $3 million reflected in earnings.

4. Securitized Loans Held for Investment

The Securitized loans held for investment is comprised of two portfolios. The first portfolio is comprised of loans collateralized by non-conforming, single family, owner occupied, jumbo, prime residential mortgages. The second portfolio is comprised primarily of loans collateralized by seasoned sub-prime residential mortgages.

At March 31, 2015, all securitized loans held for investment are carried at fair value. See Note 5 to our Consolidated Financial Statements for a discussion on how the Company determines the fair values of the securitized loans held for investment. As changes in the fair value of these securitized loans are reflected in earnings, the Company does not estimate or record a loan loss provision. At December 31, 2014, $626 million of securitized loans held for investment comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans were carried at amortized cost, net of an allowance for loan losses.

The following table provides a summary of the changes in the carrying value of securitized loans held for investment at fair value at March 31, 2015 and December 31, 2014:

	For the Quarter Ended March 31, 2015	For the Year Ended December 31, 2014
	(dollars in thousands)	
Balance, beginning of period(1)	$ 5,306,501	$ -
Purchases	-	4,722,824
Principal paydowns	(167,400)	(173,597)
Net periodic amortization (accretion)	8,393	5,028
Change in fair value	(14,592)	144,960
Balance, end of period	$ 5,132,902	$ 4,699,215

(1) Includes Securitized loans held for investment of $607 million for which the fair value option election was made beginning January 1, 2015.

The primary cause of the change in fair value is due to changes in credit risk of the portfolio.

Jumbo prime residential mortgage loans

The securitized loan portfolio collateralized by jumbo prime residential mortgages were originated during the following years:

Origination Year	March 31, 2015	December 31, 2014
2004	0.1 %	0.9 %
2007	8.5 %	8.1 %
2008	7.3 %	7.0 %
2009	0.2 %	0.2 %

2010	5.8	%	6.3	%
2011	35.6	%	35.4	%
2012	42.5	%	42.1	%
Total	100.0	%	100.0	%

A summary of key characteristics of the loan portfolio collateralized primarily of non-conforming, single family, owner occupied, jumbo, prime mortgages follows:

		March 31, 2015		December 31, 2014
Number of loans		817		869
Weighted average maturity (years)		26.4		26.4
Weighted average loan to value (1)		70.9 %		71.6 %
Weighted average FICO (2)		766		766
Weighted average loan balance (in thousands)		$ 703		$ 716
Weighted average percentage owner occupied		94.7 %		95.0 %
Weighted average percentage single family residence		70.0 %		71.0 %
Weighted average geographic concentration of top five states	CA	34.4 %	CA	34.8 %
	NJ	5.8 %	NJ	5.6 %
	VA	5.6 %	VA	5.5 %
	MD	5.2 %	MD	5.1 %
	TX	5.1 %	NY	5.1 %

(1) Value represents appraised value of the collateral at the time of loan origination.
(2) FICO as determined at the time of loan origination.

The following table summarizes the outstanding principal balance of the jumbo prime loans which are 30 days delinquent and greater as reported by the servicer at March 31, 2015 and December 31, 2014.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
			(dollars in thousands)				
March 31, 2015	$ 2,681	$ 933	$ 3,167	-	$ 4,487	$ 473	$ 11,741
December 31, 2014	$ 2,621	$ 565	$ 988	-	$ 7,152	-	$ 11,326

The fair value of the jumbo prime residential mortgage loans 90 days or more past due is $4 million as of March 31, 2015.

Seasoned sub-prime residential mortgage loans

The securitized loan portfolio collateralized by seasoned sub-prime residential mortgages originated during the following years:

Origination Year	March 31, 2015	December 31, 2014
2002 and prior	6.0 %	6.0 %
2003	4.3 %	4.4 %
2004	12.2 %	12.3 %
2005	20.6 %	20.6 %
2006	18.2 %	18.2 %
2007	26.5 %	26.3 %
2008	9.9 %	9.9 %
2009	1.2 %	1.2 %

2010 and later	1.1	%	1.1	%
Total	100.0	%	100.0	%

A summary of key characteristics of the loan portfolio collateralized by seasoned sub-prime residential mortgages follows:

		March 31, 2015			December 31, 2014	
Number of loans		56,764			58,170	
Weighted average maturity (years)		22			22	
Weighted average loan to value (1)		80.3	%		80.3	%
Weighted average FICO (1)		629			629	
Weighted average loan balance (in thousands)		$ 79			$ 79	
Weighted average percentage owner occupied		95.8	%		95.8	%
Weighted average percentage single family residence		73.6	%		73.6	%
Weighted average geographic concentration of top five states	CA	9.3	%	CA	9.3	%
	FL	7.1	%	FL	7.0	%
	NC	7.0	%	NC	7.0	%
	VA	6.4	%	VA	6.4	%
	OH	6.0	%	OH	6.0	%

(1) As provided by the Trustee

The following table summarizes the outstanding principal balance of the loan portfolio consisting of seasoned sub-prime residential mortgage loans which are 30 days delinquent and greater as reported by the servicer at March 31, 2015 and December 31, 2014.

	30 Days Delinquent	60 Days Delinquent	90+ Days Delinquent	Bankruptcy	Foreclosure	REO	Total
			(dollars in thousands)				
March 31, 2015	$ 179,242	$ 62,986	$ 199,743	$ 145,372	$ 114,043	$ 19,598	$ 720,984
December 31, 2014	$ 226,154	$ 92,363	$ 192,245	$ 154,279	$ 80,148	$ 16,556	$ 761,745

The fair value of seasoned sub-prime residential mortgage loans 90 days or more past due is $317 million as of March 31, 2015.

Securitized loans held for investment, net of allowance for loan losses

As of December 31, 2014, $626 million of securitized loans held for investment comprised primarily of non-conforming, single family, owner occupied, jumbo, prime loans were carried at amortized cost, net of an allowance for loan losses of $7 million.

The prime jumbo securitized loans held for investment for which the Company has not elected the fair value option are carried at amortized cost which is their principal balance outstanding, plus unamortized premiums, less unaccreted discounts and an allowance for loan losses. The following table provides a summary of the changes in the carrying value of these securitized loans held for investment at December 31, 2014:

	For the Year Ended December 31, 2014 (dollars in thousands)
Balance, beginning of period	$ 783,484

Principal paydowns		(153,063)
Net periodic amortization (accretion)		(4,541)
Change to loan loss provision		232
Balance, end of period	$	626,112

The following table represents the Company's prime jumbo securitized residential mortgage loans held for investment which are carried at amortized cost at December 31, 2014:

	December 31, 2014 (dollars in thousands)	
Securitized loans, at amortized cost	$	633,386
Less: allowance for loan losses		7,274
Securitized loans held for investment	$	626,112

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The following table summarizes the changes in the allowance for loan losses for the securitized mortgage loan portfolio carried at amortized cost at March 31, 2014:

	For the Quarter Ended March 31, 2014 (dollars in thousands)
Balance, beginning of period	$ 9,063
Provision for loan losses	319
Charge-offs	(365)
Balance, end of period	$ 9,017

The Company has established an allowance for loan losses related to jumbo prime securitized loans carried at amortized cost that is composed of a general and specific reserve. The balance in the allowance for loan losses related to the general reserve and specific reserve at December 31, 2014 was $3 million and $4 million, respectively.

The total unpaid principal balance of impaired loans for which the Company established a specific reserve was $22 million at December 31, 2014. The Company's recorded investment in impaired loans for which there is a related allowance for credit losses at December 31, 2014 was $16 million. The total unpaid principal balance of non-impaired loans for which the Company established a general reserve was $600 million at December 31, 2014. The Company's recorded investment in non-impaired loans for which there is a related general reserve for credit losses was $610 million at December 31, 2014. Interest income on impaired loans carried at amortized cost was not significant.

With the exception of its ability to approve certain loan modifications, the Company is not involved with the servicing or modification of the jumbo prime loans held for investments which are carried at amortized cost. The servicer of the respective securitization is responsible for servicing and modifying these loans. The Company is required to make certain assumptions in accounting for these loans due to the limitation of information available to the Company. The following table presents the loans that were modified by the servicer during the years ended December 31, 2014:

	Number of Loans Modified During Period	Unpaid Principal Balance of Modified Loans (Pre-modification)	Unpaid Principal Balance of Modified Loans (Post-modification)	Amortized Cost of Modified Loans	Amortized Cost of Modified Loans For Which There is an Allowance for Loan Losses	Amortized Cost of Modified Loans For Which There is No Allowance for Loan Losses
			(dollars in thousands)			
December 31, 2014	2	$ 1,139	$ 1,256	$ 1,173	$ 1,173	$ 0

Loans are modified by the servicer as a method of loss mitigation. Based on the information available, during the year ended December 31, 2014, the Company determined that all loans carried at amortized cost which were modified by the servicer were considered TDRs, as defined under GAAP. A TDR is generally any modification of a loan to a borrower that is experiencing financial difficulties, where a lender agrees to terms that are more favorable to the borrower than are otherwise available in the current market. All loan modifications during the year ended December

31, 2014 included a reduction of the stated interest rates. Loans modified by the servicer have been individually assessed for impairment and measurement of impairment is based on the excess of the recorded investment in the loan over the present value of the expected cash flows, post modification, discounted at the loan's effective interest rate at inception. As all loans are carried at fair value as of March 31, 2015, there is no longer a reserve for losses related to TDRs as of March 31, 2015.

5. Fair Value Measurements

The Company follows fair value guidance in accordance with GAAP to account for its financial instruments. The Company categorizes its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives 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). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded at fair value on the Consolidated Statements of Financial Condition or disclosed in the related notes are categorized based on the inputs to the valuation techniques as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to fair value.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. Any changes to the valuation methodology are reviewed by management to ensure the changes are appropriate. As markets and products evolve and the pricing for certain products becomes more transparent, the Company will continue to refine its valuation methodologies. The methodology utilized by the Company for the periods presented is unchanged. The methods used to produce a fair value calculation may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

During times of market dislocation, the observability of prices and inputs can be difficult for certain investments. If third party pricing services are unable to provide a price for an asset, or if the price provided by them is deemed unreliable by the Company, then the asset will be valued at its fair value as determined by the Company without validation to third-party pricing. Illiquid investments typically experience greater price volatility as an active market does not exist. Observability of prices and inputs can vary significantly from period to period and may cause instruments to change classifications within the three level hierarchy.

A description of the methodologies utilized by the Company to estimate the fair value of its financial instruments by instrument class follows:

Agency MBS and Non-Agency RMBS

The Company determines the fair value of all of its investment securities based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, delinquency, expected losses, expected default severity, credit enhancement, and other pertinent factors. To corroborate that the estimates of fair values generated by these internal models are reflective of current market prices, the Company compares the fair values generated by the model to non-binding independent prices provided by two independent third party pricing services. For certain highly liquid asset classes, such as Agency fixed-rate pass-through bonds, the Company's valuations are also compared to quoted prices for To-Be-Announced ("TBA") securities.

Each quarter the Company develops thresholds which are determined utilizing current bid/ask spreads, liquidity, price volatility and other factors as appropriate. If internally developed model prices differ from the independent prices provided by greater than a market derived predetermined threshold for the period, the Company highlights these differences for further review, both internally and with the third party pricing service. The Company obtains the inputs used by the third party pricing services and compares them to the Company's inputs. The Company updates its own inputs if the Company determines the third party pricing inputs more accurately reflect the current market environment. If the Company believes that its internally developed inputs more accurately reflect the current market

environment, it will request that the third party pricing service review market factors that may not have been considered by the third party pricing service and provide updated prices. The Company reconciles and resolves all pricing differences in excess of the predetermined thresholds before a final price is established. At March 31, 2015 and December 31, 2014, all differences between the model generated prices and the third party prices were within the derived predetermined threshold for the period.

The Company's estimate of prepayment, default and severity curves all involve judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting Non-Agency RMBS fair value estimates Level 3 inputs in the fair value hierarchy. As the fair values of Agency MBS are more observable, these investments are classified as level 2 in the fair value hierarchy.

Securitized Loans Held for Investment

Securitized loans consisting of seasoned sub-prime residential mortgage loans:

The Company estimates the fair value of its securitized loans held for investment consisting of seasoned sub-prime residential mortgage loans on a loan by loan basis using an internally developed model which compares the loan held by the Company with a loan currently offered in the market. The loan price is adjusted in the model by considering the loan factors which would impact the value of a loan. These loan factors include: loan coupon as compared to coupon currently available in the market, FICO, loan-to-value ratios, delinquency history, owner occupancy, and property type, among other factors. A baseline is developed for each significant loan factor and adjusts the price up or down depending on how that factor for each specific loan compares to the baseline rate. Generally, the most significant impact on loan value is the loan interest rate as compared to interest rates currently available in the market and delinquency history. These two factors are based on relevant observable inputs.

The Company also monitors market activity to identify trades which may be used to compare internally developed prices; however, as the portfolio of loans held at fair value is a seasoned sub-prime pool of mortgage loans, comparable loan pools are not common or directly comparable. There are limited transactions in the market place to develop a comprehensive direct range of values. However, if market data becomes available, the Company will compare this data to the internally developed prices to ensure reasonableness of the valuation.

The Company reviews the fair values generated by the model to determine whether prices are reflective of the current market by corroborating its estimates of fair value by comparing the results to non-binding independent prices provided by two independent third party pricing services for the loan portfolio. Each quarter the Company develops thresholds which are determined utilizing a senior securitization market for a similar pool of loans.

If the internally developed fair values of the loan pools differ from the independent prices provided by greater than a predetermined threshold for the period, the Company highlights these differences for further review, both internally and with the third party pricing service. The Company obtains certain inputs used by the third party pricing services and evaluates them for reasonableness. The Company updates its own model if the Company determines the third party pricing inputs more accurately reflect the current market environment or observed information from the third party vendors. If the Company believes that its internally developed inputs more accurately reflect the current market environment, it will request that the third party pricing service review market factors that may not have been considered by the third party pricing service. The Company reconciles and resolves all pricing differences in excess of the predetermined thresholds before a final price is established.

The Company’s estimates of fair value of securitized loans held for investment involve management judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates level 3 inputs in the fair value hierarchy.

Securitized loans collateralized by jumbo, prime residential mortgages:

The securitized loans collateralized by jumbo, prime residential mortgages are carried at fair value as of March 31, 2015. The securitized loans are held as part of a consolidated CFE. A CFE is a variable interest entity that holds financial assets, issues beneficial interests in those assets and has no more than nominal equity and the beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allow the Company to elect to measure the CFE’s financial assets using the fair value of the CFE’s financial liabilities as the fair values of the financial liabilities of the CFE are more observable. Therefore, the fair value of the securitized loans collateralized by jumbo, prime residential mortgages is based on the fair value of the securitized debt. See discussion of the fair value of Securitized Debt, collateralized by Loans Held for Investment at fair value below.

As the more observable Securitized debt, collateralized by loans held for investment are considered level 3 in the fair value hierarchy, the Securitized loans collateralized by jumbo, prime residential mortgages are also level 3 in the fair value hierarchy.

Securitized Debt, collateralized by Non-Agency RMBS

The Company carries securitized debt, collateralized by Non-Agency RMBS at the principal balance outstanding plus unamortized premiums, less unaccreted discounts recorded in connection with the financing of the loans or RMBS with third parties. The Company estimates the fair value of securitized debt, collateralized by Non-Agency RMBS by estimating the future cash flows associated with the underlying assets collateralizing the secured debt outstanding. The Company models the fair value of each underlying asset by considering, among other items, the structure of the underlying security, coupon, servicer, delinquency, actual and expected defaults, actual and expected default severities, reset indices, and prepayment speeds in conjunction with market research for similar collateral performance and management's expectations of general economic conditions in the sector and other economic factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. See the further discussion of the valuation process and benchmarking process in the Agency MBS and Non-Agency RMBS discussion of fair value.

The Company's estimates of fair value of securitized debt, collateralized by Non-Agency RMBS involve management's judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates level 3 inputs in the fair value hierarchy.

Securitized Debt, collateralized by Loans Held for Investment

The Company determines the fair value of securitized debt, collateralized by loans held for investment based on discounted cash flows utilizing an internal pricing model that incorporates factors such as coupon, prepayment speeds, loan size, collateral composition, borrower characteristics, expected interest rates, life caps, periodic caps, reset dates, collateral seasoning, expected losses, expected default severity, credit enhancement, and other pertinent factors. This process, including the review process, is consistent with the process used for Agency MBS and Non-Agency RMBS using internal models. See the further discussion of the valuation process and benchmarking process in the Agency MBS and Non-Agency RMBS discussion of fair value.

The Company's estimates of fair value of securitized debt, collateralized by loans held for investment involve management's judgment and assumptions that are deemed to be significant to the fair value measurement process, which renders the resulting fair value estimates level 3 inputs in the fair value hierarchy.

Derivatives

Interest Rate Swaps and Swaptions

The Company determines the fair value of its interest rate swaps and swaptions based on the net present value of future cash flows of the swap or swaption. The Company compares its own estimate of fair value to dealer quotes received to evaluate for reasonableness. The dealer quotes incorporate common market pricing methods, including a spread measurement to the Treasury yield curve or interest rate swap curve as well as underlying characteristics of the particular contract. Interest rate swaps and swaptions are modeled by the Company by incorporating such factors as the term to maturity, Treasury curve, overnight index swap rates, and the payment rates on the fixed portion of the interest rate swaps. The Company has classified the characteristics used to determine the fair value of interest rate swaps as Level 2 inputs in the fair value hierarchy.

Treasury Futures

The fair value of Treasury futures is determined by quoted market prices for similar financial instruments in an active market. The Company has classified the characteristics used to determine the fair value of Treasury futures as Level 1

inputs in the fair value hierarchy.

Mortgage Options

Mortgage options are valued using an option pricing model which considers the strike price of the option, the price of the underlying security, settle date, a discount rate and the implied volatility. The implied volatility is determined from the daily price of the underlying security as well as prices on similar financial instruments. The Company has classified the characteristics used to determine the fair value of mortgage options as Level 3 inputs in the fair value hierarchy.

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Repurchase Agreements

Repurchase agreements are collateralized financing transactions utilized by the Company to acquire investment securities. Due to the short term nature of these financial instruments, the Company estimates the fair value of these repurchase agreements using the contractual obligation plus accrued interest payable at maturity.

Short-term Financial Instruments

The carrying value of cash and cash equivalents, accrued interest receivable, receivable for securities sold, dividends payable, payable for securities purchased and accrued interest payable are considered to be a reasonable estimate of fair value due to the short term nature and low credit risk of these short-term financial instruments.

The Company's financial assets and liabilities carried at fair value on a recurring basis, including the level in the fair value hierarchy, at March 31, 2015 and December 31, 2014 is presented below.

