BECTON DICKINSON & CO
Form DEF 14A
December 17, 2015
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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 þ

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))**
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Becton, Dickinson and Company
(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):
þ No fee required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Becton, Dickinson and Company

1 Becton Drive

Franklin Lakes, New Jersey 07417-1880

www.bd.com

December 17, 2015

Dear Fellow Shareholders:

You are cordially invited to attend the 2016 Annual Meeting of Shareholders of Becton, Dickinson and Company (BD) to be held at 1:00 p.m. EST on Tuesday, January 26, 2016 at the Four Seasons Hotel New York, 57 East 57th Street, New York, New York.

The accompanying notice of meeting and proxy statement describe the matters to be acted upon at the meeting. We also will report on matters of interest to BD shareholders.

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, we encourage you to vote so that your shares will be represented and voted at the meeting. You may vote by proxy on the Internet or by telephone, or by completing and mailing the enclosed proxy card in the return envelope provided. You may also vote in person at the Annual Meeting.

Thank you for your continued support of BD.

Sincerely,

Vincent A. Forlenza
Chairman, Chief Executive Officer and President

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Becton, Dickinson and Company

1 Becton Drive

Franklin Lakes, New Jersey 07417-1880

December 17, 2015

The 2016 Annual Meeting of Shareholders of Becton, Dickinson and Company (BD) will be held as follows:

DATE:	Tuesday, January 26, 2016
TIME:	1:00 p.m. EST
LOCATION:	Four Seasons Hotel New York 57 East 57th Street New York, New York
PURPOSE:	To consider and act upon the following proposals: 1. The election as directors of the 12 nominees named in the attached proxy statement for a one-year term; 2. The ratification of the selection of the independent registered public accounting firm; 3. An advisory vote to approve named executive officer compensation; 4. Approval of amendments to the 2004 Employee and Director Equity-Based Compensation Plan; and 5. Such other business as may properly come before the meeting.

Shares represented by properly executed proxies will be voted in accordance with the instructions specified therein. Shares represented by properly executed proxies that do not provide specific voting instructions will be voted in accordance with the recommendations of BD s Board of Directors set forth in the accompanying proxy statement.

Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Shareholders to be held on January 26, 2016. BD s proxy statement and 2015 Annual Report, which includes BD s consolidated financial statements, are available at *www.bd.com/investors/.*

Shareholders of record at the close of business on December 4, 2015 will be entitled to attend and vote at the meeting.

By order of the Board of Directors,

Gary DeFazio
Senior Vice President and Corporate Secretary

YOU CAN VOTE BY PROXY OR SUBMIT VOTING INSTRUCTIONS IN

ONE OF THREE WAYS:

1. **<u>VIA THE INTERNET:</u>**

Visit the website noted on your proxy/voting instruction card.

2. **BY TELEPHONE:**

Use the telephone number noted on your proxy/voting instruction card.

3. **BY MAIL:**

Promptly return your signed and dated proxy/voting instruction card in the enclosed envelope.

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PROXY STATEMENT

2016 ANNUAL MEETING OF SHAREHOLDERS

Tuesday, January 26, 2016

BECTON, DICKINSON AND COMPANY

1 Becton Drive

Franklin Lakes, New Jersey 07417-1880

GENERAL INFORMATION

Proxy solicitation

These proxy materials are being mailed or otherwise sent to shareholders of Becton, Dickinson and Company (BD) on or about December 17, 2015 in connection with the solicitation of proxies by the BD Board of Directors for BD s 2016 Annual Meeting of Shareholders (the 2016 Annual Meeting) to be held at 1:00 p.m. EST on Tuesday, January 26, 2016 at the Four Seasons Hotel New York, 57 East 57th Street, New York, New York.

BD s directors and its officers and other associates also may solicit proxies by telephone or otherwise. Brokers and other nominees will be requested to solicit proxies or authorizations from beneficial owners and will be reimbursed for their reasonable expenses. BD has retained MacKenzie Partners, Inc. to assist in soliciting proxies for a fee not to exceed $25,000 plus expenses. The cost of soliciting proxies will be borne by BD.

Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Shareholders to be held on January 26, 2016. This proxy statement and BD s 2015 Annual Report to Shareholders are also available at *www.bd.com/investors/*.

Shareholders entitled to vote; Attendance at the 2016 Annual Meeting

Shareholders of record at the close of business on December 4, 2015 are entitled to notice of, and to vote at, the meeting. As of such date, there were 212,165,747 shares of BD common stock outstanding, each entitled to one vote.

If your shares are held in the name of a bank, broker or other nominee (also known as shares held in street name) and you wish to attend the meeting, you must present proof of ownership as of the record date, such as a bank or brokerage account statement, to be admitted. BD may request appropriate identification for any person seeking to attend the meeting as a condition of admission.

Quorum; Required vote

The holders of a majority of the shares entitled to vote at the meeting must be present in person or represented by proxy to constitute a quorum. Directors are elected by a majority of the votes cast at the meeting (Proposal 1). If an incumbent director does not receive the requisite vote, he or she must offer to submit his or her resignation, and the Board will decide whether to accept the resignation in accordance with the process described later in this proxy statement. Approval of Proposals 2, 3 and 4 requires the affirmative vote of a majority of the votes cast at the meeting.

Under New Jersey law, abstentions and shares that brokers do not have the authority to vote in the absence of timely instructions from the beneficial owners will not be counted as votes cast, and, accordingly, will have no effect on the outcome of the vote for any of the proposals. Proposal 2 is a discretionary item , and New York Stock Exchange (NYSE) member brokers that do not receive instructions on how to vote from beneficial owners may cast those votes in their discretion on Proposal 2.