March 31, 2015
(dollars in thousands)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total
(dollars in thousands)					
Assets:					
Non-Agency RMBS, at fair value	$ -	$ -	$ 3,707,439		$ 3,707,439
Agency RMBS, at fair value	-	7,163,144	-	-	7,163,144
Securitized loans held for investment, at fair value	-	-	5,132,902		5,132,902
Derivatives	-	9,788	-	-	9,788
Liabilities:					
Securitized debt at fair value, collateralized by loans held for investment	-	-	(4,198,192)	-	(4,198,192)
Derivatives	(12,136)	(103,241)	(1)	102,851	(12,527)
Total	$ (12,136)	$ 7,069,691	$ 4,642,148	$ 102,851	$ 11,802,554

December 31, 2014
(dollars in thousands)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral, netting	Total

(dollars in thousands)					
Assets:					
Non-Agency RMBS, at fair value	$ -	$ -	$ 3,404,149	$ -	$ 3,404,149
Agency RMBS, at fair value	-	8,441,522	-	-	8,441,522
Securitized loans held for investment, at fair value	-	-	4,699,215	-	4,699,215
Derivatives		4,798		(1,167)	3,631
Liabilities:					
Securitized debt at fair value, collateralized by loans held for investment	-	-	(3,868,366)	-	(3,868,366)
Derivatives	(7,227)	(113,679)	(71)	106,800	(14,177)
Total	$ (7,227)	$ 8,332,641	$ 4,234,927	$ 105,633	$ 12,665,974

The table below provides a summary of the changes in the fair value of securities classified as Level 3 at March 31, 2015 and December 31, 2014.

Fair Value Reconciliation, Level 3

For the Quarter Ended
March 31, 2015
(dollars in thousands)

	Non-Agency RMBS	Derivatives	Securitized Loans	Securitized Debt	Total
Beginning balance Level 3 assets	$ 3,404,149	$ (71)	$ 5,306,501	$ (4,383,217)	$ 4,327,362
Transfers in to Level 3 assets	-	-	-	-	-
Transfers out of Level 3 assets	-	-	-	-	-
Purchases	486,561	-	-	-	486,561
Principal payments	(70,149)	-	(167,400)	189,727	(47,822)
Sales and Settlements	(116,676)	(565)	-	-	(117,241)
Accretion of purchase discounts	31,266	-	8,393	1,644	41,303
Gains (losses) included in net income					
Other than temporary credit impairment losses	(7,815)	-	-	-	(7,815)
Realized gains (losses) on sales and settlements	3,066	412	-	-	3,478
Net unrealized gains (losses) included in income	4,045	224	(14,592)	(6,346)	(16,669)
Gains (losses) included in other comprehensive income					
Total unrealized gains (losses) for the period	(27,008)	(1)	-	-	(27,009)
Ending balance Level 3 assets	$ 3,707,439	$ (1)	$ 5,132,902	$ (4,198,192)	$ 4,642,148

Fair Value Reconciliation, Level 3

For the Year Ended
December 31, 2014
(dollars in thousands)

	Non-Agency RMBS	Derivatives	Securitized Loans	Securitized Debt	Total
Beginning balance Level 3 assets	$ 3,774,463	$ -	$ -	$ -	$ 3,774,463
Transfers in to Level 3 assets	-	-	-	-	-
	-	-	-	-	-

Transfers out of Level 3 assets					
Purchases	454,506	-	4,722,824	(4,309,055)	868,275
Principal payments	(324,768)	-	(173,597)	412,652	(85,713)
Sales and Settlements	(602,573)	(8,479)	-	-	(611,052)
Accretion of purchase discounts	99,512	-	5,028	2,026	106,566
Gains (losses) included in net income					
Other than temporary credit impairment losses	(63,992)	-	-	-	(63,992)
Realized gains (losses) on sales and settlements	62,634	8,749	-	-	71,383
Realized gain on deconsolidation	47,846	-	-	-	47,846
Net unrealized gains (losses) included in income	25,271	(341)	144,960	26,011	195,901
Gains (losses) included in other comprehensive income					
Total unrealized gains (losses) for the period	(68,750)	-	-	-	(68,750)
Ending balance Level 3 assets	$ 3,404,149	$ (71)	$ 4,699,215	$ (3,868,366)	$ 4,234,927

There were no transfers to or from Level 3 for the quarter ended March 31, 2015 and the year ended December 31, 2014.

Sensitivity of Significant Inputs – Non-Agency RMBS and securitized debt, collateralized by loans held for investment

The significant unobservable inputs used in the fair value measurement of the Company's Non-Agency RMBS and securitized debt are the weighted average discount rates, constant prepayment speed ("CPR"), cumulative default rate, and the loss severity.

Prepayment speeds, as reflected by the CPR, vary according to interest rates, the type of financial instrument, conditions in financial markets, and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, prepayment speeds tend to increase. For RMBS investments purchased at a premium, as prepayment speeds increase, the amount of income the Company earns decreases as the purchase premium on the bonds amortizes faster than expected. Conversely, decreases in prepayment speeds result in increased income and can extend the period over which the Company amortizes the purchase premium. For RMBS investments purchased at a discount, as prepayment speeds increase, the amount of income the Company earns increases from the acceleration of the accretion of the discount into interest income. Conversely, decreases in prepayment speeds result in decreased income as the accretion of the purchase discount into interest income occurs over a longer period.

For securitized debt carried at fair value issued at a premium, as prepayment speeds increase, the amount of interest expense the Company recognizes decreases as the issued premium on the debt amortizes faster than expected. Conversely, decreases in prepayment speeds result in increased expense and can extend the period over which the Company amortizes the premium.

For debt issued at a discount, as prepayment speeds increase, the amount of interest the Company expenses increases from the acceleration of the accretion of the discount into interest expense. Conversely, decreases in prepayment speeds result in decreased expense as the accretion of the discount into interest expense occurs over a longer period.

Cumulative default rates represent an annualized rate of default on a group of mortgages. The constant default rate ("CDR") represents the percentage of outstanding principal balances in the pool that are in default, which typically equates to the home being past 60-day and 90-day notices and in the foreclosure process. When default rates increase, expected cash flows on the underlying collateral decreases. When default rates decrease, expected cash flows on the underlying collateral increases.

Loss severity rates reflect the amount of loss expected from a foreclosure and liquidation of the underlying collateral in the mortgage loan pool. When a mortgage loan is foreclosed the collateral is sold and the resulting proceeds are used to settle the outstanding obligation. In many circumstances, the proceeds from the sale do not fully repay the outstanding obligation. In these cases a loss is incurred by the lender. Loss severity is used to predict how costly future losses are likely to be. An increase in loss severity results in a decrease in expected future cash flows. A decrease in loss severity results in an increase in expected future cash flows.

The discount rate refers to the interest rate used in the discounted cash flow analysis to determine the present value of future cash flows. The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows. An increased uncertainty of future cash flows results in a higher discount rate. The discount rate used to calculate the present value of the expected future cash flows is based on the discount rate implicit in the security as of the last measurement date. As discount rates move up, the discounted cash flows are reduced.

A summary of the significant inputs used to estimate the fair value of Non-Agency RMBS held for investment at fair value as of March 31, 2015 and December 31, 2014 follows:

	March 31, 2015				December 31, 2014			
	Significant Inputs				Significant Inputs			
	Weighted Average Discount Rate	CPR Range	CDR	Loss Severity	Weighted Average Discount Rate	CPR Range	CDR	Loss Severity
Non-Agency RMBS								
Senior	4.7 %	1% - 12 %	0% - 30 %	50% - 85 %	4.7 %	1% - 12 %	0% - 29 %	50% - 85 %
Senior interest-only	11.6 %	1% - 28 %	0% - 30 %	50% - 85 %	14.4 %	1% - 25 %	0% - 32 %	50% - 85 %
Subordinated	5.6 %	1% - 21 %	0% - 21 %	10% - 100 %	5.8 %	1% - 16 %	0% - 19 %	10% - 78 %
Subordinated interest-only	21.9 %	2% - 12 %	0% - 13 %	50% - 61 %	22.0 %	1% - 10 %	0% - 14 %	50% - 65 %
RMBS transferred to	4.2 %	1% - 14 %	0% - 29 %	50% - 85 %	4.6 %	1% - 16 %	0% - 31 %	50% - 85 %

consolidated
VIEs

A summary of the significant inputs used to estimate the fair value of securitized debt at fair value as of March 31, 2015 and December 31, 2014 follows:

	March 31, 2015 Significant Inputs			December 31, 2014 Significant Inputs		
	CPR Range	CDR Range	Loss Severity Range	CPR Range	CDR Range	Loss Severity Range
Securitized debt at fair value, collateralized by loans held for investment	3% - 26%	0% - 13%	50% - 74 %	3% - 8 %	0% - 9 %	50% - 73 %

All of the significant inputs listed have some degree of market observability, based on the Company's knowledge of the market, information available to market participants, and use of common market data sources. Collateral default and loss severity projections are in the form of "curves" that are updated quarterly to reflect the Company's collateral cash flow projections. Methods used to develop these projections conform to industry conventions. The Company uses assumptions it considers its best estimate of future cash flows for each security.

The discount rates applied to the expected cash flows to determine fair value are derived from a range of observable prices on securities backed by similar collateral. As the market becomes more or less liquid, the availability of these observable inputs will change.

The prepayment speed specifies the percentage of the collateral balance that is expected to prepay at each point in the future. The prepayment speed is based on factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis and is scaled up or down to reflect recent collateral-specific prepayment experience as obtained from remittance reports and market data services.

Default vectors are determined from the current "pipeline" of loans that are more than 30 days delinquent, in foreclosure, bankruptcy, or are REO. These delinquent loans determine the first 30 months of the default curve. Beyond month 30, the default curve transitions to a value that is reflective of a portion of the current delinquency pipeline.

The curve generated to reflect the Company's expected loss severity is based on collateral-specific experience with consideration given to other mitigating collateral characteristics. Characteristics such as seasoning are taken into consideration because severities tend to initially increase on newly originated securities, before beginning to decline as the collateral ages and eventually stabilize. Collateral characteristics such as loan size, loan-to-value, and geographic location of collateral also effect loss severity.

Sensitivity of Significant Inputs – Securitized loans held for investment

The significant unobservable inputs used to estimate the fair value of the securitized loans held for investment collateralized by seasoned sub-prime residential mortgage loans, as of March 31, 2015 and December 31, 2014 include coupon, FICO score at origination, loan-to-value ratios (LTV), owner occupancy status, and property type. A summary of the significant inputs used to estimate the fair value of Securitized loans held for investment at fair value as of March 31, 2015 and December 31, 2014 follows:

	March 31, 2015 Significant Inputs		December 31, 2014 Significant Inputs	
	Base Rate	Weighted Average/Percent of loan pool	Base Rate	Weighted Average/Percent of loan pool
Factor:				
Coupon				
Clean	4.4 %	7.0 %	4.4 %	6.6 %
Reperforming	5.3 %	7.1 %	5.3 %	6.6 %
FICO	620	629	620	637
Loan-to-value (LTV)	90 %	80 %	90 %	81 %
Occupancy				
Owner Occupied	N/A	96 %	N/A	96 %
Investor	N/A	4 %	N/A	4 %
Secondary	N/A	0 %	N/A	0 %
Property Type				
Single family	N/A	79 %	N/A	79 %
Manufactured housing	N/A	15 %	N/A	15 %
Multi-family/mixed use/other	N/A	6 %	N/A	6 %

The loan factors are generally not observable for the individual loans and the base rates developed by the Company's internal model are subjective and change as market conditions change. The impact of the loan coupon on the value of the loan is dependent on whether the loan is clean or reperforming. A clean loan, with no history of delinquent payments and a relatively high loan interest rate would result in a higher overall value than a reperforming loan which has a history of delinquency. Similarly, a higher FICO score and a lower LTV ratio results in increases in the fair market value of the loan and a lower FICO score and a higher LTV ratio results in a lower value.

Property types also affect the overall loan values. Property types include single family, manufactured housing and multi-family/mixed use and other types of properties. Single family homes represent properties which house only one family unit. Manufactured homes include mobile homes and modular homes. Loan value for properties that are investor or secondary homes have a reduced value as compared to the baseline loan value. Additionally, single family homes will result in an increase to the loan value where manufactured and multi-family/mixed use and other properties will result in a decrease to the loan value, as compared to the baseline.

The following table presents the carrying value and fair value, as described above, of the Company's financial instruments not carried at fair value on a recurring basis at March 31, 2015 and December 31, 2014.

	March 31, 2015 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Repurchase agreements	2	(8,296,224)	(8,312,325)
Securitized debt, collateralized by Non-Agency RMBS	3	(671,604)	(671,385)

	December 31, 2014 (dollars in thousands)		
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value
Securitized loans held for investment	3	626,112	626,100
Repurchase agreements	2	(8,455,381)	(8,473,836)
Securitized debt, collateralized by Non-Agency RMBS	3	(704,915)	(708,623)
Securitized debt, collateralized by loans held for investment	3	(521,997)	(514,851)

6. Repurchase Agreements

The interest rates of the Company's repurchase agreements are generally indexed to the one-month, three-month and twelve-month LIBOR rates and re-price accordingly. The repurchase agreements outstanding, weighted average borrowing rates, weighted average remaining maturities, average daily balances and the fair value of collateral pledged as of March 31, 2015 and December 31, 2014 is:

	March 31, 2015	December 31, 2014
Repurchase agreements outstanding (in thousands)	$ 8,296,224	$ 8,455,381
Average Daily Balance	8,315,355	8,247,722
Weighted average borrowing rate	0.68 %	0.63 %
Weighted average maturity	65 Days	100 Days

RMBS pledged as collateral at fair value (in thousands)		
Agency	$ 7,420,904	$ 7,822,554
Non-Agency	1,853,506	1,487,184

At March 31, 2015 and December 31, 2014, the repurchase agreements collateralized by RMBS had the following remaining maturities.

	March 31, 2015	December 31, 2014
	(dollars in thousands)	
Overnight	$ -	$ -
1 to 29 days	5,614,649	2,652,717
30 to 59 days	688,176	1,371,856
60 to 89 days	774,529	656,915
90 to 119 days	-	2,068,740
Greater than or equal to 120 days	1,218,870	1,705,153
Total	$ 8,296,224	$ 8,455,381

At March 31, 2015 and December 31, 2014, the Company had an amount at risk with Credit Suisse First Boston of 10% of its equity related to the collateral posted on repurchase agreements. There were no other amounts at risk with any other counterparties greater than 10% of the Company's equity as of March 31, 2015 and December 31, 2014.

7. Securitized Debt

All of the Company's securitized debt is collateralized by residential mortgage loans or Non-Agency RMBS. For financial reporting purposes, the Company's securitized debt is accounted for as secured borrowings. Thus, the residential mortgage loans or RMBS held as collateral are recorded in the assets of the Company as securitized loans held for investment or Non-Agency RMBS transferred to consolidated VIEs and the securitized debt is recorded as a non-recourse liability in the accompanying Consolidated Statements of Financial Condition.

Securitized Debt Collateralized by Non-Agency RMBS

At March 31, 2015 and December 31, 2014 the Company's securitized debt collateralized by Non-Agency RMBS is carried at amortized cost and had a principal balance of $693 million and $727 million, respectively. At March 31, 2015 and December 31, 2014, the debt carried a weighted average cost of financing equal to 4.17% and 4.28%, respectively. The debt matures between the years 2035 and 2047. None of the Company's securitized debt collateralized by Non-Agency RMBS is callable.

During the quarter ended March 31, 2014, the Company acquired securitized debt collateralized by Non-Agency RMBS with an outstanding principal balance of $54 million for $56 million in cash. This transaction resulted in a loss on the extinguishment of debt of $2 million. This loss is reflected in earnings for the quarter ended March 31, 2014.

The following table presents the estimated principal repayment schedule of the securitized debt at March 31, 2015 and December 31, 2014, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company's Consolidated Statements of Financial Condition is non-recourse to the Company.

	March 31, 2015	December 31, 2014
	(dollars in thousands)	
Within One Year	$ 165,862	$ 175,713
One to Three Years	197,637	220,995
Three to Five Years	105,833	112,779
Greater Than Five Years	99,649	96,266
Total	$ 568,981	$ 605,753

Maturities of the Company's securitized debt are dependent upon cash flows received from the underlying loans. The estimate of their repayment is based on scheduled principal payments on the underlying loans. This estimate will differ from actual amounts to the extent prepayments or loan losses are experienced. See Notes 3 for a more detailed discussion of the securities collateralizing the securitized debt.

Securitized Debt Collateralized by Loans Held for Investment

At March 31, 2015 and December 31, 2014 the Company's securitized debt collateralized by loans held for investment had a principal balance of $4.3 billion and $4.5 billion, respectively. During the quarter ended March 31, 2015, the company recognized a loss of $6 million on the securitized debt carried at fair value in Net unrealized gains (losses) on financial instruments at fair value. The Company did not have any securitized debt carried at fair value during the

quarter ended March 31, 2014.

At March 31, 2015 and December 31, 2014 the total securitized debt collateralized by loans held for investment carried a weighted average cost of financing equal to 3.52% and 3.47% respectively. The debt matures between the years 2023 and 2065.

The following table presents the estimated principal repayment schedule of the securitized debt at March 31, 2015 and December 31, 2014, based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for projected losses on the underlying collateral of the debt. All of the securitized debt recorded in the Company's Consolidated Statements of Financial Condition is non-recourse to the Company.

	March 31, 2015	December 31, 2014
	(dollars in thousands)	
Within One Year	$ 717,657	$ 704,654
One to Three Years	1,178,490	1,206,241
Three to Five Years	799,472	828,196
Greater Than Five Years	1,436,776	1,577,368
Total	$ 4,132,395	$ 4,316,459

Maturities of the Company's securitized debt are dependent upon cash flows received from the underlying loans. The estimate of their repayment is based on scheduled principal payments on the underlying loans. This estimate will differ from actual amounts to the extent prepayments or loan losses are experienced. See Note 4 for a more detailed discussion of the loans collateralizing the securitized debt.

Certain of the securitized debt collateralized by loans held for investment contain call provisions and are callable at par, at the option of the Company. The following table presents the par value of the callable debt by year at March 31, 2015.

March 31, 2015
(dollars in thousands)

Year	Principal
2015	1,358,969
2016	2,208,926
2017	251,933
Total	3,819,828

8. Consolidated Securitization Vehicles and Other Variable Interest Entities

Since its inception, the Company has created VIEs for the purpose of securitizing whole mortgage loans or re-securitizing RMBS and obtaining permanent, non-recourse term financing. The Company evaluated its interest in each VIE to determine if it is the primary beneficiary.

As of March 31, 2015, the Company's Consolidated Statement of Financial Condition includes assets of consolidated VIEs with a carrying value of $7.7 billion and a carrying value of $4.9 billion of liabilities. As of December 31, 2014, the Company's Consolidated Statement of Financial Condition includes consolidated VIEs with $7.9 billion of assets and $5.1 billion of liabilities.

VIEs for Which the Company is the Primary Beneficiary

The retained beneficial interests in VIEs for which the Company is the primary beneficiary are typically the subordinated tranches of these re-securitizations and in some cases the Company may hold interests in additional tranches. The table below reflects the assets and liabilities recorded in the Consolidated Statements of Financial Condition related to the consolidated VIEs as of March 31, 2015 and December 31, 2014.

	March 31, 2015	December 31, 2014
	(dollars in thousands)	
Assets		
Non-Agency RMBS, at fair value	$ 2,419,247	$ 2,473,467
Securitized loans held for investment, net of allowance for loan losses	-	626,112
Securitized loans held for investment, at fair value	5,132,902	4,699,215
Accrued interest receivable	37,690	39,558
Other Assets	86,198	85,880
Liabilities		
Securitized debt, collateralized by Non-Agency RMBS	$ 671,604	$ 704,915
Securitized debt, collateralized by loans held for investment	-	521,997
Securitized debt at fair value, collateralized by loans held for investment	4,198,192	3,868,366
Accrued interest payable	15,516	16,070

Income and expense and OTTI amounts related to consolidated VIEs recorded in the Consolidated Statements of Operations and Comprehensive Income is presented in the table below.