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How to vote

Shareholders of record may cast their votes at the meeting. In addition, shareholders of record may cast their votes by proxy, and participants in the BD plans described below may submit their voting instructions, by:

- using the Internet and voting at the website listed on the enclosed proxy/voting instruction card (the proxy card);
- using the telephone number listed on the proxy card; or
- signing, completing and returning the proxy card in the enclosed postage-paid envelope.

Votes cast through the Internet and telephone votes are authenticated by use of a personal identification number. This procedure allows shareholders to appoint a proxy, and the various plan participants to provide voting instructions, and to confirm that their actions have been properly recorded. Specific instructions to be followed are set forth on the proxy card. If you vote through the Internet or by telephone, you do not need to return your proxy card. **In order to be timely processed, voting instructions submitted by participants in BD s Global Share Investment Program (the GSIP) must be received by 12:00 p.m. EST on January 20, 2016, and voting instructions submitted by participants in all other BD plans must be received by 12:00 p.m. EST on January 22, 2016. All proxies submitted by record holders through the Internet or by telephone must be received by 11:00 a.m. EST on January 26, 2016.**

If you are the beneficial owner of shares held in street name , you have the right to direct your bank, broker or other nominee on how to vote your shares by using the voting instruction form provided to you by your nominee, or by following their instructions for voting through the Internet or by telephone. In the alternative, you may vote in person at the meeting if you obtain a valid proxy from your bank, broker or other nominee and present it at the meeting.

Shares represented by properly executed proxies will be voted in accordance with the instructions specified therein. Shares represented by properly executed proxies that do not specify voting instructions will be voted in accordance with the recommendations of the Board of Directors set forth in this proxy statement.

Savings Incentive Plan (the SIP)

Participants in the SIP, BD s 401(k) plan, are named fiduciaries. As named fiduciaries, they may instruct the SIP trustee how to vote the shares of BD common stock allocated to their SIP accounts. Shares for which no voting instructions have been received by the SIP trustee will be voted in the same proportion as those shares for which timely instructions are received.

Participants in Other Plans

Participants in BD s Deferred Compensation and Retirement Benefit Restoration Plan (the Restoration Plan), the 1996 Directors Deferral Plan (the Directors Deferral Plan), and the GSIP (if so provided under the terms of the local country GSIP plan) may provide voting instructions for all shares of BD common stock allocated to their plan accounts. The trustees of these plans will vote the plan shares for which they do not receive instructions in the same proportion as the plan shares for which they do receive instructions.

Proxies representing shares of BD common stock held of record also will serve as proxies for shares held under the Direct Stock Purchase Plan sponsored and administered by Computershare Trust Company, N.A. and any shares of BD common stock allocated to participants accounts under the plans mentioned above, if the registrations are the same. Separate mailings will be made for shares not held under the same registrations.

Revocation of proxies or change of instructions

A proxy given by a shareholder of record may be revoked or changed at any time before it is voted by:

sending written notice of revocation to the Corporate Secretary of BD at the address set forth above or delivering such notice at the meeting prior to the voting of the proxy,

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delivering a proxy (by one of the methods described above under the heading How to vote) bearing a later date, or

voting in person by written ballot at the meeting.

Participants in the plans described above may change their voting instructions by delivering new voting instructions by one of the methods described above under the heading How to vote.

If you are the beneficial owner of shares held in street name , you may submit new voting instructions in the manner provided by your bank, broker or other nominee, or you may vote in person at the meeting in the manner described above under the heading How to vote.

Other matters

The Board of Directors is not aware of any matters to be presented at the meeting other than those set forth in the accompanying notice. If any other matters properly come before the meeting, the persons named in the proxy card will vote on such matters in accordance with their best judgment.

OWNERSHIP OF BD COMMON STOCK

Securities owned by certain beneficial owners

The following table sets forth as of September 30, 2015, information concerning those persons known to BD to be the beneficial owner of more than 5% of BD s outstanding common stock. This information is based on filings made by such persons with the Securities and Exchange Commission (SEC).

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	16,836,276(1)	8.0%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, PA 19355	13,202,887(2)	6.3%
State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	11,959,855(3)	5.7%
Wellington Management Co., LLP 280 Congress St. Boston, MA 02110	10,932,180(4)	5.2%

(1) The beneficial owner has sole dispositive power with respect to these shares, and sole voting power with respect to 4,382,063 shares.

(2) The beneficial owner has sole dispositive power with respect to 12,801,309 shares and shared dispositive power with respect to 401,578 shares, and sole voting power with respect to 390,145 shares and shared voting power with respect to 17,400 shares.

(3) The beneficial owner has sole dispositive power with respect to these shares and sole voting power with respect to 109,949 shares.

(4) The beneficial owner has sole dispositive power with respect to these shares, and has shared voting power with respect to 5,555,886 shares.

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Securities owned by directors and management

The following table sets forth as of December 7, 2015 information concerning the beneficial ownership of BD common stock by (i) each director, (ii) the executive officers named in the Summary Compensation Table on page 40, and (iii) all nominees for director and executive officers as a group. In general, beneficial ownership includes those shares that a director or executive officer has the sole or shared power to vote or dispose of, including shares that may be acquired under outstanding equity compensation awards or otherwise within 60 days. Except as indicated in the footnotes to the table, each person has the sole power to vote and dispose of the shares he or she beneficially owns.

BD has a policy that prohibits directors, officers and employees from pledging BD shares or engaging in transactions that are intended to hedge against the economic risk of owning BD shares. None of BD s directors or executive officers has pledged or hedged against any of the shares listed.

BD COMMON STOCK

Name	Amount and nature of beneficial ownership(1)	Percentage of class
Basil L. Anderson	27,720	*
Henry P. Becton, Jr.(2)	260,948	*
Catherine M. Burzik	5,134	*
Edward F. DeGraan	35,301	*
Vincent A. Forlenza	1,226,544	*
Claire M. Fraser	17,557	*
Christopher Jones	15,318	*
William A. Kozy	564,581	*
Marshall O. Larsen	19,335	*
Gary A. Mecklenburg	26,986	*
James F. Orr	35,487	*
Willard J. Overlock, Jr.	55,542	*
Claire Pomeroy	2,696	*
Christopher R. Reidy	30,244	*
Rebecca W. Rimel	6,969	*
Bertram L. Scott	34,833	*
Jeffrey S. Sherman	271,236	*
Ellen Strahlman	20,244	*
Directors and executive officers as a group (26 persons)	3,408,438	1.6%

* Represents less than 1% of the outstanding BD common stock.

(1) Includes shares held directly, and, with respect to executive officers, indirect interests in BD common stock held under the SIP, GSIP and the Restoration Plan, and, with respect to the non-management directors, indirect interests in BD common stock held under the Directors Deferral Plan. Additional information on certain of these plans appears on pages 62-63. Includes shares under outstanding stock appreciation rights and restricted stock units that executive officers may acquire within 60 days, as follows: Mr. Forlenza, 1,097,294 shares; Mr. Kozy, 471,350 shares; Mr. Reidy, 30,244 shares; Mr. Sherman, 255,926 shares; and Dr. Strahlman, 20,244 shares. Also includes, with respect to each non-management director, shares issuable under restricted stock units as follows: Mr. Anderson, 21,238 shares; Mr. Becton, 22,707 shares; Ms. Burzik, 5,134 shares; Mr. DeGraan, 22,707 shares; Dr. Fraser, 17,557 shares; Mr. Jones, 10,670 shares; Mr. Larsen, 15,719 shares; Mr. Mecklenburg, 21,238 shares; Mr. Orr, 22,707 shares; Mr. Overlock, 22,707 shares; Dr. Pomeroy, 2,696 shares; Ms. Rimel, 6,334 shares; and Mr. Scott, 22,707 shares.

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(2) Includes 216,071 shares held by trusts of which Mr. Becton is a co-trustee with shared investment and voting power or held by a limited liability company owned by one of such trusts. Does not include 37,166 shares owned by Mr. Becton s spouse, or 108,552 shares held in trusts for the benefit of his children, and as to each of which he disclaims beneficial ownership.

Section 16(a) beneficial ownership reporting compliance

Section 16(a) of the Securities Exchange Act of 1934 requires BD s directors and executive officers to file initial reports of their ownership of BD s equity securities and reports of changes in such ownership with the SEC and the NYSE. Directors and executive officers are required by SEC regulations to furnish BD with copies of all Section 16(a) forms they file with respect to BD securities. Based solely on a review of copies of such forms and written representations from BD s directors and executive officers, BD believes that, for the period from October 1, 2014 through September 30, 2015, all of its directors and executive officers were in compliance with the reporting requirements of Section 16(a).

Proposal 1. ELECTION OF DIRECTORS

Members of our Board are elected to serve a term of one year and until their successors have been elected and qualified. All of the nominees for director have consented to being named in this proxy statement and to serve if elected. Each of the nominees is a current member of BD s Board. Messrs. Henry P. Becton and Edward F. DeGraan, who have reached the mandatory retirement age under BD s Corporate Governance Principles, will retire as members of the Board effective at the conclusion of the 2016 Annual Meeting. Mr. Becton has been appointed Director Emeritus, effective following the 2016 Annual Meeting. BD does not know of any reason why any nominee would be unable to serve as director. If any nominee is unable to serve, the shares represented by valid proxies will be voted for the election of such other person as the Board may nominate, or the size of the Board may be reduced.

BD directors have a variety of backgrounds, which reflects the Board s continuing efforts to achieve a diversity of viewpoint, experience, knowledge, ethnicity and gender. As more fully discussed below, director nominees are considered on the basis of a range of criteria, including their business knowledge and background, prominence and reputation in their fields, global business perspective and commitment to strong corporate citizenship. They must also have experience and ability that is relevant to the Board s oversight role with respect to BD s business and affairs. Each nominee s biography includes the particular experience and qualifications that led the Board to conclude that the nominee should serve on the Board.

NOMINEES FOR DIRECTOR

Basil L. Anderson, 70, has been a director since 2004. From 2001 until his retirement in 2006, he served as Vice Chairman of Staples, Inc., a supplier of office products. Prior thereto, he was Executive Vice President Finance and Chief Financial Officer of Campbell Soup Company. Mr. Anderson also is a director of Hasbro, Inc., Moody s Corporation and Staples, Inc.

Mr. Anderson has an extensive business and financial background as both an operating executive and as a chief financial officer of a major multinational public company. His experience includes strategic, business and financial planning and operations; international operations; and service as a director for public companies in different industries.

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Catherine M. Burzik, 65, served as President and Chief Executive Officer of Kinetic Concepts, Inc., a medical device company specializing in the fields of woundcare and regenerative medicine, from 2006 until January 2012 following the sale of the company. Ms. Burzik currently serves as Chair of the Board of Directors of the American College of Wound Healing and Tissue Repair, Chair of the San Antonio Branch of the Dallas Federal Reserve Board, General Partner of Targeted Technology Fund II, LP, and Chair of StemBioSys, Inc., a Targeted Technology portfolio company. Previously, Ms. Burzik was President of Applied Biosystems; President of Ortho-Clinical Diagnostics, Inc., a Johnson & Johnson company; and held senior executive roles at Eastman Kodak Company. Ms. Burzik was formerly a director of Allscripts Healthcare Solutions, Inc.