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
	(dollars in thousands)	
Interest income, Assets of consolidated VIEs	$ 150,618	$ 85,211
Interest expense, Non-recourse liabilities of VIEs	46,753	20,699
Net interest income	$ 103,865	$ 64,512
Total other-than-temporary impairment losses	$ (397)	$ -
Portion of loss recognized in other comprehensive income	(6,888)	-
Net other-than-temporary credit impairment losses	$ (7,285)	$ -

VIEs for Which the Company is Not the Primary Beneficiary

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or right to receive benefits that could potentially be significant to the VIEs. The Company's investments in these unconsolidated VIEs are carried in Non-Agency RMBS on the Consolidated Statements of Financial Condition and include senior and subordinated bonds issued by the VIEs. The fair value of the Company's investments in unconsolidated VIEs at March 31, 2015, ranged from less than $1 million to $56 million, with an aggregate amount of $1.3 billion. The fair value of the Company's investments in unconsolidated VIEs at December 31, 2014, ranged from less than $1 million to $46 million, with an aggregate amount of $931 million. The Company's maximum exposure to loss from these unconsolidated VIEs was $1.2 billion at March 31, 2015 and $822 million at December 31, 2014. The maximum exposure to loss was determined as the amortized cost of the unconsolidated VIE, which represents the purchase price of the investment adjusted by any unamortized premiums or discounts as of the reporting date.

9. Derivative Instruments

In connection with the Company's interest rate risk management strategy, the Company economically hedges a portion of its interest rate risk by entering into derivative financial instrument contracts in the form of interest rate swaps, swaptions, and Treasury futures. The Company's swaps are used to lock in a fixed rate related to a portion of its current and anticipated payments on its repurchase agreements. The Company typically agrees to pay a fixed rate of interest ("pay rate") in exchange for the right to receive a floating rate of interest ("receive rate") over a specified period of time. Treasury futures are derivatives which track the prices of specific Treasury securities and are traded on an active exchange. It is generally the Company's policy to close out any Treasury futures positions prior to taking delivery of the underlying security. The Company uses Treasury futures to lock in prices on the purchase or sale of Agency MBS and to hedge changes in interest rates on its existing portfolio.

In addition to interest rate swaps, from time to time the Company purchases and sells mortgage options. Mortgage options give the Company the right, but not the obligation, to buy or sell mortgage backed securities at a future date for a fixed price. The Company uses mortgage options to lock in prices on the purchase or sale of Agency MBS and to enhance investment returns.

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. In the event of a default by the counterparty, the Company could have difficulty obtaining its RMBS or cash pledged as collateral for these derivative instruments. The Company periodically monitors the credit profiles of its counterparties to determine if it is exposed to counterparty credit risk. See Note 14 for further discussion of counterparty credit risk.

The table below summarizes the location and fair value of the derivatives reported in the Consolidated Statements of Financial Condition after counterparty netting and posting of cash collateral as of March 31, 2015 and December 31, 2014.

March 31, 2015

		Derivative Assets		Derivative Liabilities	
Derivative Instruments	Notional Amount Outstanding	Location on Consolidated Statements of Financial Condition	Net Estimated Fair Value/Carrying Value	Location on Consolidated Statements of Financial Condition	Net Estimated Fair Value/Carrying Value
		(dollars in thousands)			
Interest Rate Swaps	$ 2,599,900	Derivatives, at fair value, net	$ -	Derivatives, at fair value, net	(11,754)
Mortgage Options	200,000	Derivatives, at fair value, net	-	Derivatives, at fair value, net	(1)
Swaptions	377,000	Derivatives, at fair value, net	9,788	Derivatives, at fair value, net	(772)
Treasury Futures	850,000	Derivatives, at fair value, net	-	Derivatives, at fair value, net	-
Total	$ 4,026,900		$ 9,788		$ (12,527)

December 31, 2014

		Derivative Assets		Derivative Liabilities	
Derivative Instruments	Notional Amount Outstanding	Location on Consolidated Statements of Financial Condition	Net Estimated Fair Value/Carrying Value	Location on Consolidated Statements of Financial Condition	Net Estimated Fair Value/Carrying Value
		(dollars in thousands)			
Interest Rate Swaps	$ 3,573,000	Derivatives, at fair value, net	$ -	Derivatives, at fair value, net	(14,061)
Mortgage Options	200,000	Derivatives, at fair value, net	-	Derivatives, at fair value, net	(71)
Swaptions	242,000	Derivatives, at fair value, net	2,889	Derivatives, at fair value, net	(45)
Treasury Futures	1,240,000	Derivatives, at fair value, net	-	Derivatives, at fair value, net	-
Total	$ 5,255,000		$ 2,889		$ (14,177)

As of December 31, 2014, the Company had a net TBA position of $742 thousand which settled in January of 2015. This amount is included in Derivative assets on the Consolidated Statements of Financial Condition as of December 31, 2014.

The effect of the Company's derivatives on the Consolidated Statements of Operations and Comprehensive Income is presented below.

		Net gains (losses) on derivatives For the Quarter Ended	
Derivative Instruments	Location on Consolidated Statements of Operations and Comprehensive Income	March 31, 2015	March 31, 2014
		(dollars in thousands)	
Interest Rate Swaps	Net unrealized gains (losses) on derivatives	$ 9,960	$ 4,065
Interest Rate Swaps	Net realized gains (losses) on derivatives	(83,746)	(5,650)
Mortgage Options	Net unrealized gains (losses) on derivatives	224	746
Mortgage Options	Net realized gains (losses) on derivatives	412	603
Treasury Futures	Net unrealized gains (losses) on derivatives	(4,908)	(7,009)
Treasury Futures	Net realized gains (losses) on derivatives	(27,454)	(701)
Swaptions	Net unrealized gains (losses) on derivatives	(1,221)	-
Swaptions	Net realized gains (losses) on derivatives	144	-
Other Derivative Assets	Net unrealized gains (losses) on derivatives	-	
Other Derivative Assets	Net realized gains (losses) on derivatives	(21)	
Total		$ (106,610)	$ (7,946)

The Company paid $69 million to terminate interest rate swaps with a notional value of $575 million during the quarter ended March 31, 2015. The terminated swaps had original maturities ranging from 2024 to 2044. This amount represented the fair value of the terminated interest rate swaps, not counting any accrued interest at the time of settlement.

The weighted average pay rate on the Company's interest rate swaps at March 31, 2015 was 2.22% and the weighted average receive rate was 0.27%. The weighted average pay rate on the Company's interest rate swaps at December 31, 2014 was 2.26% and the weighted average receive rate was 0.24%. The weighted average maturity on the Company's interest rate swaps at March 31, 2015 and December 31, 2014 is 6 years and 7 years, respectively.

Certain of the Company's derivative contracts are subject to International Swaps and Derivatives Association Master Agreements or other similar agreements which may contain provisions that grant counterparties certain rights with respect to the applicable agreement upon the occurrence of certain events such as (i) a decline in stockholders' equity in excess of specified thresholds or dollar amounts over set periods of time, (ii) the Company's failure to maintain its REIT status, (iii) the Company's failure to comply with limits on the amount of leverage, and (iv) the Company's stock being delisted from the New York Stock Exchange (NYSE). Upon the occurrence of any one of items (i) through (iv), or another default under the agreement, the counterparty to the applicable agreement has a right to terminate the agreement in accordance with its provisions. Certain of the Company's interest rate swaps are cleared through a registered commodities exchange. Each of the Company's ISDAs and clearing exchange agreements contains provisions under which the Company is required to fully collateralize its obligations under the interest rate swap agreements if at any point the fair value of the swap represents a liability greater than the minimum transfer amount contained within the agreements. The Company is also required to post initial collateral upon execution of certain of its swap transactions. If the Company breaches any of these provisions, it will be required to settle its obligations under the agreements at their termination values, which approximates fair value. Cleared swaps are fair valued using internal pricing models and compared to the exchange market values. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position at March 31, 2015 is approximately $116 million including accrued interest, which represents the maximum amount the Company would be required to pay upon termination, which is fully collateralized.

10. Common Stock

On March 12, 2015, The Company's board of directors approved a 1-for-5 reverse stock split of its common stock. The reverse stock split was effective after the close of trading on April 6, 2015, and the shares of the Company's common stock began trading on a reverse split-adjusted basis on the New York Stock Exchange beginning at the opening of trading on April 7, 2015. As a result of the reverse stock split, every five shares of the Company's common stock was converted into one share of common stock, reducing the number of issued and outstanding shares of the Company's common stock from approximately 1.0 billion to approximately 206 million and reducing the number of authorized shares from 1.5 billion to approximately 300 million. No fractional shares were issued in connection with the reverse stock split. Each stockholder who was otherwise entitled to receive a fractional share of the Company's common stock was entitled to receive a cash payment in lieu of a fractional share. The reverse stock split was not subject to stockholder approval and did not change the par value of the Company's common stock. All common shares, outstanding options and per share amounts for all periods were retroactively adjusted to reflect the reverse stock split.

During the quarters ended March 31, 2015 and 2014, the Company declared dividends to common shareholders totaling $99 million and $92 million, respectively, or $0.48 and $0.45 per share, respectively.

Earnings per share for the quarters ended March 31, 2015 and 2014, respectively, are computed as follows:

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
Numerator:		
Net income	$ 67,041	$ 100,368
Effect of dilutive securities:	-	-
Dilutive net income available to stockholders	$ 67,041	$ 100,368
Denominator:		
Weighted average basic shares	205,527,476	205,452,523
Effect of dilutive securities	39,480	65,230
Weighted average diluted shares	205,566,956	205,517,753
Net income per average share attributable to common stockholders - Basic	$ 0.33	$ 0.50
Net income per average share attributable to common stockholders - Diluted	$ 0.33	$ 0.50

11. Accumulated Other Comprehensive Income

The following table presents the changes in the components of Accumulated Other Comprehensive Income ("AOCI") for the quarters ended March 31, 2015 and 2014:

	March 31, 2015 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance
Balance as of December 31, 2014	$ 1,046,680	$ 1,046,680
OCI before reclassifications	(19,912)	(19,912)
Amounts reclassified from AOCI	(21,261)	(21,261)
Net current period OCI	(41,173)	(41,173)
Balance as of December 31, 2014	$ 1,005,507	$ 1,005,507

	March 31, 2014 (dollars in thousands)	
	Unrealized gains (losses) on available-for-sale securities, net	Total Accumulated OCI Balance

Balance as of December 31, 2013	$	990,803	$	990,803
OCI before reclassifications		37,503		37,503
Amounts reclassified from AOCI		(6,843)		(6,843)
Net current period OCI		30,660		30,660
Balance as of March 31, 2014	$	1,021,463	$	1,021,463

The following table presents the details of the reclassifications from AOCI for the quarters ended March 31, 2015 and 2014:

Details about Accumulated OCI Components	March 31, 2015 Amounts Reclassified from Accumulated OCI	March 31, 2014 Amounts Reclassified from Accumulated OCI	Affected Line on the Consolidated Statements Of Operations And Comprehensive Income
Unrealized gains and losses on available-for-sale securities	(dollars in thousands)		
	$ 29,076	$ 8,377	Net realized gains (losses) on sales of investments
	(7,815)	(1,534)	Net other-than-temporary credit impairment losses
	$ 21,261	$ 6,843	Income before income taxes
	-	-	Income taxes
	$ 21,261	$ 6,843	Net of tax

12. Long Term Incentive Plan

On January 2, 2008, the Company granted restricted stock awards in the amount of 260,200 shares, adjusted for the 1-for-5 split, to employees of FIDAC and its affiliates and the Company's independent directors. The awards to the independent directors vested on the date of grant and the awards to FIDAC's employees vest quarterly over a period of 10 years.

On February 2, 2015, the Company granted restricted stock awards in the amount of 84,700 shares to employees of FIDAC. The awards vest annually over a period of two years.

The Company recognized stock based compensation expense of $436 thousand and $50 thousand for the quarters ended March 31, 2015 and 2014, respectively. As of March 31, 2015 there was approximately $1 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the long term incentive plan, based on the closing price of the shares at March 31, 2015. That cost is expected to be recognized over a period of approximately 3 years.

13. Income Taxes

For the quarter ended March 31, 2015 and for the year ended December 31, 2014, the Company was qualified to be taxed as a REIT under Code Sections 856 through 860. As a REIT, the Company is not subject to federal income tax to the extent that it makes qualifying distributions of taxable income to its stockholders. To maintain qualification as a REIT, the Company must distribute at least 90% of its annual REIT taxable income to its shareholders and meet certain other requirements such as assets it may hold, income it may generate and its shareholder composition. It is generally the Company's policy to distribute to its shareholders all of the Company's taxable income.

The state and local tax jurisdictions for which the Company is subject to tax-filing obligations recognize the Company's status as a REIT, and therefore, the Company generally does not pay income tax in such jurisdictions. The Company may, however, be subject to certain minimum state and local tax filing fees and its TRS's are subject to federal, state, and local taxes. There were no significant income tax expenses for the quarters ended March 31, 2015 and 2014.

In general, common stock cash dividends declared by the Company will be considered ordinary income to stockholders for income tax purposes. From time to time, a portion of the Company's dividends may be characterized as capital gains or return of capital.

The Company's effective tax rate differs from its combined federal, state and city corporate statutory tax rate primarily due to the deduction of dividend distributions required to be paid under Code Section 857(a).

The Company's 2013, 2012 and 2011 federal, state and local tax returns remain open for examination.

14. Credit Risk and Interest Rate Risk

The Company's primary components of market risk are credit risk and interest rate risk. The Company is subject to interest rate risk in connection with its investments in Agency MBS and Non-Agency RMBS, residential mortgage loans, and borrowings under repurchase agreements. When the Company assumes interest rate risk, it attempts to minimize interest rate risk through asset selection, hedging and matching the income earned on mortgage assets with the cost of related liabilities. The Company attempts to minimize credit risk through due diligence and asset selection by purchasing loans underwritten to agreed-upon specifications of selected originators as well as on-going portfolio monitoring. The Company has established a whole loan target market including prime and sub-prime borrowers,

Alt-A documentation, geographic diversification, owner-occupied property, and moderate loan-to-value ratios. These factors are considered to be important indicators of credit risk.

By using derivative instruments and repurchase agreements, the Company is exposed to counterparty credit risk if counterparties to the contracts do not perform as expected. If a counterparty fails to perform on a derivative hedging instrument, the Company's counterparty credit risk is equal to the amount reported as a derivative asset on its balance sheet to the extent that amount exceeds collateral obtained from the counterparty or, if in a net liability position, the extent to which collateral posted exceeds the liability to the counterparty. The amounts reported as a derivative asset/(liability) are derivative contracts in a gain/(loss) position, and to the extent subject to master netting arrangements, net of derivatives in a loss/(gain) position with the same counterparty and collateral received/(pledged). If the counterparty fails to perform on a repurchase agreement, the Company is exposed to a loss to the extent that the fair value of collateral pledged exceeds the liability to the counterparty. The Company attempts to minimize counterparty credit risk by evaluating and monitoring the counterparty's credit, executing master netting arrangements and obtaining collateral, and executing contracts and agreements with multiple counterparties to reduce exposure to a single counterparty, where appropriate.

Our repurchase agreements and derivative transactions are governed by underlying agreements that provide for a right of setoff under master netting arrangements, including in the event of default or in the event of bankruptcy of either party to the transactions. We present our assets and liabilities subject to such arrangements on a net basis in our consolidated statements of financial condition. The following table presents information about our liabilities that are subject to such arrangements and can potentially be offset on our consolidated statements of financial condition as of March 31, 2015 and December 31, 2014.

March 31, 2015
(dollars in thousands)

				Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		
	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Offset in the Consolidated Statements of Financial Position	Financial Instruments	Cash Collateral (Received) Pledged (1)	Net Amount
Repurchase Agreements	$ (8,296,224)	$ -	$ (8,296,224)	$ 9,274,411	$ 5,060	$ 983,247
Interest Rate Swaps	(102,469)	90,715	(11,754)	10,989	65,601	64,836
Treasury Futures	(12,136)	12,136	-	-	7,382	7,382
Mortgage Options	(1)	-	(1)	-	-	(1)
Swaptions - Gross Liability	(772)	-	(772)	-	-	(772)
Swaptions - Gross Asset	9,788	-	9,788	-	-	9,788
Total Liabilities	$ (8,401,814)	$ 102,851	$ (8,298,963)	$ 9,285,400	$ 78,043	$ 1,064,480

(1) Included in other assets

December 31, 2014
(dollars in thousands)

				Gross Amounts Not Offset with Financial Assets (Liabilities) in the Consolidated Statements of Financial Position		
	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Statements of Financial Position	Net Amounts Offset in the Consolidated Statements of Financial Position	Financial Instruments	Cash Collateral (Received) Pledged (1)	Net Amount
	$ (8,455,381)	$ -	$ (8,455,381)	$ 9,309,738	$ -	$ 854,357

Repurchase Agreements						
Interest Rate Swaps	(113,597)	99,536	(14,061)	19,340	64,796	70,075
Treasury Futures	(7,227)	7,227	-	-	12,595	12,595
Mortgage Options	(71)	-	(71)	-	-	(71)
Swaptions - Gross Liability	(45)	-	(45)	-	-	(45)
Swaptions - Gross Asset	2,889	-	2,889	-	-	2,889
Total Liabilities	$ (8,573,432)	$ 106,763	$ (8,466,669)	$ 9,329,078	$ 77,391	$ 939,800

(1) Included in other assets

15. Management Agreement and Related Party Transactions

Management Agreement

On August 8, 2014, the management agreement was amended and restated. Effective August 8, 2014, the management fee was increased to 1.20% of gross stockholders' equity from 0.75% of gross stockholders' equity. The Company incurred management fee expenses of $10 million and $6 million for each of the quarters ended March 31, 2015 and 2014, respectively.

The management agreement provides for a two year term ending August 7, 2016 and may be automatically renewed for two year terms at each anniversary date unless at least two-thirds of the independent directors or the holders of a majority of the outstanding shares of common stock elects not to renew the agreement in their sole discretion and for any or no reason. Unless the management agreement is terminated for "cause" or FIDAC terminates the management agreement, in the event that the management agreement is terminated or not renewed, the Company must pay to FIDAC a termination fee equal to two times the average annual management fee, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. FIDAC will continue to provide services under the management agreement for a period not less than 180 days from the date the Company delivers the notice not to renew the management agreement.

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The Company may also terminate the management agreement with 30 days' prior notice from the Company's Board of Directors, without payment of a termination fee, for cause or upon a change of control of Annaly or FIDAC, each as defined in the management agreement. FIDAC may terminate the management agreement if the Company becomes required to register as an investment company under the Investment Company Act of 1940, as amended, with such termination deemed to occur immediately before such event, in which case the Company would not be required to pay a termination fee. FIDAC may also decline to renew the management agreement by providing the Company with 180-days' written notice, in which case the Company would not be required to pay a termination fee.