Ms. Burzik is a seasoned executive in the healthcare industry, having led major medical device, diagnostic, diagnostic imaging and life sciences businesses. She contributes strong strategic and leadership expertise, and extensive knowledge of the global healthcare field.

Vincent A. Forlenza, 62, has been a director since 2011, and became BD s Chairman in 2012. He was elected BD s Chief Executive Officer in 2011 and has served as its President since 2009. He also served as BD s Chief Operating Officer from July 2010 to October 2011. Mr. Forlenza also is Chairman of the Advanced Medical Technology Association (AdvaMed), an international medical technology trade organization. He is a member of the Board of Trustees of The Valley Hospital and The Valley Health System, a member of the Board of Directors of the Quest Autism Foundation, and a member of the Board of Trustees of Lehigh University and of the Advisory Board for the P.C. Rossin College of Engineering and Applied Sciences at Lehigh.

Mr. Forlenza has been with BD for over 35 years in a number of different capacities, including strategic planning, business development, research and development leadership and general management in each of BD s segments and in overseas roles. Mr. Forlenza brings to the Board extensive business and industry experience, and provides the Board with a unique perspective on BD s strategy and operations, particularly in the area of new product development.

Claire M. Fraser, *Ph.D*, 60, has been a director since 2006. Since 2007, she has been Director of the Institute for Genome Sciences and a Professor of Medicine at the University of Maryland School of Medicine in Baltimore, Maryland. From 1998 to 2007, she served as President and Director of The Institute for Genomic Research, a not-for-profit center dedicated to deciphering and analyzing genomes. Dr. Fraser also serves on the Board of the American Association for the Advancement of Science and the Maryland Technology Development Corporation (TEDCO).

Dr. Fraser is a prominent scientist with a strong background in infectious diseases and molecular diagnostics, including the development of novel diagnostics and vaccines.

She also brings considerable managerial experience in her field.

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Christopher Jones, 60, has been a director since 2010. Mr. Jones retired in 2001 as Chief Executive Officer of JWT Worldwide (previously known as J. Walter Thompson), an international marketing firm. Since 2002, Mr. Jones has been Operating Partner and director at Motion Equity Partners (formerly Cognetas LLP), a pan-European private equity firm. He has been the non-executive Chairman of Results International Group since 2002. He also is Chairman of the Board of The Pavilion Clinic, a member of the Health Advisory Board of The Johns Hopkins University Bloomberg School of Public Health and a member of the Board of Directors of the Albert and Mary Lasker Foundation.

Mr. Jones contributes an important international perspective based on his distinguished career as a marketing leader and head of a global marketing firm. He offers substantial marketing, strategic and managerial expertise derived from his broad range of activities in the field.

Marshall O. Larsen, 67, has been a director since 2007. Mr. Larsen retired in 2012 as Chairman, President and Chief Executive Officer of Goodrich Corporation, a supplier of systems and services to the aerospace and defense industry. Mr. Larsen also is a director of Air Lease Corporation, Lowe s Companies, Inc. and United Technologies Corporation.

As a veteran chief executive officer of a public company, Mr. Larsen offers the valuable perspective of an individual with highly-developed executive leadership and financial and strategic management skills in a global manufacturing company. These qualities reflect considerable domestic and international business and financial experience.

Gary A. Mecklenburg, 69, has been a director since 2004. In 2006, he retired as President and Chief Executive Officer of Northwestern Memorial HealthCare, the parent corporation of Northwestern Memorial Hospital, a position he had held since 1986. He also served as President of Northwestern Memorial Hospital from 1985 to 2002. He is currently an Executive Partner of Waud Capital Partners, L.L.C., a private equity investment firm. Mr. Mecklenburg is also a director of LHP Hospital Group, Inc.

Mr. Mecklenburg s long tenure in hospital administration affords him a broad perspective on the many facets of the delivery of healthcare and a deep knowledge of healthcare financing and administration. As the former leader of a major teaching hospital, Mr. Mecklenburg possesses strong executive management, financial, strategic and operational knowledge as applied in a healthcare setting.

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James F. Orr, 70, has been a director since 2000. From 2000 until his retirement in 2007, he served as Chairman of the Board of Convergys Corporation, a provider of customer management services, and which formerly also provided employee care and outsourced billing services. He also served as Convergys Chief Executive Officer from 1998 until his retirement in 2007. Mr. Orr also is a director of Ohio National Financial Services, Inc.

Mr. Orr contributes the important insights of a former chief executive officer of a public company. His background reflects extensive managerial, strategic, operational and financial experience from the perspective of a service industry. He also possesses a depth of understanding of corporate governance and enterprise risk management.

Willard J. Overlock, Jr., 69, has been a director since 1999. He retired in 1996 as a partner in Goldman, Sachs & Co., where he served as a member of its Management Committee, and retains the title of Senior Director to The Goldman Sachs Group, Inc. Mr. Overlock is a Special Partner at Cue Ball Capital, and a member of the Cue Ball Group Board of Directors. Mr. Overlock is also a member of the Board of Directors of Evercore Partners, Inc., a trustee of Rockefeller University, and Chairman of the Board of Directors of the Albert and Mary Lasker Foundation.

Mr. Overlock has broad financial and investment banking experience based on his senior leadership roles in these areas. He contributes financial and transactional expertise and acumen in mergers and acquisitions and complex financial transactions.

Claire Pomeroy, 60, has been a director since 2014. Since 2013, she has served as the President of the Albert and Mary Lasker Foundation, a private foundation that seeks to improve health by accelerating support for medical research through recognition of research excellence, public education and advocacy. Prior thereto, Dr. Pomeroy served as Dean of the University of California, Davis (UC Davis) School of Medicine, and CEO of the UC Davis Health System. Dr. Pomeroy is also a member of the Board of Directors of Expanesthetics, Inc., and the Sierra Health Foundation. She is a member of the Board of Trustees of the Morehouse School of Medicine and the Board of Directors of the Foundation for Biomedical Research.

Dr. Pomeroy is an expert in infectious diseases, with broad experience in the area of healthcare delivery, health system administration, higher education, medical research and public health. She brings to the Board important perspectives in the areas of patient care services, global health and health policy.

Rebecca W. Rimel, *64*, has been a director since 2012. Since 1994, she has served as President and Chief Executive Officer of The Pew Charitable Trusts, a public charity that works to improve public policy and inform the public. Ms. Rimel previously served as Assistant Professor in the Department of Neurosurgery at the University of Virginia Hospital and also as Head Nurse of its medical center emergency department. Ms. Rimel also is a director of BioTelemetry, Inc. and a director/trustee of various Deutsche mutual funds.

Ms. Rimel brings executive leadership and extensive experience in public policy and advocacy, particularly in the area of healthcare. She also offers the perspective of someone with a strong background in the healthcare field.

Bertram L. Scott, *64*, has been a director since 2002. Mr. Scott is Senior Vice President of Population Health of Novant Health. He previously served as President and Chief Executive Officer of Affinity Health Plan, and as President, U.S. Commercial of CIGNA Corporation. Prior thereto, Mr. Scott served as Executive Vice President of TIAA-CREF and as President and Chief Executive Officer of TIAA-CREF Life Insurance Company. Mr. Scott also is a director of AXA Financial, Inc., Lowe s Companies, Inc. and Tufts Health Plan.

Mr. Scott possesses strong strategic, operational and financial experience from the variety of executive roles in which he has served during his career. He brings experience in corporate governance and business expertise in the insurance and healthcare fields.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR.

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BOARD OF DIRECTORS

The Board and Committees of the Board

BD is governed by a Board of Directors that currently consists of 14 members, 13 of whom have been determined by the Board to be independent. The Board has established four operating committees (the Committees): the Audit Committee; the Compensation and Management Development Committee (the Compensation Committee); the Corporate Governance and Nominating Committee (the Governance Committee); and the Science, Marketing, Innovation and Technology Committee (the SMIT Committee). These Committees meet regularly. The Board has also established an Executive Committee that meets only as needed.

The Board has adopted written charters for each of the Committees that are posted on BD s website at *www.bd.com/investors/corporate_governance/*. Printed copies of these charters, BD s 2015 Annual Report on Form 10-K, and BD s reports and statements filed with or furnished to the SEC may be obtained, without charge, by contacting the Corporate Secretary, Becton, Dickinson and Company, 1 Becton Drive, Franklin Lakes, New Jersey 07417-1880, telephone 201-847-6800.

Committee membership and function

Set forth below is a summary description of each of the Committees.

AUDIT COMMITTEE

Function

Retains and reviews the qualifications, independence and performance of BD s registered public accounting firm (the independent auditors).

Reviews BD s public financial disclosures and financial statements, and its accounting principles, policies and practices; the scope and results of the annual audit by the independent auditors; BD s internal audit process; and the effectiveness of BD s internal control over financial reporting.

Reviews BD s guidelines and policies relating to enterprise risk assessment and risk management, and management s plan for risk mitigation or remediation.

Oversees BD s ethics and enterprise compliance programs.

Reviews financial strategies regarding currency, interest rates and use of derivatives, and reviews BD s insurance program.

Functions as a qualified legal compliance committee, if necessary.

Members Bertram L. Scott Chair

Basil L. Anderson

Catherine M. Burzik

Christopher Jones

Willard J. Overlock, Jr.

Rebecca W. Rimel

The Board has determined that the members of the Audit Committee meet the independence and financial literacy requirements of the NYSE for audit committee members. The Board also has determined that each of Messrs. Anderson and Scott and Ms. Burzik qualifies as an audit committee financial expert under the rules of the SEC.

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COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Function

Reviews BD s compensation and benefits programs, recommends the compensation of BD s Chief Executive Officer (CEO) to the independent members of the Board, and approves the compensation of BD s other executive officers.

Approves all employment, severance and change in control agreements with our executive officers.

Serves as the granting and administrative committee for BD s equity compensation plans.

Oversees certain other BD benefit plans.

Reviews leadership development initiatives.

Members Marshall O. Larsen Chair

Basil L. Anderson

Edward F. DeGraan

Gary A. Mecklenburg

James F. Orr

Bertram L. Scott

The Board has determined that each member of the Compensation Committee meets the independence requirements of the NYSE for compensation committee members. Each member also qualifies as an outside director under Section 162(m) of the Internal Revenue Code, and as a non-employee director under Section 16 of the Securities Exchange Act of 1934.

Procedure for determining executive compensation

The Compensation Committee oversees the compensation program for the executive officers listed in the Summary Compensation Table on page 40 and for BD s other executive officers. The Compensation Committee recommends compensation actions regarding the CEO to the other independent directors and has the authority to take compensation actions with respect to BD s other executive officers. The Compensation Committee may not delegate these responsibilities to another Committee, an individual director or members of management.

Role of management

The Compensation Committee s meetings are typically attended by BD s CEO, Executive Vice President and Chief Human Resources Officer and others who support the Compensation Committee in fulfilling its responsibilities. The Compensation Committee considers management s views relating to compensation matters, including the performance metrics and targets for BD s performance-based compensation. Management also provides information (which is reviewed by our Internal Audit department) to assist the Compensation Committee in determining the extent to which performance targets have been achieved. This includes any recommended adjustments to BD s operating results when assessing BD s performance. The CEO and Chief Human Resources Officer also work with the Compensation Committee chair in establishing meeting agendas.