The management agreement provides that FIDAC will pay all past and future expenses that the Company or the Audit Committee of the Company incur to: (1) evaluate the Company's accounting policy related to the application of GAAP to its Non-Agency RMBS portfolio (the "Evaluation"); (2) restate the Company's financial statements for the period covering 2008 through 2011 as a result of the Evaluation (the "Restatement Filing"); and (3) investigate and evaluate any shareholder derivative demands arising from the Evaluation or the Restatement Filing (the "Investigation"); provided, however, that FIDAC's obligation to pay expenses applies only to expenses not paid by the Company's insurers under its insurance policies. Expenses shall include, without limitation, fees and costs incurred with respect to auditors, outside counsel, and consultants engaged by the Company or the Audit Committee of the Company for the Evaluation, Restatement Filing and the Investigation. The amount paid by FIDAC related to these expenses for each of the quarters ended March 31, 2015 and 2014 is $1 million, respectively, and is presented in the Consolidated Statements of Operations and Comprehensive Income as Expense recoveries from Manager.

The Company is obligated to reimburse FIDAC for costs incurred on the Company's behalf under the management agreement. In addition, the management agreement permits FIDAC to require the Company to pay for its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses that FIDAC incurred in connection with the Company's operations. These expenses are allocated between FIDAC and the Company based on the ratio of the Company's proportion of gross assets compared to the gross assets managed by FIDAC as calculated at each quarter end. FIDAC and the Company will modify this allocation methodology, subject to the approval of the Company's Board of Directors if the allocation becomes inequitable (i.e., if the Company becomes very highly leveraged compared to FIDAC's other funds and accounts). During the quarters ended March 31, 2015 and 2014, reimbursements to FIDAC were less than $1 million, respectively.

RCap

On March 1, 2011, the Company entered into an administrative services agreement with RCap Securities Inc., ("RCap"). RCap is a SEC-registered broker-dealer and a wholly-owned subsidiary of Annaly that clears the Company's securities trades in return for normal and customary fees that RCap charges for such services. RCap may also provide brokerage services to the Company from time to time. During each of the quarters ended March 31, 2015 and 2014, fees paid to RCAP were less than $1 million, respectively.

16. Commitments and Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. In connection with certain re-securitization transactions engaged in by the Company, the Company has the obligation under certain circumstances to repurchase assets from the VIE upon breach of certain representations and warranties. Management is not aware of any contingencies that require accrual or disclosure as of March 31, 2015 and December 31, 2014.

17. Subsequent Events

Subsequent to March 31, 2015, the Company exercised its call option to retire securitized debt, collateralized by loans held for investment with an unpaid principal amount of $230 million at par.

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

The following discussion of the Company's ("we" or "our") financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes to those statements included in Item 1 of this quarterly report on Form 10-Q. All per share amounts, common shares outstanding and restricted shares for the first quarter of 2015 and all prior periods reflect the Company's 1-for-5 reverse stock split, which was effective April 6, 2015.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words ''believe,'' ''expect,'' ''anticipate,'' ''estimate,'' ''plan,'' ''continue,'' ''intend,'' ''should,'' ''may,'' ''would,'' ''will'' or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, are forward-looking by their nature:

our business and investment strategy;

our ability to maintain existing financing arrangements and our ability to obtain future financing arrangements;

our expectations regarding materiality or significance;

the effectiveness of our disclosure controls and procedures;

material weaknesses in our internal controls over financial reporting;

inadequacy of or weakness in our internal controls over financial reporting of which we are not currently aware or which have not been detected;

additional information that may arise from the preparation of our financial statements;

general volatility of the securities markets in which we invest;

the impact of and changes to various government programs;

our expected investments;

changes in the value of our investments;

interest rate mismatches between our investments and our borrowings used to finance such purchases;

changes in interest rates and mortgage prepayment rates;

effects of interest rate caps on our adjustable-rate investments;

rates of default, delinquencies or decreased recovery rates on our investments;

prepayments of the mortgage and other loans underlying our mortgage-backed securities, or RMBS, or other asset-backed securities, or ABS;

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

impact of and changes in governmental regulations, tax law and rates, accounting guidance, and similar matters;

availability of investment opportunities in real estate-related and other securities;

availability of qualified personnel;

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

our understanding of our competition;

market trends in our industry, interest rates, the debt securities markets or the general economy;

our ability to maintain our classification as a real estate investment trust, or REIT, for federal income tax purposes; and

our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or 1940 Act.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described under the caption ‘‘Risk Factors’’ in our 2014 Form 10-K. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a Maryland corporation that commenced operations on November 21, 2007. We acquire, either directly or indirectly through our subsidiaries, residential mortgage-backed securities, or RMBS, residential mortgage loans, commercial mortgage loans, real estate related securities and various other asset classes. We are externally managed by Fixed Income Discount Advisory Company, which we refer to as FIDAC or our Manager. FIDAC is a fixed-income investment management company that is registered as an investment adviser with the SEC. FIDAC is a wholly owned subsidiary of Annaly Capital Management, Inc., or Annaly. FIDAC has a broad range of experience in managing investments in Agency MBS, which are mortgage pass-through certificates, collateralized mortgage obligations, or CMOs, and other RMBS representing interests in or obligations backed by pools of mortgage loans issued or guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae, Non-Agency RMBS, collateralized debt obligations, or CDOs, and other real estate related investments.

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve this objective by investing in a diversified investment portfolio of RMBS, residential mortgage loans, real estate-related securities and various other asset classes, subject to maintaining our REIT status and exemption from registration under the 1940 Act. The RMBS, ABS, CMBS, and CDOs we purchase may include investment-grade and non-investment grade classes, including the BB-rated, B-rated and non-rated classes.

We rely on our Manager's expertise in identifying assets within our target asset classes. Our Manager makes investment decisions based on various factors, including expected cash yield, relative value, risk-adjusted returns, current and projected credit fundamentals, current and projected macroeconomic considerations, current and projected supply and demand, credit and market risk concentration limits, liquidity, cost of financing and financing availability, as well as maintaining our REIT qualification and our exemption from registration under the 1940 Act.

Over time, we may modify our investment allocation strategy as market conditions change to seek to maximize the returns from our investment portfolio. We believe this strategy, combined with our Manager's experience, will enable us to pay dividends and achieve capital appreciation through various changing interest rate and credit cycles and provide attractive long-term returns to investors.

Our targeted asset classes and the principal investments we have made and in which we may in the future invest are:

Asset Class	Principal Investments
RMBS	Non-Agency RMBS, including investment-grade and non-investment grade classes, including the BB-rated, B-rated or lower including non-rated classes
	Agency MBS, including securities backed by residential and commercial real estate
	Interest-only (“IO”) MBS
Residential Mortgage Loans	Prime mortgage loans, which are mortgage loans that conform to the underwriting guidelines of Fannie Mae and Freddie Mac, which we refer to as Agency Guidelines; and jumbo prime mortgage loans, which are mortgage loans that conform to the Agency Guidelines except as to loan size
	Alt-A mortgage loans, which are mortgage loans that may have been originated using documentation standards that are less stringent than the documentation standards applied by certain other first lien mortgage loan purchase programs, such as the Agency Guidelines, but have one or more compensating factors such as a borrower with a strong credit or mortgage history or significant assets
	Seasoned sub-prime mortgage loans, which are mortgage loans that may have been originated using documentation standards that are less stringent than prime mortgage loans and that have borrowers who have credit or mortgage history which would not meet the standards for prime mortgage loans or Alt-A mortgage loans.
	Mortgage loans collateralized by manufactured or pre-fabricated homes.
	Mortgage loans collateralized by second lien, home equity lines of credit, and other similar financing arrangements.
	FHA/VA insured loans, which are mortgage loans that comply with the underwriting guidelines of the Federal Housing Administration (FHA) or Department of Veteran Affairs (VA) and which are guaranteed by the FHA or VA, respectively
	Mortgage servicing rights associated with residential mortgage loans, which reflect the value of the future stream of expected cash flows from the contractual rights to service a given pool of residential mortgage loans.

Commercial Mortgage Loans	First or second lien loans secured by multifamily properties, which are residential rental properties consisting of five or more dwelling units; and mixed residential or other commercial properties; retail properties; office properties; or industrial properties, which may or may not conform to the Agency Guidelines
Other Asset-Backed Securities	CMBS
	Debt and equity tranches of CDOs
	Consumer and non-consumer ABS, including investment-grade and non-investment grade classes, including the BB-rated, B-rated, or lower including non-rated classes
	Loans collateralized by commercial real estate, fixed assets and equipment that are part of the small business administration certified development company program.
Hedging Instruments	Swaps
	Swaptions
	Futures
	Mortgage options
	Index options

We commenced operations in November 2007 and focus our investment activities primarily on acquiring Non-Agency and Agency MBS and on purchasing residential mortgage loans that have been originated by select originators, including the retail lending operations of leading commercial banks. At March 31, 2015, based on the amortized cost balance of our interest earning assets, approximately 47% of our investment portfolio was Agency MBS, 19% of our investment portfolio was Non-Agency RMBS, and 34% of our investment portfolio was securitized residential mortgage loans. At December 31, 2014, based on the amortized cost balance of our interest earning assets, approximately 52% of our investment portfolio was Agency MBS, 16% of our investment portfolio was Non-Agency RMBS, and 32% of our investment portfolio was securitized residential mortgage loans.

We have engaged in transactions with residential mortgage lending operations of leading commercial banks and other originators in which we identified and re-underwrote residential mortgage loans owned by such entities, and purchased and securitized such residential mortgage loans. In the past we have also acquired formerly AAA-rated Non-Agency RMBS and immediately re-securitized those securities. We sold the resulting AAA-rated super senior RMBS and retained the rated or unrated mezzanine RMBS.

Our investment strategy is intended to take advantage of opportunities in the current interest rate and credit environment. We expect to adjust our strategy to changing market conditions by shifting our asset allocations across these various asset classes as interest rate and credit cycles change over time. We believe that our strategy, combined with FIDAC's experience, will enable us to pay dividends and achieve capital appreciation throughout changing market cycles. We expect to take a long-term view of assets and liabilities, and our reported earnings and estimates of the fair value of our investments at the end of a financial reporting period will not significantly impact our objective of providing attractive risk-adjusted returns to our stockholders over the long-term.

We use leverage to seek to increase our potential returns and to finance the acquisition of our assets. Our income is generated primarily by the difference, or net spread, between the income we earn on our assets and the cost of our borrowings. We expect to finance our investments using a variety of financing sources including, when available, repurchase agreements, warehouse facilities and securitizations. We may manage our debt and interest rate risk by utilizing interest rate hedges, such as interest rate swaps, caps, options and futures to reduce the effect of interest rate fluctuations related to our financing sources.

We have elected and believe we are organized and have operated in a manner that qualifies us to be taxed as a REIT under the Code. A REIT generally will not be subject to federal income tax on taxable income that is distributed to stockholders. Furthermore, substantially all of our assets consist of qualified REIT real estate assets (of the type described in Code Section 856(c) (5)). We calculate that at least 75% of our assets were qualified REIT assets, as defined in the Code, for the quarter ended March 31, 2015 and the year ended December 31, 2014. We also calculate that our revenues qualified for the 75% REIT income test and for the 95% REIT income test for the quarters ended March 31, 2015 and for the year ended December 31, 2014. We also met all REIT requirements regarding the ownership of our common stock and the distribution of our REIT taxable income. Therefore, for the quarter ended March 31, 2015 and for the year ended December 31, 2014, we believe that we qualified as a REIT under the Code.

We operate our business to be exempt from registration under the 1940 Act, and therefore we are required to invest a substantial majority of our assets in loans secured by mortgages on real estate and real estate-related assets. Subject to maintaining our REIT qualification and our 1940 Act exemption, we do not have any limitations on the amounts we may invest in any of our targeted asset classes.

Looking forward, we cannot predict the percentage of our assets that will be invested in each asset class or whether we will invest in other classes of investments. We may change our investment strategy and policies without a vote of our stockholders.

Net Income Summary

The table below presents our net income on a GAAP basis for the quarters ended March 31, 2015, and 2014.

Net Income
(dollars in thousands)
(unaudited)

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
Net Interest Income:		
Interest income (1)	$243,145	$120,667
Interest expense (2)	60,456	22,425
Net interest income (expense)	182,689	98,242
Other-than-temporary impairments:		
Total other-than-temporary impairment losses	(1,052)	(400)
Portion of loss recognized in other comprehensive income	(6,763)	(1,134)
Net other-than-temporary credit impairment losses	(7,815)	(1,534)
Other investment gains (losses):		
Net unrealized gains (losses) on derivatives	4,055	(2,198)
Realized gains (losses) on terminations of interest rate swaps	(68,579)	-
Net realized gains (losses) on derivatives	(42,086)	(5,748)
Net gains (losses) on derivatives	(106,610)	(7,946)
Net unrealized gains (losses) on financial instruments at fair value	(10,425)	15,010
Net realized gains (losses) on sales of investments	29,565	8,377
Loss on extinguishment of Debt	-	(2,184)
Total other gains (losses)	(87,470)	13,257
Other expenses:		
Management fees	10,326	6,221
Expense recoveries from Manager	(1,113)	(681)
Net management fees	9,213	5,540
General and administrative expenses	11,149	4,055
Total other expenses	20,362	9,595
Income before income taxes	67,042	100,370
Income taxes	1	2
Net income	$67,041	$100,368
Net income per share available to common shareholders:		
Basic	$0.33	$0.50
Diluted	$0.33	$0.50
Weighted average number of common shares outstanding:		
Basic	205,527,476	205,452,523
Diluted	205,566,956	205,517,753

(1) Includes interest income of consolidated VIEs of $150,618 and $85,211 for the quarters ended March 31, 2015 and 2014 respectively.

(2) Includes interest expense of consolidated VIEs of $46,753 and $20,699 for the quarters ended March 31, 2015 and 2014 respectively.

Our net income decreased by $33 million to $67 million, or $0.33 per average basic common share, for the quarter ended March 31, 2015 as compared to $100 million, or $0.50 per average basic common share, for the quarter ended March 31, 2014. The decrease in earnings for the quarter ended March 31, 2015 over the same period of 2014 is primarily attributable to a $68 million realized loss on the termination of $525 million notional of interest rate swaps. There were no realized losses in 2014 for derivative terminations. In addition to the termination loss, we incurred $36 million additional realized losses on derivatives in the first quarter of 2015 as compared to the same period of 2014. This loss was offset in part by an increase in net interest income of $84 million in the first quarter of 2015 as compared to the same period of 2014.

We discuss the changes in our net income in greater detail in the discussion on our results of operations below.

Trends

We expect the results of our operations to be affected by various factors, many of which are beyond our control. Our results of operations will primarily depend on, among other things, the level of our net interest income, the market value of our assets, and the supply of and demand for such assets. Economic trends, both macro as well as those directly affecting the residential housing market, and the supply and demand of RMBS may affect our operations and financial results. We also evaluate market information regarding current residential mortgage loan underwriting criteria and loan defaults to manage our portfolio of assets, leverage, and debt. Our net interest income, which reflects the amortization of purchase premiums and accretion of discounts, varies primarily as a result of changes in interest rates, borrowing costs, credit impairment losses, and prepayment speeds, which is a measurement of how quickly borrowers pay down the unpaid principal balance on their mortgage loans. Further description of these factors is provided below.

Prepayment Speeds. Prepayment speeds, as reflected by the Constant Prepayment Rate, or CPR, vary according to interest rates, the type of investment, conditions in financial markets, and other factors, none of which can be predicted with any certainty. In general, when interest rates rise, it is relatively less attractive for borrowers to refinance their mortgage loans, and as a result, prepayment speeds tend to decrease. When interest rates fall, prepayment speeds tend to increase. For mortgage loan and RMBS investments purchased at a premium, as prepayment speeds increase, the amount of income we earn decreases as the purchase premium on the bonds amortizes faster than expected. Conversely, decreases in prepayment speeds result in increased income and can extend the period over which we amortize the purchase premium. For mortgage loan and RMBS investments purchased at a discount, as prepayment speeds increase, the amount of income we earn increases from the acceleration of the accretion of the discount into interest income. Conversely, decreases in prepayment speeds result in decreased income as the accretion of the purchase discount into interest income occurs over a longer period. Recently, the correlation between interest rates and prepayment has not followed normal trends for certain asset classes. Due to economic hardship, some borrowers have been unable to refinance their loans as underwriting standards are more stringent and credit conditions remain restrictive.

Rising Interest Rate Environment. As indicated above, as interest rates rise, prepayment speeds generally decrease. Rising interest rates, however, increase our financing costs which may result in a net negative impact on our net interest income. In addition, if we acquire Agency MBS and Non-Agency RMBS collateralized by monthly reset adjustable-rate mortgages, or ARMs, and three- and five-year hybrid ARMs, such interest rate increases could result in decreases in our net investment income, as the increase in our adjustable rate assets may increase slower than our adjustable rate financing. We expect that our fixed-rate assets would decline in value in a rising interest rate environment and that our net interest spreads on fixed rate assets could decline in a rising interest rate environment to the extent such assets are financed with floating rate debt.

Falling Interest Rate Environment. As indicated above, as interest rates fall, prepayment speeds generally increase. Falling interest rates, however, decrease our financing costs which may result in a net positive impact on our net interest income. The company attempts to mitigate some of the risk of falling interest rates by using interest rate derivative hedges such as swaps, futures and options that are designed to increase in value if interest rates rise. When interest rates fall, the value of such interest rate derivatives also fall in value as the risk the derivative is designed to hedge is lower. We expect our interest rate hedges to lose value in a falling interest rate environment and reduce net income.

Credit Risk. One of our strategic focuses is on acquiring distressed Non-Agency RMBS that have been downgraded because of defaults in the mortgages collateralizing such RMBS. When we acquire such RMBS we attempt to purchase it at a price such that its loss-adjusted return profile is in line with our targeted yields. We retain the risk of potential credit losses on all of the residential mortgage loans we hold in our portfolio as well as all of the

Non-Agency MBS. We attempt to mitigate credit risk in the asset selection process. Prior to the purchase of investments, we conduct a credit-risk based analysis of the collateral securing our investment that includes examining borrower characteristics, geographic concentrations, current and projected delinquencies, current and projected severities, and actual and expected prepayment speeds among other characteristics to estimate expected losses. We also acquire assets which we believe to be of high credit quality.

Size of Investment Portfolio. The size of our investment portfolio, as measured by the aggregate unpaid principal balance of our mortgage loans and aggregate principal balance of our mortgage related securities and the other assets we own, is also a key revenue driver. Generally, as the size of our investment portfolio grows, the amount of interest income we receive increases. The larger investment portfolio, however, may result in increased expenses if we incur additional interest expense to finance the purchase of our assets.

Financial Condition

Estimated Economic Book Value

This Management Discussion and Analysis section contains analysis and discussion of financial information that utilizes or presents ratios based on GAAP book value. The table and discussion below present our estimated economic book value. We calculate and disclose this non-GAAP measurement because we believe it represents an estimate of the fair value of the assets we own or are able to dispose of, pledge, or otherwise monetize. The estimated economic book value should not be viewed in isolation and is not a substitute for book value computed in accordance with GAAP.

GAAP requires us to consolidate certain securitizations and re-securitization transactions where we have determined that we are the primary beneficiary. In these transactions, we transfer assets to the trusts, which issue tranches of senior and subordinate notes or certificates. We sell the senior tranches and therefore have no continuing involvement in these trusts other than being a holder of notes or certificates issued by the trusts, with the same rights as other holders of the notes or certificates. However, with respect to certain VIEs collateralized by loans held for investment, we have the ability to approve loan modifications and determine the course of action to be taken as it relates to loans in technical default, including whether or not to proceed with foreclosure. The notes and certificates we own that were issued by the trusts are largely subordinated interests in those trusts. The trusts have no recourse to our assets other than pursuant to a breach by us of the transaction documents related to the transfer of the assets by us to the trusts, but are presented as if we own 100% of the trust.