The Compensation Committee meets in executive session with no members of management present for part of each of its regular meetings. The Compensation Committee also meets in executive session when considering compensation decisions regarding our executive officers.

Role of the independent consultant

The Compensation Committee is also assisted in fulfilling its responsibilities by its independent consultant, Pay Governance LLC (Pay Governance). Pay Governance is engaged by, and reports directly to, the

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Compensation Committee. The Compensation Committee is not aware of any conflict of interest on the part of Pay Governance or any factor that would otherwise impair the independence of Pay Governance relating to the services performed by Pay Governance for the Compensation Committee. During fiscal year 2015, Pay Governance was not engaged to perform any services for BD or BD s management. The Compensation Committee has adopted a policy prohibiting Pay Governance from providing any services to BD or BD s management without the Compensation Committee s prior approval, and has expressed its intention that such approval will be given only in exceptional cases. No other consultant was used by the Compensation Committee with respect to the fiscal year 2015 compensation of BD s executive officers.

Pay Governance reviews all materials prepared for the Compensation Committee by management, prepares additional materials as may be requested by the Compensation Committee, and attends Compensation Committee meetings. In its advisory role, Pay Governance assists the Compensation Committee in the design and implementation of BD s compensation program. This includes assisting the Compensation Committee in selecting the key elements to include in the program, the targeted payments for each element, and the establishment of performance targets.

Pay Governance also provides market comparison data, which is one of the factors considered by the Compensation Committee in making compensation decisions, and makes recommendations to the Compensation Committee regarding the compensation of BD s CEO. Pay Governance also conducts an annual review of the compensation practices of select peer companies. Based on this review, Pay Governance advises the Compensation Committee with respect to the competitiveness of BD s compensation program in comparison to industry practices, and identifies any trends in executive compensation.

Setting compensation

At the end of each fiscal year, the independent directors conduct a review of the CEO s performance. At the following Board meeting, the independent directors meet in executive session to set the compensation of the CEO after considering the results of its review, market comparison data and the recommendations of the Compensation Committee. The CEO does not play a role in determining or recommending his own compensation.

The Compensation Committee is responsible for determining the compensation of BD s other executive officers. The CEO, in consultation with the Chief Human Resources Officer, reviews the performance of the other executive officers with the Compensation Committee and makes compensation recommendations for its consideration. The Compensation Committee determines the compensation for these executives, in consultation with Pay Governance, after considering the CEO s recommendations and market comparison data regarding compensation levels for comparable positions at peer companies. All decisions regarding the compensation of BD s other executive officers are made in executive session.

The Board has delegated responsibility for formulating recommendations regarding non-management director compensation to the Governance Committee, which is discussed below.

SCIENCE, MARKETING, INNOVATION AND TECHNOLOGY COMMITTEE

Function

Oversees BD s major innovation activities and new product development programs.

Reviews the alignment of BD s research and development, medical and regulatory affairs, and strategic marketing activities to BD s corporate strategy.

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Members Claire M. Fraser Chair

Henry P. Becton, Jr.

Catherine M. Burzik

Christopher Jones

Willard J. Overlock, Jr.

Claire Pomeroy

Rebecca W. Rimel

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Function

Identifies and recommends candidates for election to the Board.

Reviews the composition, structure and function of the Board and its Committees, as well as the performance and compensation of non-management directors.

Monitors BD s corporate governance and Board practices, and oversees the Board s self-evaluation process.

Oversees BD s policies, practices and procedures impacting BD s image, reputation and corporate responsibility, including, without limitation, communications with BD s key stakeholders, community relations, and public policy and government relations activities.

Members Gary A. Mecklenburg Chair

Henry P. Becton, Jr.

Edward F. DeGraan

Claire M. Fraser

Marshall O. Larsen

James F. Orr

Claire Pomeroy

The Board has determined that each member of the Governance Committee meets the independence requirements of the NYSE.

As stated above, the Governance Committee reviews the compensation program for the non-management directors and makes recommendations to the Board regarding director compensation, and may not delegate these responsibilities to another Committee, an individual director or members of management. The Governance Committee has retained Pay Governance as an independent consultant for this purpose. Pay Governance s responsibilities include providing market comparison data on non-management director compensation at peer companies, tracking trends in non-management director compensation practices, and advising the Governance Committee regarding the components and levels of non-management director compensation. The Governance Committee is not aware of any conflict of interest on the part of Pay Governance or any other factor that would impair Pay Governance s independence. Executive officers do not play any role in either determining or recommending non-management director compensation.

Board, Committee and annual meeting attendance

The Board and its Committees held the following number of meetings during fiscal year 2015:

Board	6
Audit Committee	10
Compensation Committee	6
Governance Committee	7
SMIT Committee	5

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The Executive Committee did not meet during fiscal year 2015. BD s non-management directors met in executive session at each of the Board meetings held during fiscal year 2015.

During fiscal year 2015, all directors attended at least 75% of the total number of meetings of the Board of Directors and Committees on which he or she served.

The Board has adopted a policy pursuant to which directors are expected to attend the Annual Meeting of Shareholders in the absence of a scheduling conflict or other valid reason. One director was unable to attend BD s 2015 Annual Meeting of Shareholders due to illness, and three directors were unable to attend due to severe weather conditions. All of the other directors were present at the meeting.

Non-management directors compensation

The Board believes that providing competitive compensation is necessary to attract and retain qualified non-management directors. The key elements of BD s non-management director compensation are a cash retainer, equity compensation, Committee chair fees and Lead Director fees. Of the base compensation paid to the non-management directors (which does not include Committee chair and Lead Director fees), approximately two-thirds currently is equity-based compensation. See Corporate Governance Significant governance practices Equity ownership by directors on page 20. Mr. Forlenza does not receive compensation related to his service as a director.

Cash retainer

Each non-management director currently receives an annual cash retainer of $92,000 for services as a director. Directors do not receive meeting attendance fees.

Equity award

Each non-management director elected at an Annual Meeting of Shareholders is granted restricted stock units then valued at $189,000 (using the same methodology used to value awards made to executive officers). Directors newly elected to the Board receive a restricted stock unit grant that is prorated from the effective date of their election to the next Annual Meeting of Shareholders. The restricted stock units vest and are distributable one year from grant, unless deferred at the election of a director.

Committee chair/Lead Director fees

An annual fee of $10,000 is paid to each Committee chair, except that the fee for the Audit Committee chair is $15,000 in recognition of the Audit Committee s responsibilities. An annual fee of $25,000 is paid to the Lead Director. No fee is paid to the chair of the Executive Committee.

Other arrangements

BD reimburses non-management directors for travel and other business expenses incurred in the performance of their services for BD. Directors may travel on BD aircraft in connection with such activities, and, on limited occasions, spouses of directors have joined them on such flights. Per SEC rules, no compensation is attributed to the directors for these flights in the table below, since the aggregate incremental costs of spousal travel were minimal. Directors are also reimbursed for attending director education courses. BD occasionally invites spouses of directors to Board-related business events, for which they are reimbursed their travel expenses.

Directors are eligible, on the same basis as BD associates, to participate in BD s Matching Gift Program, pursuant to which BD matches contributions made to qualifying nonprofit organizations. The aggregate limit per participant is $5,000 per calendar year.

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The following table sets forth the compensation earned or received by BD s non-management directors during fiscal year 2015.

Fiscal Year 2015 Non-Management Directors Compensation

Name	Fees earned or paid in cash($)(1)	Stock awards($)(2)	All other ($)(3)	Total($)
Basil L. Anderson	94,667	191,286		285,953
Henry P. Becton, Jr.	98,000	191,286		289,286
Catherine M. Burzik	89,667	191,286	5,000	285,953
Edward F. DeGraan	93,000	191,286	5,000	289,286
Claire M. Fraser	99,667	191,286		290,953
Christopher Jones	89,667	191,286	5,000	285,953
Marshall O. Larsen	113,000	191,286		304,286
Gary A. Mecklenburg	96,333	191,286	5,000	292,619
James F. Orr	89,667	191,286	10,000	290,953
Willard J. Overlock, Jr.	89,667	191,286	5,000	285,953
Claire Pomeroy	89,667	191,286		280,953
Rebecca W. Rimel	89,667	191,286	2,000	282,953
Bertram L. Scott	99,667	191,286		290,953
Alfred Sommer(4)	31,667	0		31,667

(1) Reflects (i) a cash retainer fee at a rate of $85,000 per annum for part of the fiscal year and a rate of $92,000 per annum for the remainder of the fiscal year; (ii) annual Committee chair fees (or prorated chair fees) for Messrs. Anderson, DeGraan, Larsen, Mecklenburg and Scott, and Drs. Fraser and Sommer; and (iii) prorated Lead Director fees for Messrs. Becton and Larsen.

(2) The amounts shown in the Stock Awards column reflect the grant date fair value under FASB ASC Topic 718 of restricted stock units awarded to non-management directors during the fiscal year. The amounts shown for the annual grant are slightly higher than the $189,000 target award value, since a 30-day average of BD s closing stock price is used to determine the number of units to be granted, rather than the grant date stock price. For a discussion of the assumptions made by us in arriving at the grant date fair value of these awards, see Note 7 to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Listed below are the aggregate outstanding restricted stock unit awards held by each non-management director at the end of fiscal year 2015.

Name	Stock Awards Outstanding at September 30, 2015 (#)
Basil L. Anderson	21,238
Henry P. Becton, Jr.	22,707
Catherine M. Burzik	5,134
Edward F. DeGraan	22,707
Claire M. Fraser	17,557
Christopher Jones	10,670
Marshall O. Larsen	15,719
Gary A. Mecklenburg	21,238
James F. Orr	22,707
Willard J. Overlock, Jr.	22,707
Claire Pomeroy	2,696
Rebecca W. Rimel	6,334
Bertram L. Scott	22,707

Alfred Sommer(4)	7,522

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(3) Amounts shown represent matching gifts under BD s Matching Gift Program. Amount shown for Mr. Orr includes matching gifts of $5,000 in each of calendar year 2014 and calendar year 2015.

(4) Dr. Sommer retired from the Board on January 27, 2015.

Changes to non-management directors compensation

During fiscal year 2015, the Board undertook a review of director compensation, with the assistance of Pay Governance. This review included an analysis of the director compensation practices of certain peer companies, including the forms of equity compensation used, the mix of cash and equity compensation, and total compensation. The peer group used in this analysis was the same as the peer group used for BD s executive compensation analysis and included the following companies: Agilent Technologies, Inc.; Allergan plc.; C.R. Bard, Inc.; Baxter International Inc.; Boston Scientific Corporation; Medtronic plc; PerkinElmer, Inc.; St. Jude Medical, Inc.; Stryker Corporation; Thermo Fisher Scientific Inc.; and Zimmer Biomet Holdings, Inc.

Following this review, no change was made to the annual retainer or annual equity award. However, the Board approved the following changes to the compensation of the Committee chairs and Lead Director, effective at the conclusion of the 2016 Annual Meeting, so as to better align the Board s compensation practices with those of the peer group companies:

- The annual fee paid to the chair of the Audit Committee will be increased to $20,000 from $15,000, and the annual fee paid to the chairs of the Compensation Committee, Governance Committee and SMIT Committee will be increased to $15,000 from $10,000.