For re-securitized RMBS transactions and loan securitizations, we present the pre-securitized assets transferred into the consolidated trusts in our Consolidated Statements of Financial Condition as Non-Agency or Securitized loans held for investment. Post securitization RMBS assets sold are presented as liabilities in our Consolidated Statements of Financial Condition as Securitized debt, collateralized by Non-Agency RMBS and Securitized debt, collateralized by loans held for investment. We have presented the underlying securities we transferred to the trusts for the calculation of GAAP book value at fair value and recorded the corresponding liability for the notes or certificates sold to third parties at amortized cost or fair value. Fair value adjustments that are not credit related are recorded in Other comprehensive income. Credit related impairments are deemed other-than-temporary and are recorded in earnings.

Because we are unable to dispose of, monetize or pledge the RMBS or loans we transferred into the trusts, we also present our estimated economic book value. We believe this measure represents the estimated value of the securities issued by these trusts that we own. In contrast to GAAP book value, our estimated economic book value considers only the assets we own or are able to dispose of, pledge, or otherwise monetize. To determine our estimated economic book value, we consider only the fair value of the notes or certificates issued by the securitization and re-securitization trusts that we actually own. Accordingly, our estimated economic book value does not include assets or liabilities for which we have no direct ownership, specifically the notes or certificates of the securitization and re-securitization trusts that were sold to third parties.

At March 31, 2015, the difference between GAAP book value and estimated economic book value was determined to be $292 million, or $1.44 per share. At December 31, 2014, the difference between GAAP book value and estimated economic book value was determined to be $336 million, or $1.65 per share. This difference is primarily driven by the value of the RMBS assets we have retained in these re-securitization transactions as compared to the value of consolidated loans and securities net of RMBS assets sold, but treated as a secured financing on the statement of financial condition. In these re-securitization transactions, we have generally retained the subordinated, typically non-rated, first loss notes or certificates issued by the securitization trusts. These securities are complex, typically locked out as to principal repayment, relatively illiquid, and do not necessarily appreciate or depreciate in tandem with the broader Non-Agency RMBS market or with the loans on securities owned by the trusts. As the senior notes pay

off, we expect the difference between our economic and our GAAP book value to decrease. The tables below present the adjustments to GAAP book value that we believe are necessary to adequately reflect our calculation of estimated economic book value as of March 31, 2015 and December 31, 2014.

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March 31, 2015
(dollars in thousands, except per share data)

GAAP Book Value	$	3,523,195
GAAP Book Value per Share	$	17.14
Economic Adjustments:		
Assets of Consolidated VIEs		(7,552,149)
Non-Recourse Liabilities of Consolidated VIEs		4,869,796
Interests in VIEs eliminated in consolidation		2,390,188
Total Adjustments - Net		(292,165)
Total Adjustments - Net (per share)		1.44
Economic Book Value	$	3,231,030
Economic Book Value per Share	$	15.70

December 31, 2014
(dollars in thousands, except per share data)

GAAP Book Value	$	3,607,690
GAAP Book Value per Share	$	17.55
Economic Adjustments:		
Assets of Consolidated VIEs		(7,798,794)
Non-Recourse Liabilities of Consolidated VIEs		5,095,278
Interests in VIEs eliminated in consolidation		2,367,953
Total Adjustments - Net		(335,563)
Total Adjustments - Net (per share)		1.65
Economic Book Value	$	3,272,127
Economic Book Value per Share	$	15.90

Our estimate of economic book value has important limitations. Our estimate of fair value is as of a point in time and subject to significant judgment, primarily the estimate of the fair value of the securities issued by the trusts which we own and can freely sell or pledge. Should we sell the assets in our portfolio, we may realize materially different proceeds from the sale than we have estimated as of the reporting date.

The calculation of estimated economic book value described above is used by management to understand the fair value of the assets we own and the liabilities for which we are legally obligated, and is presented for informational use only. The estimated economic book value should not be viewed in isolation and is not a substitute for book value computed in accordance with GAAP.

Portfolio Review

During the quarter ended March 31, 2015, on an aggregate basis, we purchased $1.7 billion of invested assets, sold $2.2 billion of invested assets, and received $581 million in principal payments related to our Agency and Non-Agency RMBS. In addition, we used $316 million of proceeds received from principal and interest on our investments to repay principal on our securitized debt.

The following table summarizes certain characteristics of our portfolio at March 31, 2015 and December 31, 2014.

	March 31, 2015		December 31, 2014	
Interest earning assets at period-end (1)	$ 16,003,485		$ 17,170,998	
Interest bearing liabilities at period-end	$ 13,166,020		$ 13,550,659	
Leverage at period-end	3.7:1		3.8:1	
Leverage at period-end (recourse)	2.6:1		2.6:1	
Portfolio Composition, at amortized cost				
Non-Agency RMBS	7.9	%	5.1	%
Senior	3.3	%	1.5	%
Senior, interest only	2.0	%	1.4	%
Subordinated	2.6	%	2.2	%
Subordinated, interest only	0.1	%	0.1	%
RMBS transferred to consolidated VIEs	10.9	%	10.3	%
Agency MBS	47.5	%	52.1	%
Residential	42.7	%	50.9	%
Commercial	3.0	%	N/A	
Interest-only	1.8	%	1.2	%
Securitized loans held for investment, net of allowance for loan losses	-		4.0	%
Securitized loans held for investment, at fair value	33.7	%	28.5	%
Fixed-rate percentage of portfolio	90.0	%	92.5	%
Adjustable-rate percentage of portfolio	10.0	%	7.5	%
Annualized yield on average interest earning assets for the year ended	6.4	%	6.9	%
Annualized cost of funds on average borrowed funds for the year ended (2)	2.3	%	2.5	%

(1) Excludes cash and cash equivalents.

(2) Includes the effect of realized losses on interest rate swaps.

The following table presents details of each asset class in our portfolio at March 31, 2015 and December 31, 2014. The principal or notional value represents the interest income earning balance of each class. The weighted average figures are weighted by each investment's respective principal/notional value in the asset class.

March 31, 2015

	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)	Weighted Average 3 Month CPR at Period-End	Weighted Average 12 Month CPR at Period-End	Weighted Average Delinquency Pipeline 60+	Weighted Average Loss Severity (2)	Weighted Average Credit Enhancement	Principal Writedowns During Period (dollars in

											thousands)
Non-Agency Mortgage-Backed Securities											
Senior	$710,159	$56.75	$78.68	3.9%	14.6%	9.7 %	10.0%	29.2%	64.5%	9.5 %	$7,879
Senior, interest only	$6,133,606	$4.84	$4.60	1.7%	13.0%	11.9%	12.5%	21.6%	53.9%	0.0 %	$-
Subordinated	$711,445	$53.61	$68.56	3.1%	13.2%	14.3%	15.1%	16.6%	44.3%	11.3%	$5,040
Subordinated, interest only	$214,350	$4.36	$2.95	0.8%	9.4 %	9.1 %	10.4%	13.3%	45.7%	0.0 %	$-
RMBS transferred to consolidated VIEs	$3,054,594	$53.98	$80.30	4.5%	17.5%	9.3 %	10.3%	22.6%	60.5%	1.3 %	$22,242
Agency Mortgage-Backed Securities											
Residential	$6,060,500	$105.17	$106.38	3.9%	2.4 %	13.3%	12.5%	NA	NA	NA	$-
Commercial	$432,042	$102.68	$104.60	4.0%	4.1 %	0.0 %	0.0 %	NA	NA	NA	$-
Interest-only	$5,888,224	$4.51	$4.49	1.0%	5.9 %	9.3 %	10.0%	NA	NA	NA	$-
Securitized loans	$5,073,699	$99.23	$101.43	6.2%	4.8 %	9.8 %	8.2 %	10.3%	46.0%	36.5%	$6,110

(1) Bond Equivalent Yield at period end. Weighted Average Yield is calculated using each investment's respective amortized cost.

(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

	December 31, 2014										
	Principal or Notional Value at Period-End (dollars in thousands)	Weighted Average Amortized Cost Basis	Weighted Average Fair Value	Weighted Average Coupon	Weighted Average Yield at Period-End (1)	Weighted Average 3 Month CPR at Period-End	Weighted Average 12 Month CPR at Period-End	Weighted Average Delinquency Pipeline 60+	Weighted Average Loss Severity (2)	Weighted Average Credit Enhancement	Principal Writedowns During Period (dollars in thousands)
Non-Agency Mortgage-Backed Securities											
Senior	$344,951	$55.09	$79.63	4.3%	15.9%	10.8%	11.6%	30.9%	68.6%	10.4%	$2,190
Senior, interest only	$5,178,737	$4.35	$3.97	1.6%	14.4%	12.2%	13.0%	21.2%	51.6%	0.0 %	$-
Subordinated	$690,599	$50.18	$65.79	3.1%	10.6%	13.9%	14.8%	15.8%	45.5%	11.7%	$5,669
Subordinated, interest only	$216,403	$4.43	$3.14	0.9%	9.2 %	7.0 %	11.3%	13.3%	46.1%	0.0 %	$-
RMBS transferred to consolidated VIEs	$3,133,610	$53.51	$80.03	4.5%	17.4%	10.2%	10.7%	21.9%	59.5%	1.3 %	$25,603
Agency Mortgage-Backed Securities											
Residential	$7,774,266	$104.96	$106.19	4.0%	3.2 %	9.7 %	10.6%	NA	NA	NA	$-
Interest-only	$3,884,523	$4.89	$4.79	0.9%	3.1 %	11.7%	9.5 %	NA	NA	NA	$-
Securitized loans	$5,241,100	$99.13	$101.74	6.6%	6.3 %	9.8 %	8.2 %	10.3%	46.0%	36.5%	$3,642

(1) Bond Equivalent Yield at period end. Weighted Average Yield is calculated using each investment's respective amortized cost.
(2) Calculated based on reported losses to date, utilizing widest data set available (i.e., life-time losses, 12-month loss, etc.)

Based on the projected cash flows for our Non-Agency RMBS that are not of high credit quality, a portion of the original purchase discount is designated as Accretable Discount, which reflects the purchase discount expected to be accreted into interest income, and a portion is designated as Non-Accretable Difference, which represents the contractual principal on the security that is not expected to be collected. The amount designated as Non-Accretable Difference may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security is more favorable than previously estimated, a portion of the amount designated as Non-Accretable Difference may be accreted into interest income over time. Conversely, if the performance of a security is less favorable than previously estimated, the amounts designated as Non-Accretable Difference may increase, resulting in an OTTI loss.

The following table presents changes to Accretable Discount and Non-Accretable Difference as it pertains to our entire Non-Agency RMBS portfolio for assets with purchase discounts during the previous five quarters.

	For the Quarters Ended				
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(dollars in thousands)				
	Accretable Discount				
Balance, beginning of period	$ 987,861	$ 977,042	$ 951,305	$ 990,202	$ 996,694
Accretion of discount	(44,350)	(44,165)	(39,062)	(42,101)	(40,304)
Purchases	80,712	2,636	126,752	(6,773)	18,815
Sales and deconsolidation	(29,147)	(1,977)	(66,161)	(669)	(3,843)
Transfers from credit reserve	6,969	58,643	11,809	17,134	31,666
Transfers to credit reserve	(11,713)	(4,318)	(7,601)	(6,488)	(12,826)
Balance, end of period	$ 990,332	$ 987,861	$ 977,042	$ 951,305	$ 990,202

	For the Quarters Ended				
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
	(dollars in thousands)				
	Non-Accretable Difference				
Balance, beginning of period	$ 908,927	$ 933,668	$ 1,046,519	$ 1,171,130	$ 1,217,793
Principal Writedowns	(39,955)	(37,044)	(81,289)	(41,155)	(47,079)
Purchases	80,712	2,636	126,752	(6,773)	18,815
Sales and deconsolidation	(15,041)	-	(156,096)	(71,384)	(1,093)
Net other-than-temporary credit impairment losses	7,815	63,992	1,990	5,347	1,534
Transfers from credit reserve	(6,969)	(58,643)	(11,809)	(17,134)	(31,666)
Transfers to credit reserve	11,713	4,318	7,601	6,488	12,826
Balance, end of period	$ 947,202	$ 908,927	$ 933,668	$ 1,046,519	$ 1,171,130

Critical Accounting Policies and Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States, or GAAP, which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Management believes that the most critical accounting policies and estimates, since these estimates require significant judgment, are interest income and other-than-temporary impairment, or OTTI, on Non-Agency RMBS, the determination of the appropriate accounting model for Non-Agency RMBS, the impact of default and prepayment assumptions on RMBS, and fair value measurements. Financial results could be materially different if other methodologies were used or if management modified its assumptions.

For a discussion of the Company's critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements

Refer to Note 2(p) in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company or expected to be adopted by the Company in the future.

Results of Operations for the Quarters Ended March 31, 2015 and 2014

Our primary source of income is interest income earned on our assets. Our economic net interest income equals interest income excluding interest earned on cash and cash equivalents less interest expense and realized losses on our interest rate hedges.

Interest Income

Interest income increased by $122 million, or 101%, to $243 million for the quarter ended March 31, 2015 from $121 million for the same period of 2014. The increase is primarily due to the increase in agency holdings of approximately $5.3 billion acquired primarily during the second half of 2014 and the increase in securitized loans of approximately $4.4 billion also acquired during the second half of 2014. Interest income on our Agency RMBS and securitized loan portfolios increased by $52 million and $75 million, respectively. Both portfolios increased from the prior year due to acquisitions during 2014 financed by additional repurchase agreements and secured debt as we increased our leverage ratio to 3.7:1 from the first quarter of 2014. The increases are partially offset by a decline in interest income on our Non-Agency portfolio of $5 million year over year as principal payments and expected losses have reduced the interest earning balance of these assets by $164 million or 4% of the total assets.

Interest Expense

Interest expense increased by $38 million, or 170%, to $60 million for the quarter ended March 31, 2015 from $22 million for the same period of 2014. The increase is primarily due to increased interest expense of $26 million on our securitized debt and $12 million on our repurchase agreements. Since March 31, 2014, we have increased leverage to finance additional investments in Agency RMBS, Non-Agency RMBS, as well as securitized loans held for investment. Our repurchase agreement obligation increased by $6.7 billion to $8.3 billion as of March 31, 2015 as compared to $1.6 billion as of March 31, 2014. Interest expense for GAAP reporting does not include the periodic costs of our derivatives, which are reported separately.

Net Economic Interest Income

Our economic net interest income equals interest income, less interest expense and realized losses on our interest rate swaps. For the purpose of computing economic net interest income and ratios relating to cost of funds measures throughout this section, interest expense includes net payments on our interest rate swaps, which is presented as a part of Realized gains (losses) on derivatives in our Consolidated Statements of Operations and Comprehensive Income. Interest rate swaps are used to manage the increase in interest paid on repurchase agreements in a rising rate environment. Presenting the net contractual interest payments on interest rate swaps with the interest paid on interest-bearing liabilities reflects our total contractual interest payments. We believe this presentation is useful to investors because this presentation depicts the economic value of our investment strategy, by showing actual interest expense and net interest income. Where indicated, interest expense, including interest payments on interest rate swaps, is referred to as economic interest expense. Where indicated, net interest income reflecting interest payments on interest rate swaps, is referred to as economic net interest income.

The following table reconciles the GAAP and non-GAAP measurements reflected in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

	GAAP Interest Income	GAAP Interest Expense	Add: Net Realized Losses on Interest Rate Swaps	Economic Interest Expense	GAAP Net Interest Income	Less: Net Realized Losses on Interest Rate Swaps	Economic Net Interest Income (1)
For the Quarter Ended March 31, 2015	$ 243,145	$ 60,456	$ 15,169	$ 75,625	$ 182,689	$ 15,169	$ 167,202
For the Quarter Ended December 31, 2014	$ 242,455	$ 65,794	$ 17,679	$ 83,473	$ 176,661	$ 17,679	$ 158,972
For the Quarter Ended September 30, 2014	$ 190,355	$ 38,886	$ 17,132	$ 56,018	$ 151,469	$ 17,132	$ 134,333
For the Quarter Ended June 30, 2014	$ 134,318	$ 20,680	$ 12,061	$ 32,741	$ 113,638	$ 12,061	$ 101,573
For the Quarter Ended March	$ 120,667	$ 22,425	$ 5,650	$ 28,075	$ 98,242	$ 5,650	$ 92,588

31, 2014

(1) Excludes interest income on cash and cash equivalents.

Net Interest Rate Spread

The following table shows our average earning assets held, interest earned on assets, yield on average interest earning assets, average debt balance, economic interest expense, economic average cost of funds, economic net interest income, and net interest rate spread for the periods presented.

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	For the Quarter Ended					
	March 31, 2015			March 31, 2014		
	(dollars in thousands)					
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets (1):						
Agency RMBS	$ 7,491,398	$ 67,786	3.6 %	$ 1,977,915	$ 16,040	3.2 %
Non-Agency RMBS	999,067	24,424	9.8 %	779,927	19,412	10.0 %
Non-Agency RMBS transferred to consolidated VIEs	1,639,964	68,183	16.6 %	2,055,205	77,411	15.1 %
Jumbo Prime securitized residential mortgage loans	610,836	8,003	5.2 %	774,851	7,800	4.0 %
Seasoned sub-prime securitized residential mortgage loans held for investment	4,499,936	74,431	6.6 %	-	-	0.0 %
Total	$ 15,241,201	$ 242,827	6.4 %	$ 5,587,898	$ 120,663	8.6 %
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Agency repurchase agreements (2)	$ 7,198,680	$ 22,662	1.3 %	$ 1,610,241	$ 7,376	1.8 %
Non-Agency repurchase agreements	1,116,675	6,209	2.2 %	-	-	0.0 %
Securitized debt, collateralized by Non-Agency RMBS	688,260	7,947	4.6 %	881,198	15,154	6.9 %
Securitized debt, collateralized by jumbo prime residential mortgage loans	499,075	5,341	4.3 %	653,586	5,545	3.4 %
Securitized debt, collateralized by seasoned sub-prime residential mortgage loans	3,808,607	33,466	3.5 %	-	-	0.0 %
Total	$ 13,311,297	$ 75,625	2.3 %	$ 3,145,025	$ 28,075	3.6 %
Net economic interest income/net interest rate spread		$ 167,202	4.0 %		$ 92,588	5.1 %
	$ 1,929,904		4.4 %	$ 2,442,873		6.6 %

Net interest-earning assets/net interest margin		
Ratio of interest-earning assets to interest bearing liabilities	1.14	1.78

(1) Interest-earning assets at amortized cost
(2) Interest includes cash paid on swaps

Net Economic Interest Income and the Average Earning Assets

Our economic net interest income increased by $74 million, or 81%, to $167 million for the quarter ended March 31, 2015 from $93 million for the same period of 2014. Our net interest rate spread, which equals the yield on our average assets less the economic average cost of funds decreased by 97 basis points for the quarter ended March 31, 2015 as compared to the same period of 2014. The net interest margin, which equals the net economic interest income as a percentage of the net average balance of our interest-earning assets less our interest-bearing liabilities, decreased by 224 basis points for the quarter ended March 31, 2015 as compared to the same period of 2014. Our net interest margin declined due to a decline in the total average yield on our interest-earning assets of 226 basis points which was not fully offset by the decline in our average cost of funds of 130 basis points. The portfolio has experienced significant changes from March 31, 2014 as we have increased our average Agency RMBS and securitized loans held for investment and our Non-Agency RMBS has declined as a percentage of the total portfolio. These changes have increased our leverage, resulting in lower spreads, but higher interest income.

Economic Interest Expense and the Cost of Funds

The borrowing rate at which we are able to finance our assets using repurchase agreements is typically correlated to LIBOR and the term of the financing. The table below shows our average borrowed funds, economic interest expense, average cost of funds (inclusive of realized losses on interest rate swaps), average one-month LIBOR, average six-month LIBOR, average one-month LIBOR relative to average six-month LIBOR, and average cost of funds relative to average one- and six- month LIBOR.

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	Average Debt Balance	Economic Interest Expense (1)	Average Cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR	Average One-Month LIBOR Relative to Average Six-Month LIBOR	Average Cost of Funds Relative to Average One-Month LIBOR	Average Cost of Funds Relative to Average Six-Month LIBOR
	(Ratios have been annualized, dollars in thousands)							
For The Quarter Ended March 31, 2015	$13,311,297	$ 75,625	2.27 %	0.17 %	0.38 %	(0.21 %)	2.10 %	1.89 %
For The Quarter Ended December 31, 2014	$13,336,713	$ 83,473	2.50 %	0.16 %	0.33 %	(0.17 %)	2.35 %	2.17 %
For The Quarter Ended September 30, 2014	$10,351,252	$ 56,018	2.16 %	0.15 %	0.33 %	(0.17 %)	2.01 %	1.84 %
For The Quarter Ended June 30, 2014	$4,483,572	$ 32,741	2.92 %	0.15 %	0.32 %	(0.17 %)	2.77 %	2.60 %
For The Quarter Ended March 31, 2014	$3,145,025	$ 28,075	3.57 %	0.16 %	0.33 %	(0.17 %)	3.41 %	3.24 %

(1) Includes effect of realized losses on interest rate swaps.

Average interest-bearing liabilities increased by $10.2 billion, for the quarter ended March 31, 2015 as compared to the same period of 2014. Economic interest expense increased by $48 million, for the quarter ended March 31, 2015 as compared to the same period of 2014. The increase in average interest-bearing liabilities is a result of the increase in leverage from repurchase agreements and securitized debt entered into since March 31, 2014, offset by declines in our securitized debt collateralized by Non-Agency RMBS. The additional financing was used to increase our Agency RMBS and secured residential mortgage loans. As our average interest-bearing liabilities increased, we have had an increase in interest expense. Average one-month and six month LIBOR were up 1 basis point and 5 basis points, respectively, in the first quarter of 2015 as compared to 2014. While we do acquire interest rate hedges to mitigate changes in interest rate risks, the hedges may not fully offset interest expense movements.

Net other-than-temporary credit impairment losses

OTTI losses are generated when fair values decline below our amortized cost basis, an unrealized loss, and the expected future cash flows decline from prior periods, an adverse change. When an unrealized loss and an adverse change in cash flows occur, we will recognize an OTTI loss in earnings. In addition, if we intend to sell a security, or believe we will be required to sell a security in an unrealized loss position, we will recognize an OTTI loss in earnings equal to the unrealized loss.

OTTI losses were $8 million and $2 million for the quarters ended March 31, 2015 and 2014, respectively. Of these amounts, $7 million of the OTTI for the quarter ended March 31, 2015 was related to securities included in our consolidated VIEs. As of March 31, 2015, we had seven securities in an unrealized loss position totaling less than $1 million for which we did not recognize impairment. We intend to hold these securities until they recover their amortized cost. We continue to monitor our investment portfolio and will record an OTTI for all investments in an

unrealized loss position for which we do not believe we will recover our amortized cost prior to maturity or sale.

Net gains (losses) on derivatives

The table below shows a summary of our net gain (loss) on derivative instruments, for the quarters ended March 31, 2015 and 2014.

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	For the Quarter Ended	
	March 31, 2015	March 31, 2014
	(dollars in thousands)	
Periodic interest cost of interest rate swaps, net	$ (15,169)	$ (5,650)
Realized gain (loss) on derivative instruments, net:		
Mortgage Options	412	603
Treasury Futures	(27,452)	(701)
Swaptions	144	-
Other Derivative Assets	(21)	-
Swaps - Terminations	(68,579)	-
Total realized gain (loss) on derivative instruments, net	(95,496)	$ (5,748)
Unrealized gain on derivative instruments, net:		
Interest Rate Swaps	9,960	$ 4,065
Mortgage Options	224	746
Treasury Futures	(4,908)	(7,009)
Swaptions	(1,221)	-
Total unrealized gain (loss) on derivative instruments, net:	4,055	(2,198)
Total gain (loss) on derivative instruments, net	$ (106,610)	$ (13,596)

Our derivative portfolio primarily includes interest rate swaps, swaptions, Treasury futures, and mortgage options. During the quarter ended March 31, 2015, we terminated 7 interest rate swap agreements with a notional value of $525 million. Also during the quarter ended March 31, 2015, one swap matured with a notional value of $500 million, which was not replaced. Also during the first quarter of 2015, we reduced our Treasury positions by $390 million of notional. The reduction in both our swaps and Treasury future positions is due to the reduction in our Agency positions during the first quarter of 2015. We reduced our Agency positions during the first quarter of 2015 to position the Company to take advantage of market opportunities in Non-Agency RMBS and mortgage loans. We may continue to sell off holdings and reposition our derivative portfolio in the future based on changes in markets, interest rates and opportunities available in both Non-Agency RMBS and mortgage loans.

During the quarter ended March 31, 2015, we recognized net losses on derivatives of $107 million compared to net losses of $14 million for the same period of 2014. The net gains and losses on our derivatives include both unrealized and realized gains and losses. Realized gains and losses include the net cash paid and received on our interest rate swaps during the period as well as sales and settlements of our Treasury futures and mortgage options. Realized gains and losses for the first quarter of 2015 includes the payment of $68 million to terminate interest rate swaps. In addition, we incurred realized losses on Treasury futures of $27 million as interest rates continued to be volatile during the first quarter of 2015.

Unrealized gains and losses include the change in market value, period over period, on our derivatives portfolio. We may or may not ultimately realize these unrealized derivative gains and losses depending on trade activity, changes in interest rates and the values of the underlying securities. Total unrealized gains during the quarter ended March 31, 2015 is $4 million, an increase of $6 million from an unrealized loss of $2 million for the same period of 2014.

Our interest rate swaps are primarily used to economically hedge the effects of changes in interest rates on our portfolio specifically our floating rate debt. Therefore, we included the periodic interest costs of the interest rate swaps for the quarters ended March 31, 2015 and 2014 on these economic hedges in our presentation of economic net interest income and our net interest spreads. As we do not account for these as hedges for GAAP presentation, we

present these gains and losses separately in the consolidated statements of operations and comprehensive income. The increase in the net periodic interest cost of the interest rate swaps are primarily due to declines in interest rates year over year as we pay a fixed rate on our interest rate swaps and are receiving a lower floating rate.

Treasury futures are not included in our economic interest expense and economic net interest income. We also do not include any gains or losses on our mortgage options in our economic interest expense and economic net interest income as the mortgage options were sold for income generation and not as an economic hedge for changes in interest rates in our portfolio. As we identify opportunities in mortgage backed securities market, we may from time to time purchase or sell mortgage options, including both call and put options to take advantage of these opportunities. We had one mortgage option as of March 31, 2015 with an unrealized gain of less than $1 million.

Net Unrealized Gains (Losses) on Financial Instruments at Fair Value

We have elected a fair value option with changes in fair value reflected in earnings for our Agency and Non-Agency IO RMBS securities, certain of our securitized loans held for investment, collateralized by a seasoned sub-prime pool of residential mortgage loans, and the related financing for the securitized loans consolidated as a VIE in our statement of financial condition. The table below shows the unpaid principal, fair value and impact of change in fair value on each of these financial instruments:

	As of March 31, 2015 (dollars in thousands)		As of March 31, 2014 (dollars in thousands)		For the Quarter Ended (dollars in thousands)	
					March 31, 2015	March 31, 2014
	Unpaid Principal/ Notional	Fair Value	Unpaid Principal/ Notional	Fair Value	Gain/(Loss) on Change in Fair Value	Gain/(Loss) on Change in Fair Value
Assets:						
IO RMBS securities	$ 12,277,920	554,324	7,145,931	329,532	7,458	15,010
Non-Agency RMBS securities	N/A	10,591	-	-	(909)	-
Securitized loans held for investment, at fair value	5,073,699	5,132,902	-	-	(10,652)	-
Liabilities:						
Securitized debt at fair value	4,296,435	4,198,192	-	-	(6,322)	-
Total gain (loss) on financial instruments, net	$ 21,648,054	$ 9,896,009	$ 7,145,931	$ 329,532	$ (10,425)	$ 15,010

Unrealized gains and losses on our Agency and Non-Agency RMBS portfolio represent the changes in fair values of the securities from the prior period. Unrealized gains and losses on our entire Agency and Non-Agency RMBS portfolio are reflected in earnings. IO securities represent the right to receive the interest on a pool of mortgage backed securities, including both Agency and Non-Agency mortgage pools. The fair value of IO RMBS securities are heavily impacted by changes in expected prepayment rates. When IO securities prepay, the holder of the IO security will receive less interest on the investment due to the reduced principal. During the first quarter of 2015, we acquired residual interests in several seasoned pools for mortgage loans. These holdings generally do not have a traditional unpaid principal amount and pay cash based on guidance in the trust documents when excess cash is available. Many of these holdings do not pay any interest and may never pay interest. We have elected to carry these residual interests at fair value with changes in fair value reflected in earnings. As of January 1, 2015, the Company adopted the guidance in ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity, which allowed us to carry both the assets and liabilities of certain consolidated VIEs at fair value with changes in fair value reflected in earnings.

During the quarter ended March 31, 2015, we recorded unrealized losses in earnings of $10 million, compared to a gain of $15 million for the same period of 2014.

Gains and Losses on Sales of Assets and Loss on extinguishment of securitized debt

Net realized gains on sales of investments were $30 million and $8 million for the quarters ended March 31, 2015 and 2014, respectively. We do not forecast sales of investments as we generally expect to invest for long term gains, however, from time to time, we may sell assets to create liquidity necessary to pursue new opportunities, achieve targeted leverage ratios as well as for gains when prices indicate a sale is most beneficial to us, or is the most prudent course of action to maintain a targeted risk adjusted yield for our investors.

Also during the first quarter of 2014, the company purchased $54 million of securitized debt collateralized by non-agency RMBS for cash payments of $56 million. When the Company acquires its outstanding debt, it extinguishes the outstanding debt and recognizes a gain or loss based on the difference between the carrying value of the debt and the cost to acquire the debt. This acquisition resulted in a net loss of $2 million which is reflected in the Consolidated Statement of Operations and Comprehensive Income as a loss on extinguishment of debt during the quarter ended March 31, 2014.

Net Management Fees and General and Administrative Expenses

The table below shows our total management fee and general and administrative, or G&A, expenses as compared to average total assets and average equity for the periods presented.

	Total Management Fee and G&A Expenses	Total Management Fee and G&A Expenses/Total Assets	Total Management Fee and G&A Expenses/Average Equity
	(Ratios have been annualized, dollars in thousands)		
For The Quarter Ended March 31, 2015	$ 20,362	0.43 %	2.28 %
For The Quarter Ended December 31, 2014	$ 22,612	0.47 %	2.51 %
For The Quarter Ended September 30, 2014 (1)	$ 13,178	0.43 %	1.54 %
For The Quarter Ended June 30, 2014	$ 10,317	0.42 %	1.22 %
For The Quarter Ended March 31, 2014	$ 9,276	0.54 %	1.11 %

(1) Does not include one-time management fee reduction of $24 million

We incurred management fees of approximately $10 million and $6 million for each of the quarters ended March 31, 2015 and 2014, respectively. We also recognized reimbursements from our Manager related to the amended management agreement of approximately $1 million for each of the quarters ended March 31, 2015 and 2014. The management fee is based on our stockholders' equity as defined in the management agreement. See further discussion of the management fee, including amendments to the management agreement, as well as other agreements with our Manager in our discussion of related party transactions below.

G&A expenses were approximately $11 million and $4 million for the quarters ended March 31, 2015 and 2014, respectively. G&A expenses include servicing fees paid by our consolidated VIEs of approximately $6 million and $1 million for the quarters ended March 31, 2015 and 2014. These servicing fees are related to the consolidation of the whole loan securitization vehicles and are paid from interest income earned by the VIEs. Excluding the servicing fees, our G&A expenses have increased in the first quarter of 2015 as compared to the same period of 2014 primarily as a result of increased legal and professional services fees.

Net Income (Loss) and Return on Average Equity

The table below shows our economic net interest income, realized gains (losses) on sale of assets and the credit related OTTI, realized and unrealized gains (losses) on interest rate swaps and IOs, total management fee and G&A expenses, and income tax, each as a percentage of average equity, and the return on average equity for the periods presented.

	Economic Net Interest Income/Average Equity *	Realized Gains (Losses) on Sales and OTTI/Average Equity	Realized and Unrealized Gains (Losses) on Interest Rate Swaps and IOs/Average Equity	Total Management Fee & G&A Expenses/Average Equity	Return on Average Equity
	(Ratios have been annualized)				
For The Quarter Ended March 31, 2015	17.06 %	2.44 %	(8.96 %)	(2.28 %)	7.52 %
For The Quarter Ended December 31, 2014	15.70 %	(3.51 %)	(7.75 %)	(2.51 %)	0.72 %
For The Quarter Ended September 30, 2014	15.64 %	7.41 %	2.57 %	(1.54 %)	43.99 %

For The Quarter Ended June 30, 2014	12.00	%	(1.17	%)	2.55	%	(1.22	%)	12.38	%
For The Quarter Ended March 31, 2014	11.04	%	0.78	%	1.31	%	(1.11	%)	11.98	%

* Includes effect of realized losses on interest rate swaps.

Our net income was $67 million and $100 million for the quarters ended March 31, 2015 and 2014, respectively. Economic net interest income as a percentage of average equity increased by 602 basis points for the quarter ended March 31, 2015 as compared to the same period of 2014. The increase in our economic net interest income as a percentage of average equity is due to an increase in interest earned, net of economic interest expense, on assets over the prior year as we have increased our interest bearing assets to enhance net economic interest income and increased our leverage. Return on average equity decreased by 446 basis points for the quarter ended March 31, 2015 as compared to the same period of 2014. The decline is due to lower income in the current quarter, primarily as a result of realized losses on derivatives, including terminations of interest rate swaps.

Core earnings

Core earnings is a non-GAAP measure and is defined as GAAP net income excluding unrealized gains on the aggregate portfolio, impairment losses, realized gains on sales of investments, gain on deconsolidation, extinguishment of debt and certain other non-recurring gains or losses. As defined, Core earnings include interest income and expense as well as realized gains or losses on derivatives used to hedge interest rate risk. Core earnings are provided for the purpose of comparability to other peer issuers, but have important limitations. Core Earnings as described above helps evaluate our financial performance without the impact of certain transactions and is of limited usefulness as an analytical tool. Therefore, core earnings should not be viewed in isolation and is not a substitute for net income or net income per basic share computed in accordance with GAAP.

Our core earnings were $120 million, or $0.59 per average basic common share, for the quarter ended March 31, 2015 compared to $83 million, or $0.40 per average basic common share, for the same period in 2014. We attribute the majority of the increase in core earnings to the increase in net interest income of $84 million from the acquisition of additional Agency RMBS and securitized loans since the quarter ended March 31, 2014. The increase was offset in part by additional realized losses on derivatives of $36 million due to the increase in hedge costs as the portfolio has increased. The increase was also offset in party by higher management fees and general and administrative expenses of $11 million due to increased servicing costs and an increase in the management fees, effective in the second half of 2014.

The following table provides GAAP measures of net income and net income per basic share available to common stockholders for the quarters ended March 31, 2015 and 2014 and details with respect to reconciling the line items to core earnings and related per average basic common share amounts:

	For the Quarter Ended	
	March 31, 2015	March 31, 2014
	(dollars in thousands, except per share data)	
GAAP Net income	$ 67,041	$ 100,368
Adjustments:		
Net other-than-temporary credit impairment losses	7,815	1,534
Net unrealized (gains) losses on derivatives	(4,055)	2,198
Net unrealized (gains) losses on financial instruments at fair value	10,425	(15,010)
Net realized (gains) losses on sales of investments	(29,565)	(8,377)
Other (gains) losses	-	2,184
Realized (gains) losses on terminations of interest rate swaps	68,579	-
Core Earnings	$ 120,240	$ 82,897
GAAP net income per basic common share	$ 0.33	$ 0.50
Core earnings per basic common share	$ 0.59	$ 0.40

Liquidity and Capital Resources

General

Liquidity measures our ability to meet cash requirements, including ongoing commitments to repay our borrowings, purchase RMBS, mortgage loans and other assets for our portfolio, pay dividends and other general business needs. Our principal sources of capital and funds for additional investments primarily include earnings from our investments, borrowings under securitizations and re-securitizations, repurchase agreements and other financing facilities, and proceeds from equity offerings.

To meet our short term (one year or less) liquidity needs, we expect to continue to borrow funds in the form of repurchase agreements and, subject to market conditions, other types of financing. The terms of the repurchase transaction borrowings under our master repurchase agreements generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association, or SIFMA, as to repayment, margin requirements and the segregation of all securities we have initially sold under the repurchase transaction. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions include changes to the margin

maintenance requirements, cross default provisions, required haircuts (or the percentage that is subtracted from the value of RMBS that collateralizes the financing), purchase price maintenance requirements, and requirements that all disputes related to the repurchase agreement be litigated or arbitrated in a particular jurisdiction. These provisions may differ for each of our lenders.

We expect to meet our short term liquidity needs by relying on the cash flows generated by our investments. These cash flows are primarily comprised of monthly principal and interest payments received on our investments. We may also sell our investments and utilize those proceeds to meet our short term liquidity needs or enter into non-recourse financing of our assets through sales of securities to third parties of loan securitizations or RMBS re-securitization transactions, similar to transactions that we have completed in prior periods.

Based on our current portfolio, leverage ratio and available borrowing arrangements, we believe our assets will be sufficient to enable us to meet anticipated short-term liquidity requirements. However, a decline in the value of our collateral could cause a temporary liquidity shortfall due to the timing of margin calls on the financing arrangements and the actual receipt of the cash related to principal paydowns. If our cash resources are at any time insufficient to satisfy our liquidity requirements, we may have to sell investments, potentially at a loss, or issue debt or additional equity securities in a common stock offering.

To meet our longer term liquidity needs (greater than one year), we expect our principal sources of capital and funds to continue to be provided by earnings from our investments, borrowings under securitizations and re-securitizations, repurchase agreements and other financing facilities, as well as proceeds from equity offerings. As a result of our failure to file our SEC filings by the filing date required by the SEC (including the grace period permitted by Rule 12b-25 under the Securities Exchange Act of 1934, as amended), we are not currently eligible to file a new Form S-3 registration statement. Our ineligibility to use Form S-3 during this time period may have a negative impact on our ability to quickly access the public capital markets because we would be required to file a long-form registration statement and wait for the SEC to declare such registration statement effective.

In addition to the principal sources of capital described above, we may enter into warehouse facilities and use longer dated structured repurchase agreements. The use of any particular source of capital and funds will depend on market conditions, availability of these facilities, and the investment opportunities available to us.

Current Period

We held cash and cash equivalents of approximately $119 million and $165 million at March 31, 2015 and December 31, 2014, respectively. As a result of our operating, investing and financing activities described above, our cash position decreased by $46 million from December 31, 2014 to March 31, 2015.

Our operating activities provided net cash of approximately $34 million and $64 million for the quarters ended March 31, 2015 and 2014, respectively. The cash provided by our operations is primarily due to interest received in excess of interest paid during the period. During the first quarter of 2015, interest received net of interest paid was $172 million. This cash received was offset in part by payments on derivatives of $110 million.

Our investing activities provided cash of approximately $396 million and $436 million for the quarters ended March 31, 2015 and 2014, respectively. During the quarter ended March 31, 2015 we purchased investments of $3.0 billion, primarily Agency RMBS. This use of cash was offset during the period from sales of investments of $2.8 billion and principal repayments of $581 million during the first quarter of 2015. The purchases and sales activity was primarily due to the Company continuing to balance its Agency portfolio to maximize spread income and provide liquidity for purchases of Non-Agency RMBS and mortgage loan pools.

Our financing activities used cash of $475 million and $537 million for the quarters ended March 31, 2015 and 2014, respectively. During the quarter ended March 31, 2015, we paid proceeds on our repurchase agreements, net of proceeds on our repurchase agreements of $159 million. We also repaid principal of our securitized debt of $224 million and paid dividends of $92 million.

Our recourse leverage is 2.6:1 at each of the periods ended March 31, 2015 and December 31, 2014. Our recourse leverage excludes the securitized debt which can only be repaid from the proceeds on the assets securing this debt in their respective VIEs. The increase in our recourse leverage compared to March 31, 2014 is a result of the increase in repurchase agreements to primarily expand our Agency RMBS portfolio as well as to finance significant acquisitions of Non-Agency RMBS investment assets. Our recourse leverage is presented as a ratio to our economic net equity.

We believe that our cash balances provide an appropriate level of liquidity. Even though we have unrestricted Agency RMBS investments, we expect to meet our future cash needs primarily from principal and interest payments on our portfolio and do not anticipate we will need to sell unrestricted Agency RMBS investments to meet our liquidity needs. We expect to continue to finance our RMBS portfolio largely through repurchase agreements and loans through the securitization market. In addition, we may from time to time sell securities or issue debt as a source of cash to fund new purchases.

At March 31, 2015 and December 31, 2014 the remaining maturities on our RMBS repurchase agreements were as follows.

	March 31, 2015		December 31, 2014	
	(dollars in thousands)			
Overnight	$	-	$	-
1-29 days		5,614,649		2,652,717
30 to 59 days		688,176		1,371,856
60 to 89 days		774,529		656,915
90 to 119 days		-		2,068,740
Greater than or equal to 120 days		1,218,870		1,705,153
Total	$	8,296,224	$	8,455,381
Average days to maturity		65 Days		100 Days

We collateralize the repurchase agreements we use to finance our operations with our RMBS investments. Our counterparties negotiate a 'haircut' when we enter into a financing transaction, which varies from lender to lender. The size of the haircut reflects the perceived risk associated with holding the RMBS by the lender. The haircut provides lenders with a cushion for daily market value movements that reduce the need for a margin call to be issued or margin to be returned as normal daily increases or decreases in RMBS market values occur. At March 31, 2015, the weighted average haircut on our repurchase agreements collateralized by Agency MBS was 5.2% compared to a haircut on Agency RMBS of 5.1% at December 31, 2014. At March 31, 2015, the weighted average haircut on our repurchase agreements collateralized by Non-Agency RMBS was 30.1% compared to a haircut on Non-Agency RMBS of 29.4% at December 31, 2014. The haircuts on Agency and Non-Agency RMBS on a stand-alone basis did not significantly change as of March 31, 2015 compared to the prior year end.

As the fair value of the Non-Agency RMBS is more difficult to determine, as well as more volatile period to period than Agency RMBS, the Non-Agency RMBS typically requires a larger haircut. Repurchase agreements also subject us to two types of margin calls. First, there are monthly margin calls that are triggered as principal payments and pre-payments are received by us as these payments lower the value of the collateral. As a result, we expect to receive margin calls from our repurchase counterparties monthly simply due to the principal paydowns on our Agency RMBS. The monthly principal payments and pre-payments are not known in advance and vary depending on the behavior of the borrowers related to the underlying mortgages. Second, counterparties make margin calls or return margin as a result of normal daily increases or decreases in asset fair values. In addition, when financing assets using standard form of SIFMA Master Repurchase Agreements, the counterparty to the agreement typically nets its exposure to us on all outstanding repurchase agreements and issues margin calls if movement of the fair values of the assets in the aggregate exceeds their allowable exposure to us. A decline in asset fair values could create a margin call, or may create no margin call depending on the counterparty's specific policy. In addition, counterparties consider a number of factors, including their aggregate exposure to us as a whole and the number of days remaining before the repurchase transaction closes prior to issuing a margin call. See Note 5 to our Consolidated Financial Statements for a discussion on how we determine the fair values of the RMBS collateralizing our repurchase agreements.

The table below presents our average daily repurchase balance and the repurchase balance at each period end for the periods presented. Our balance at period-end tends to have little fluctuation from the average daily balances except in periods where we are adjusting the size of our portfolio by using leverage as we did during 2014. Our average repurchase agreement balance for the quarter ended March 31, 2015 increased compared to our average repurchase agreement balance for the quarter ended March 31, 2014 due to additional borrowings on our repurchase agreements in excess of repayments during 2014. We continue to deploy capital for strategic purchases of investments.

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Period		Average Repurchase Balance		Repurchase Balance at Period End
		(dollars in thousands)		
Quarter End March 31, 2015	$	8,315,355	$	8,296,224
Quarter End December 31, 2014	$	8,247,722	$	8,455,381
Quarter End September 30, 2014	$	7,741,837	$	7,838,163
Quarter End June 30, 2014	$	3,054,737	$	5,564,554
Quarter End March 31, 2014	$	1,648,425	$	1,561,920

We are not required to maintain any specific debt-to-equity ratio. We believe the appropriate leverage for the particular assets we are financing depends on the credit quality and risk of those assets. At March 31, 2015 and December 31, 2014 our total debt was approximately $13.2 billion and $13.6 billion which represented a debt-to-equity ratio of approximately 3.7:1 and 3.8:1, respectively. We include our repurchase agreements and securitized debt in the numerator of our debt-to-equity ratio and stockholders' equity as the denominator.

During the first quarter of 2015, we decreased our leverage as we sold portions of our Agency portfolio to generate liquidity to settle repurchase agreements. At March 31, 2015, we had repurchase agreements with nineteen counterparties. All of our repurchase agreements are secured by Agency and Non-Agency RMBS or, in limited circumstances, cash. Under these repurchase agreements we may not be able to reclaim our collateral but still be obligated to pay our repurchase obligations. We mitigate this risk by limiting our exposure to any counterparty to approximately 10% or less of our total equity, as well as ensuring all our counterparties are highly rated. Therefore, we believe the risk of loss of our collateral posted is mitigated by the terms of our agreements. As of March 31, 2015 and December 31, 2014, we had $9.3 billion, respectively, of securities pledged against our repurchase agreement obligations.

Our repurchase agreements have original maturities ranging from 30 to 365 days. The average term on our repurchase agreements at March 31, 2015 and December 31, 2014 was 65 days and 100 days, respectively. We expect to renew each of our repurchase agreements at maturity. When we renew our repurchase agreements, there is a risk that we will not be able to obtain as favorable an interest rate as a result of rising rates. We offset the risk of our repurchase agreements primarily through the use of interest rate swaps. The average remaining maturities on our interest rate swaps at March 31, 2015 range from less than 1 year to 19 years and have a weighted average maturity of approximately 6 years. We use these interest rate swaps to protect the portfolio from short term changes in interest rates. We currently have two swap counterparties. When our interest rate swaps are in a net loss position (expected cash payments are in excess of expected cash receipts on the swaps), we post collateral as required by the terms of our swap agreements. As of March 31, 2015, we have posted $181 million of cash and securities as collateral to our swap counterparties.

Secured Debt Financing Transactions

We did not re-securitize any RMBS or jumbo prime residential mortgage loans during the quarters ended March 31, 2015 or 2014.

Exposure to European Financial Counterparties

Our Agency RMBS are primarily financed with repurchase agreements. We secure our borrowings under these agreements by pledging our Agency RMBS as collateral to the lender. The collateral we pledge exceeds the amount of the borrowings under each agreement, typically with the extent of over-collateralization being at least 3% of the

amount borrowed. If the counterparty to the repurchase agreement defaults on its obligations and we are not able to recover our pledged assets, we are at risk of losing the over-collateralized amount. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

We also use interest rate swaps to manage our interest rate risks. Under these swap agreements, we pledge Agency RMBS as collateral as part of a margin arrangement for interest rate swaps that are in an unrealized loss position. If swap counterparty were to default on its obligation, we would be exposed to a loss to the extent that the amount of our Agency RMBS pledged exceeded the unrealized loss on the associated swaps and we were not able to recover the excess collateral.

Over the past several years, several large European financial institutions have experienced financial difficulty and have been either rescued by government assistance or by other large European banks or institutions. Some of these financial institutions or their U.S. subsidiaries have provided us financing under repurchase agreements or we have entered into interest rate swaps with such institutions. We have entered into repurchase agreements or interest rate swaps with six counterparties as of March 31, 2015 that is either domiciled in Europe or is a U.S.-based subsidiary of a European-domiciled financial institution. The following table summarizes our exposure to such counterparties at March 31, 2015:

March 31, 2015

Country (dollars in thousands)	Number of Counterparties	Repurchase Agreement Financing	Interest Rate Swaps at Fair Value	Exposure (1)	Exposure as a Percentage of Total Assets
France	1	$ 629,943	$ -	$ 46,937	0.27 %
Germany	1	-	-	-	0.00 %
Netherlands	1	411,841	-	12,866	0.07 %
Switzerland	2	1,510,121	10,989	175,516	1.01 %
United Kingdom	1	572,182	-	16,804	0.10 %
Total	6	$ 3,124,087	$ 10,989	$ 252,123	1.45 %

(1) Represents the amount of securities pledged as collateral to each counterparty less the aggregate of repurchase agreement financing and unrealized loss on swaps for each counterparty.

At March 31, 2015, we did not use credit default swaps or other forms of credit protection to hedge the exposures summarized in the table above.

If the European credit crisis continues to impact these major European financial institutions, it is possible that it will also impact the operations of their U.S. subsidiaries. Our financings and operations could be adversely affected by such events. We monitor our exposure to our repurchase agreement and swap counterparties on a regular basis, using various methods, including review of recent rating agency actions, financial relief plans, credit spreads or other developments and by monitoring the amount of cash and securities collateral pledged and the associated loan amount under repurchase agreements or the fair value of swaps with our counterparties. We make reverse margin calls on our counterparties to recover excess collateral as permitted by the agreements governing our financing arrangements or interest rate swaps, or may try to take other actions to reduce the amount of our exposure to a counterparty when necessary.

Stockholders' Equity

On January 28, 2011, the Company entered into an equity distribution agreement with FIDAC and UBS Securities LLC ("UBS"). The Company did not sell any shares of its common stock under the equity distribution agreement during the quarters ended March 31, 2015 and 2014. On September 24, 2009, the Company implemented a Dividend Reinvestment and Share Purchase Plan ("DRSPP"). The DRSPP was suspended during the quarter ended March 31, 2012 when the Company was no longer current in its filings with the SEC. There were no shares issued as a part of the DRSPP during the quarters ended March 31, 2015 and 2014.

As a result of the Company's delay in filing its SEC reports by the filing date required by the SEC (including the grace period permitted by Rule 12b-25 under the Securities Exchange Act of 1934, as amended), the Company will not be able to issue shares of common stock under the equity distribution agreement or the DRSPP until the Company files

an effective shelf registration statement with the SEC.

During the quarter ended March 31, 2015, we declared dividends to common shareholders totaling $98 million, or $0.48 per share. During the quarter ended March 31, 2014, we declared dividends to common shareholders totaling $92 million, or $0.45 per share.

There was no preferred stock issued or outstanding as of March 31, 2015 and December 31, 2014.

Related Party Transactions

The Management Agreement

We entered into a management agreement with FIDAC, which provided for an initial term through December 31, 2010 with an automatic one-year extension option and subject to certain termination rights. Effective November 28, 2012, the management fee was reduced from 1.50% to 0.75% per annum of gross stockholders' equity, which remained in effect until we were current on all of its filings required under applicable securities laws.

On August 8, 2014, the management agreement was amended and restated. Effective August 8, 2014, the management fee was increased to 1.20% of gross stockholders' equity. The amended agreement provides for a two year term ending August 7, 2016 and may be automatically renewed for two year terms at each anniversary date unless at least two-thirds of the independent directors or the holders of a majority of the outstanding shares of common stock elects not to renew the agreement in their sole discretion and for any or no reason. Unless the management agreement is terminated for "cause" or our Manager terminates the management agreement, in the event that the management agreement is terminated or not renewed, we must pay to FIDAC a termination fee equal to two times the average annual management fee, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. Our Manager will continue to provide services under the management agreement for a period not less than 180 days from the date we deliver the notice not to renew the management agreement.

We may also terminate the management agreement with 30 days' prior notice from our Board of Directors, without payment of a termination fee, for cause or upon a change of control of Annaly or our Manager, each as defined in the management agreement. Our Manager may terminate the management agreement if we become required to register as an investment company under the Investment Company Act of 1940, as amended, with such termination deemed to occur immediately before such event, in which case the Company would not be required to pay a termination fee. Our Manager may also decline to renew the management agreement by providing us with 180-days' written notice, in which case we would not be required to pay a termination fee.

The management agreement provides that Our Manager will pay all past and future expenses that the Company or our Audit Committee incur to: (1) evaluate the Company's accounting policy related to the application of GAAP to its Non-Agency RMBS portfolio (the "Evaluation"); (2) restate the financial statements for the period covering 2008 through 2011 as a result of the Evaluation (the "Restatement Filing"); and (3) investigate and evaluate any shareholder derivative demands arising from the Evaluation or the Restatement Filing (the "Investigation"); provided, however, that our Manager's obligation to pay expenses applies only to expenses not paid by our insurers under our insurance policies. Expenses shall include, without limitation, fees and costs incurred with respect to auditors, outside counsel, and consultants engaged by us or our Audit Committee for the Evaluation, Restatement Filing and the Investigation. The amount paid by our Manager related to these expenses for the quarters ended March 31, 2015 and 2014 is $1 million, respectively, and is presented in the Consolidated Statements of Operations and Comprehensive Income as Expense recoveries from Manager.

The Company is obligated to reimburse our Manager for costs incurred on the Company's behalf under the management agreement. In addition, the management agreement permits our Manager to require us to pay for its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses that our Manager incurred in connection with operations. These expenses are allocated between the Company and our Manager based on the ratio of the proportion of gross assets compared to the gross assets under management by our Manager as calculated at each quarter end. Our Manager and us will modify this allocation methodology, subject to the approval of our Board of Directors, if the allocation becomes inequitable (i.e., if the Company becomes very highly leveraged compared to our Managers other funds and accounts). During the quarters ended March 31, 2015 and 2014, reimbursements to our Manager were less than $1 million.

Clearing Fees

On March 1, 2011, we entered into an administrative services agreement with RCap Securities, Inc., or RCap. We use RCap, a SEC registered broker-dealer and a wholly-owned subsidiary of Annaly, to clear trades for us and RCap is paid customary fees in return for such services. RCap may also provide brokerage services to us from time to time. The fees paid to RCap are less than $1 million for the quarters ended March 31, 2015 and 2014.

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Restricted Stock Grants

We granted 260,200 shares of restricted stock to employees of our Manager and its affiliates and members of our Board of Directors on January 2, 2008. On February 2, 2015 we granted 84,700 shares of restricted stock to employees of our Manager. At March 31, 2015 and December 31, 2014, there were approximately 145,200 and 39,400 unvested shares of restricted stock issued to employees of FIDAC, respectively.

Contractual Obligations and Commitments

The following tables summarize our contractual obligations at March 31, 2015 and December 31, 2014. The estimated principal repayment schedule of the securitized debt is based on expected cash flows of the residential mortgage loans or RMBS, as adjusted for expected principal writedowns on the underlying collateral of the debt.

March 31, 2015

(dollars in thousands)

Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	Greater Than or Equal to Five Years	Total
Repurchase agreements for RMBS	$ 7,996,224	$ 300,000	$ -	$ -	$ 8,296,224
Securitized debt	883,520	1,376,127	905,305	1,536,425	4,701,377
Interest expense on RMBS repurchase agreements (1)	12,080	3	-	-	12,083
Interest expense on securitized debt (1)	179,646	304,848	230,279	561,595	1,276,368
Total	$ 9,071,470	$ 1,980,978	$ 1,135,584	$ 2,098,020	$ 14,286,052

(1) Interest is based on variable rates in effect as of March 31, 2015.

December 31, 2014

(dollars in thousands)

Contractual Obligations	Within One Year	One to Three Years	Three to Five Years	Greater Than or Equal to Five Years	Total
Repurchase agreements for RMBS	$ 8,155,381	$ 300,000	$ -	$ -	$ 8,455,381
Securitized debt	880,367	1,427,236	940,975	1,645,706	4,894,284
Interest expense on RMBS repurchase agreements (1)	18,451	3	-	-	18,454
Interest expense on securitized debt (1)	184,079	313,263	238,776	573,623	1,309,741
Total	$ 9,238,278	$ 2,040,502	$ 1,179,751	$ 2,219,329	$ 14,677,860

(1) Interest is based on variable rates in effect as of December 31, 2014.

In addition to the above contractual obligations, we have committed to fund commercial MBS projects of $300 million as of March 31, 2015. These funding obligations represent MBS guaranteed by a government agency and will

be fully funded over the next 3 years. This amount is included as payable for securities on our Statements of Financial Condition at March 31, 2015.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities.

Capital Requirements

At March 31, 2015 and December 31, 2014, we had no material commitments for capital expenditures.

Dividends

To qualify as a REIT, we must pay annual dividends to our stockholders of at least 90% of our taxable income (subject to certain adjustments). We intend to pay regular quarterly dividends to our stockholders. Before we pay any dividend, we must first meet any operating requirements and scheduled debt service on our financing facilities and other debt payable.

Inflation

A significant portion of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our consolidated financial statements are prepared in accordance with GAAP and our distributions will be determined by our Board of Directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and financial condition are measured with reference to historical cost or fair market value without considering inflation.

Other Matters

We at all times intend to conduct our business so as not to become regulated as an investment company under the 1940 Act. If we were to become regulated as an investment company, our ability to use leverage would be substantially reduced.

Section 3(a) (1) (C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (the "40% test"). Excluded from the term "investment securities," among other things, are securities issued by majority-owned subsidiaries that rely on the exemption from registration provided by Section 3(c) (5) (C) of the Investment Company Act.

Certain of our subsidiaries, including Chimera Asset Holding LLC and certain subsidiaries that we may form in the future, rely on the exemption from registration provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c) (5) (C), as interpreted by the staff of the Securities and Exchange Commission (or the SEC), requires us to invest at least 55% of our assets in "mortgages and other liens on and interest in real estate" (or Qualifying Real Estate Assets) and at least 80% of our assets in Qualifying Real Estate Assets plus real estate related assets. The assets that we acquire, therefore, are limited by the provisions of and the rules and regulations promulgated under the Investment Company Act.

On August 31, 2011, the SEC issued a concept release titled "Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments" (SEC Release No. IC-29778). Under the concept release, the SEC is reviewing interpretive issues related to the Section 3(c) (5) (C) exemption. We are monitoring developments related to this matter.

Based on our calculations, as of March 31, 2015 and December 31, 2014, we were in compliance with the exemption from registration provided by Section 3(c)(5)(C) and 3(a)(1)(C) of the Investment Company Act.

As a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the U.S. Commodity Futures Trading Commission, or CFTC, gained jurisdiction over the regulation of interest rate swaps. The CFTC has asserted that this causes the operators of mortgage real estate investment trusts that use swaps as part of their business model to fall within the statutory definition of Commodity Pool Operator, or CPO, and, absent relief from the Division or the Commission, to register as CPOs. On December 7, 2012, as a result of numerous requests for no-action relief from the CPO registration requirement for operators of mortgage real estate investment trusts, the Division of Swap Dealer and Intermediary Oversight of the CFTC issued no-action relief entitled "No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts" that permits a CPO to receive relief by filing a claim to perfect the use of the relief. A claim submitted by a CPO will be effective upon filing, so long as the claim is materially complete. The

conditions that must be met to claim the relief are that the mortgage real estate investment trust must:

Limit the initial margin and premiums required to establish its commodity interest positions to no more than five percent of the fair market value of the mortgage real estate investment trust's total assets;

Limit the net income derived annually from its commodity interest positions that are not qualifying hedging transactions to less than five percent of the mortgage real estate investment trust's gross income;

Ensure that interests in the mortgage real estate investment trust are not marketed to the public as or in a commodity pool or otherwise as or in a vehicle for trading in the commodity futures, commodity options, or swaps markets; and

Either:

identify itself as a "mortgage REIT" in Item G of its last U.S. income tax return on Form 1120-REIT; or

if it has not yet filed its first U.S. income tax return on Form 1120-REIT, disclose to its shareholders that it intends to identify itself as a "mortgage REIT" in its first U.S. income tax return on Form 1120-REIT.

While we disagree that the CFTC's position that mortgage real estate investment trusts that use swaps as part of their business model fall within the statutory definition of a CPO, we have submitted a claim for the relief set forth in the no-action relief entitled "No-Action Relief from the Commodity Pool Operator Registration Requirement for Commodity Pool Operators of Certain Pooled Investment Vehicles Organized as Mortgage Real Estate Investment Trusts" and believe we meet the criteria for such relief set forth therein.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary components of our market risk are related to credit risk, interest rate risk, prepayment risk, market value risk and real estate risk. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and we seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Credit Risk

We are subject to credit risk in connection with our investments in Non-Agency RMBS and residential mortgage loans and face more credit risk on assets we own which are rated below ''AAA.'' The credit risk related to these investments pertains to the ability and willingness of the borrowers to pay, which is assessed before credit is granted or renewed and periodically reviewed throughout the loan or security term. We believe that residual loan credit quality, and thus the quality of our assets, is primarily determined by the borrowers' credit profiles and loan characteristics. We use a comprehensive credit review process. Our analysis of loans includes borrower profiles, as well as valuation and appraisal data. We use compensating factors such as liquid assets, low loan to value ratios and regional unemployment statistics in evaluating loans. Our resources include a proprietary portfolio management system, as well as third party software systems. We may utilize a third party due diligence firm to perform an independent underwriting review to ensure compliance with existing guidelines. In addition to statistical sampling techniques, we create adverse credit and valuation samples, which we individually review. We reject loans that fail to conform to our standards and do not meet our underwriting criteria. Once we own a loan, our surveillance process includes ongoing analysis through our proprietary data and servicer files. Additionally, the Non-Agency RMBS and other ABS which we acquire for our portfolio are reviewed by us to ensure that they satisfy our risk based criteria. Our review of Non-Agency RMBS and other ABS includes utilizing a proprietary portfolio management system. Our review of Non-Agency RMBS and other ABS is based on quantitative and qualitative analysis of the risk-adjusted returns on Non-Agency RMBS and other ABS. This analysis includes an evaluation of the collateral characteristics supporting the RMBS such as borrower payment history, credit profiles, geographic concentrations, credit enhancement, seasoning, and other pertinent factors.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. We are subject to interest rate risk in connection with our investments and our related debt obligations, which are generally repurchase agreements, warehouse facilities and securitization/re-securitization vehicles. Our repurchase agreements and warehouse facilities may be of limited duration that is periodically refinanced at current market rates. We intend to mitigate this risk through utilization of derivative contracts, primarily interest rate swap agreements, swaptions, futures and mortgage options.

Interest Rate Effects on Net Interest Income

Our operating results depend, in large part, on differences between the income from our investments and our borrowing costs. Most of our warehouse facilities and repurchase agreements provide financing based on a floating rate of interest calculated on a fixed spread over LIBOR. The fixed spread varies depending on the type of underlying asset which collateralizes the financing. Accordingly, the portion of our portfolio which consists of floating interest rate assets will be match-funded utilizing our expected sources of short-term financing, while our fixed interest rate assets will not be match-funded. During periods of rising interest rates, the borrowing costs associated with our investments tend to increase while the income earned on our fixed interest rate investments may remain substantially unchanged. This will result in a narrowing of the net interest spread between the related assets and borrowings and may even result in losses. Further, during this portion of the interest rate and credit cycles, defaults could increase and result in credit losses to us, which could adversely affect our liquidity and operating results. Such delinquencies or defaults could also have an adverse effect on the spread between interest-earning assets and interest-bearing liabilities. Hedging techniques are partly based on assumed levels of prepayments of our fixed-rate and hybrid adjustable-rate mortgage loans and RMBS. If prepayments are slower or faster than assumed, the life of the mortgage loans and RMBS will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.

Interest Rate Effects on Fair Value

Another component of interest rate risk is the effect changes in interest rates will have on the fair value of the assets we acquire. We face the risk that the fair value of our assets will increase or decrease at different rates than that of our liabilities, including our hedging instruments. We primarily assess our interest rate risk by estimating the duration of our assets and the duration of our liabilities. Duration essentially measures the market price volatility of financial instruments as interest rates change. We generally calculate duration using various financial models and empirical data. Different models and methodologies can produce different duration numbers for the same securities.

It is important to note that the impact of changing interest rates on fair value can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the fair value of our assets could increase significantly when interest rates change beyond 100 basis points. In addition, other factors impact the fair value of our interest rate-sensitive investments and hedging instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, in the event of changes in actual interest rates, the change in the fair value of our assets would likely differ from that shown below and such difference might be material and adverse to our stockholders.

Interest Rate Cap Risk

We also invest in adjustable-rate mortgage loans and RMBS. These are mortgages or RMBS in which the underlying mortgages are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the security's interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our adjustable-rate mortgage loans and RMBS would effectively be limited. This problem will be magnified to the extent we acquire adjustable-rate RMBS that are not based on mortgages which are fully indexed. In addition, the mortgages or the underlying mortgages in an RMBS may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on our adjustable-rate mortgages or RMBS than we need in order to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk

We fund a substantial portion of our acquisitions of RMBS with borrowings that, after the effect of hedging, have interest rates based on indices and re-pricing terms similar to, but of somewhat shorter maturities than, the interest rate indices and re-pricing terms of the mortgages and RMBS. In most cases the interest rate indices and re-pricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. Our cost of funds would likely rise or fall more quickly than would our earnings rate on assets. During periods of changing interest rates, such interest rate mismatches could negatively impact our financial condition, cash flows and results of operations. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above. Our analysis of risks is based on FIDAC's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in this Form 10-Q.

Our profitability and the value of our portfolio (including derivatives) may be adversely affected during any period as a result of changing interest rates. The following table quantifies the potential changes in net interest income and portfolio value for our Agency MBS portfolio should interest rates go up or down 50 and 100 basis points, assuming parallel movements in the yield curves. All changes in income and value are measured as percentage changes from the projected net interest income and portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at March 31, 2015 and various estimates regarding prepayment and all activities are made at each level of rate change. Actual results could differ significantly from these estimates.

	March 31, 2015	
Change in Interest Rate	Projected Percentage Change in Net Interest Income (1)	Projected Percentage Change in Portfolio Value with Effect of Interest Rate Swaps and Other Hedging Transactions (2)
-100 Basis Points	(20.28 %)	0.28 %
-50 Basis Points	0.17 %	0.39 %
Base Interest Rate	-	-
+50 Basis Points	2.04 %	(0.80 %)
+100 Basis Points	1.61 %	(2.00 %)

(1) Change in annual economic net interest income. Includes interest expense on interest rate swaps.
(2) Projected Percentage Change in Portfolio Value is based on instantaneous moves in interest rates.

Prepayment Risk

As we receive prepayments of principal on these investments, premiums and discounts on such investments will be amortized or accreted into interest income. In general, an increase in prepayment rates will accelerate the amortization of purchase premiums, thereby reducing the interest income earned on the investments. Conversely, discounts on such investments are accelerated and accreted into interest income increasing interest income.

Extension Risk

Our Manager computes the projected weighted-average life of our investments based on assumptions regarding the rate at which the borrowers will prepay the underlying mortgages. In general, when fixed-rate or hybrid adjustable-rate mortgage loans or RMBS are acquired via borrowings, we may, but are not required to, enter into an interest rate swap agreement or other hedging instrument that effectively fixes our borrowing costs for a period close to the anticipated average life of the fixed-rate portion of the related assets. This strategy is designed to protect us from rising interest rates as the borrowing costs are effectively fixed for the duration of the fixed-rate portion of the related assets. However, if prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate portion of the related assets could extend beyond the term of the swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the fixed and hybrid adjustable-rate assets would remain fixed. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Basis Risk

We seek to limit our interest rate risk by hedging portions of our portfolio through interest rate swaps and other types of hedging instruments. Interest rate swaps are generally tied to underlying Treasury benchmark interest rates. Basis

risk relates to the risk of the spread between our RMBS and underlying hedges widening. Such a widening may cause a decline in the fair value of our RMBS that is greater than the increase in fair value of our hedges resulting in a net decline in book value. The widening of mortgage-backed securities yields and Treasury benchmark interest rates may result from a variety of factors such as anticipated or actual monetary policy actions or other market factors.

Market Risk

Market Value Risk

Our available-for-sale securities are reflected at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income if no OTTI has been recognized in earnings. The estimated fair value of these securities fluctuates primarily due to changes in interest rates, prepayment speeds, market liquidity, credit quality, and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our investments may be adversely impacted.

Real Estate Market Risk

We own assets secured by real property and may own real property directly in the future. Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could also cause us to incur losses.

Risk Management

To the extent consistent with maintaining our REIT status, we seek to manage risk exposure to protect our portfolio of residential mortgage loans, RMBS, and other assets and related debt against the effects of major interest rate changes. We generally seek to manage risk by:

monitoring and adjusting, if necessary, the reset index and interest rate related to our RMBS and our financings;

attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;

using derivatives, financial futures, swaps, options, caps, floors and forward sales to adjust the interest rate sensitivity of our investments and our borrowings;

using securitization financing to lower average cost of funds relative to short-term financing vehicles further allowing us to receive the benefit of attractive terms for an extended period of time in contrast to short term financing and maturity dates of the investments not included in the securitization; and

actively managing, on an aggregate basis, the interest rate indices, interest rate adjustment periods, and gross reset margins of our investments and the interest rate indices and adjustment periods of our financings.

Our efforts to manage our assets and liabilities are concerned with the timing and magnitude of the re-pricing of assets and liabilities. We attempt to control risks associated with interest rate movements. Methods for evaluating interest rate risk include an analysis of our interest rate sensitivity “gap,” which is the difference between interest-earning assets and interest-bearing liabilities maturing or re-pricing within a given time period. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of

rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following table sets forth the estimated maturity or re-pricing of our interest-earning assets and interest-bearing liabilities at March 31, 2015. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual terms of the assets and liabilities, except adjustable-rate loans, and securities are included in the period in which their interest rates are first scheduled to adjust and not in the period in which they mature and includes the effect of the interest rate swaps. The interest rate sensitivity of our assets and liabilities in the table could vary substantially based on actual prepayments.

March 31, 2015

(dollars in thousands)

	Within 3 Months	3-12 Months	1 Year to 3 Years	Greater than 3 Years	Total
Rate sensitive assets	$1,752,631	$2,423,774	$657,928	$23,444,288	$28,278,621
Cash equivalents	119,517	-	-	-	119,517
Total rate sensitive assets	1,872,148	2,423,774	657,928	23,444,288	28,398,138
Rate sensitive liabilities	7,734,661	2,078,668	14,070	1,067,174	10,894,573
Interest rate sensitivity gap	$(5,862,513)	$345,106	$643,858	$22,377,114	$17,503,565
Cumulative rate sensitivity gap	$(5,862,513)	$(5,517,407)	$(4,873,549)	$17,503,564	
Cumulative interest rate sensitivity gap as a percentage of total rate sensitive assets	-21 %	-19 %	-17 %	62 %	

Our analysis of risks is based on our manager's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of investment decisions by our manager may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in the above tables and in this Form 10-Q. These analyses contain certain forward-looking statements and are subject to the safe harbor statement set forth under the heading, "Special Note Regarding Forward-Looking Statements."

ITEM 4. Controls and Procedures

Changes in Internal Controls

In our Annual Report on Form 10-K for the year ended December 31, 2014, we disclosed that management had identified a material weakness in our internal controls over financial reporting. We identified an overreliance on spreadsheets consisting of manual inputs and complex calculations used to record transactions and estimates supporting the financial statement amounts and disclosures.

Our Chief Executive Officer and Chief Financial Officer determined that the aforementioned material weakness in our internal controls over financial reporting was not fully remediated and that our disclosure controls and procedures were not fully effective as of March 31, 2015. The Company continues its work on implementing new systems to reduce its reliance on spreadsheets and has been parallel testing these systems in preparation to complete implementation in 2015.

Based on the substantial work described in our Form 10-K for the year ended December 31, 2014 and the procedures performed through the filing of this Form 10-Q, we have concluded that the consolidated financial statements for the

periods covered by and included in this Form 10-Q are prepared in accordance with GAAP and fairly present in all material respects, our financial position, results of operation and cash flows for each of the periods presented herein.

Other than the changes discussed above, there have been no changes in our “internal control over financial reporting” (as defined in Rule 13a-15 (f) under the Securities Exchange Act of 1934, as amended) that occurred during the period covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

After the issuance of the interim financial statements for the third quarter of 2011, the Audit Committee of our Board of Directors initiated an internal investigation, with the assistance of outside counsel and financial advisors engaged by outside counsel, regarding the facts and circumstances relating to our accounting for Non-Agency RMBS and the restatement of our financial statements.

In addition, our Board of Directors received three derivative demand letters alleging, among other things, that the directors and our officers, as well as our Manager, FIDAC, breached their fiduciary duties to us by failing to institute adequate internal controls and failing to ensure that we made accurate financial disclosures. These letters request, among other things, that the Board of Directors take action to investigate and remedy the alleged breaches of fiduciary duty. The Audit Committee concluded its investigation in 2014 and reached an agreement with FIDAC that resolves the issues raised in the derivative demand letters. The Audit Committee is pursuing additional remedies against other parties regarding the facts and circumstances relating to our accounting for Non-Agency RMBS and the restatement of our financial statements. These and other potential actions that may be filed against us, whether with or without merit, may divert the attention of management from our business, harm our reputation and otherwise may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 1A. Risk Factors

Under “Part I — Item 1A — Risk Factors” of our Form 10-K for the year ended December 31, 2014, we set forth risk factors related to (i) risks associated with adverse developments in the mortgage finance and credit markets, (ii) risks associated with our management and relationship with our Manager, (iii) risks related to our business, (iv) risks related to our investments, (v) regulatory and legal risks, (vi) risks related to our common stock (vii) tax risks, and (viii) risks associated with our prior late filings and related matters. You should carefully consider the risk factors set forth in our Form 10-K for the year ended December 31, 2014. As of the date hereof, there have been no material changes to the risk factors set forth in our Form 10-K for the year ended December 31, 2014.

ITEM 5. Other Information

On May 7, 2015, our board of directors adopted an amendment to our amended and restated bylaws that requires that any of the following four types of litigation be brought in the Circuit Court for Baltimore City, Maryland (or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division): (a) a derivative lawsuit; (b) an action asserting breach of fiduciary duty; (c) an action pursuant to any provision of the Maryland General Corporation Law; and (d) any other action asserting a claim governed by the internal affairs doctrine.

Item 6. Exhibits

Exhibits:

The exhibits required by this item are set forth on the Exhibit Index attached hereto

EXHIBIT INDEX

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).
3.2	Articles of Amendment of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on May 28, 2009 and incorporated herein by reference)
3.3	Articles of Amendment of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on November 5, 2010 and incorporated herein by reference).
3.4	Articles of Amendment of Chimera Investment Corporation (filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.5	Articles of Amendment of Chimera Investment Corporation (filed as Exhibit 3.2 to the Company's Report on Form 8-K filed on April 6, 2015 and incorporated herein by reference).
3.6	Amended and Restated Bylaws of Chimera Investment Corporation (filed as Exhibit 3.2 to the Company's Report on Form 8-K filed on December 19, 2011 and incorporated herein by reference).
3.7	Amendment to the Amended and Restated Bylaws of the Registrant
4.1	Specimen Common Stock Certificate of Chimera Investment Corporation (filed as Exhibit 4.1 to the Company's Registration Statement on Amendment No. 1 to Form S-11 (File No. 333-145525) filed on September 27, 2007 and incorporated herein by reference).
31.1	Certification of Matthew Lambiase, Chief Executive Officer and President of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Rob Colligan, Chief Financial Officer of the Registrant, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Matthew Lambiase, Chief Executive Officer and President of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Rob Colligan, Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL	Instance Document **
Exhibit 101.SCH XBRL	Taxonomy Extension Schema Document **
Exhibit 101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document **
Exhibit 101.DEF XBRL	Additional Taxonomy Extension Definition Linkbase Document Created**
Exhibit 101.LAB XBRL	Taxonomy Extension Label Linkbase Document **
Exhibit 101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document **

** Submitted electronically herewith. Attached as Exhibit 10.1 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition as

of March 31, 2015 (Unaudited) and December 31, 2014 (derived from the audited consolidated financial statements); (ii) Consolidated Statements of Operations and Comprehensive Income for the quarters ended March 31, 2015 and 2014; (iii) Consolidated Statement of Stockholders' Equity for the quarters ended March 31, 2015 and 2014; (iv) Consolidated Statements of Cash Flows for the quarters ended March 31, 2015 and 2014; and (v) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements 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.

CHIMERA INVESTMENT CORPORATION

	By:	/s/ Matthew Lambiase Matthew Lambiase (Chief Executive Officer and President and duly authorized officer of the registrant)
Date: May 11, 2015		
	By:	/s/ Rob Colligan Rob Colligan (Chief Financial Officer and principal financial officer of the registrant)
Date: May 11, 2015		

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