- The annual fee paid to the Lead Director will be increased to $30,000 from $25,000.

Directors Deferral Plan

Directors may defer receipt of all or part of their annual cash retainer and other cash fees pursuant to the provisions of the Directors Deferral Plan. Directors may also defer receipt of shares issuable to them under their restricted stock unit awards. A general description of the Directors Deferral Plan appears on page 62.

Communication with directors

Shareholders or other interested parties wishing to communicate with the Board, the non-management directors or any individual director (including complaints or concerns regarding accounting, internal accounting controls or audit matters) may do so by contacting the Lead Director either:

- by mail, addressed to BD Lead Director, P.O. Box 264, Franklin Lakes, New Jersey 07417-0264;

- by calling the BD Ethics Help Line, an independent toll-free service, at 1-800-821-5452 (callers from outside North America should use AT&T Direct to reach AT&T in the U.S. and then dial the above toll-free number); or

- by email to *ethics_office@bd.com*.

All communications will be kept confidential and promptly forwarded to the Lead Director, who shall, in turn, forward them promptly to the appropriate director(s). Such items that are unrelated to a director s duties and responsibilities as a Board member may be excluded by our corporate security department, including, without limitation, solicitations and advertisements, junk mail, product-related communications, job referral materials and resumes, surveys, and material that is determined to be illegal or otherwise inappropriate.

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CORPORATE GOVERNANCE

Corporate Governance Principles

BD s commitment to good corporate governance is embodied in our Corporate Governance Principles (the Principles). The Principles set forth the Board s views and practices regarding a number of governance topics, and the Governance Committee assesses the Principles on an ongoing basis in light of current practices. The Principles are available on BD s website at *www.bd.com/investors/corporate governance/*. Printed copies of the Principles may be obtained, without charge, by contacting the Corporate Secretary, Becton, Dickinson and Company, 1 Becton Drive, Franklin Lakes, New Jersey 07417-1880, phone 201-847-6800.

Board leadership structure

The Board s goal is to achieve the best board leadership structure for effective oversight and management of BD s affairs. The Board believes that there is no single, generally accepted approach to providing board leadership, and that each possible leadership structure must be considered in the context of the individuals involved and the specific circumstances facing a company. Accordingly, what the Board believes is the right board leadership structure may vary as circumstances warrant.

At the present time, the Board believes that the most effective leadership structure for BD is for our CEO to also serve as Chairman. The Board believes this combined role allows one person to speak for and lead the company and the Board, creates clear lines of authority and accountability, and provides the necessary leadership to execute BD s strategy. Mr. Forlenza s over 35 years of experience at BD and knowledge of our complex businesses, along with his extensive industry expertise, also make him uniquely qualified to lead the Board on the most important issues facing the company.

At the same time, the Principles provide for the appointment of a Lead Director from among the independent directors whenever the Chairman is not independent. The establishment of the Lead Director role allows the non-management directors to provide effective, independent Board leadership and oversight of management. Marshall O. Larsen currently serves as Lead Director.

Under the Principles, the Lead Director:

- presides over all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors, and at such other times as the Board deems appropriate,
- has the authority to call meetings of the independent directors,
- approves Board meeting agendas,
- approves Board meeting schedules to ensure that there is sufficient time for discussion of all agenda items,
- together with the Chair of the Compensation Committee, coordinates the evaluation of the performance of the CEO by the non-management directors,
- serves as a liaison between the non-management members of the Board and the Chairman, and as a contact person to facilitate communications by BD s employees, shareholders and others with the non-management members of the Board,
- approves information provided to the Board, and

if requested by major shareholders, ensures that he or she is available for consultation and direct communication.

The Board believes that having an independent Lead Director provides independent oversight of management, including risk oversight, while avoiding the risk of confusion regarding the Board s oversight

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responsibilities and the day-to-day management of the business. As such, this structure provides independent Board leadership and engagement, while deriving the benefit of having the CEO also serve as Chairman.

Board s oversight of risk

BD s management engages in a process referred to as enterprise risk management (ERM) to identify, assess, manage and mitigate a broad range of risks across BD s businesses, regions and functions and to ensure alignment of our risk assessment and mitigation efforts with BD s corporate strategy. The Audit Committee, through the authority delegated to it by the Board of Directors, is primarily responsible for overseeing BD s ERM activities to determine whether the process is functioning effectively and is consistent with BD s business strategy. At least twice a year, senior management reviews the results of its ERM activities with the Audit Committee, including the process used within the organization to identify risks, management s assessment of the significant categories of risk faced by BD (including any changes in such assessment since the last review), and management s plans to mitigate the potential exposures. On at least an annual basis, the significant risks identified through BD s ERM activities and the related mitigation plans are reviewed with the full Board. Particular risks are then often reviewed in-depth with the Audit Committee or the full Board at subsequent meetings.

In addition, the full Board reviews the risks associated with BD s strategic plan and discusses the appropriate levels of risk in light of BD s objectives. This is done through an annual strategy review process, and from time to time throughout the year as part of the Board s ongoing review of corporate strategy. The full Board also regularly oversees other areas of potential risk, including BD s capital structure, acquisitions and divestitures, and succession planning for BD s CEO and other members of senior management.

The various Committees of the Board are also responsible for monitoring and reporting to the full Board on risks associated with their respective areas of oversight. The Audit Committee oversees BD s accounting and financial reporting processes and the integrity of BD s financial statements, BD s processes regarding compliance with laws, and its hedging activities and insurance coverages. The Compensation Committee oversees risks associated with BD s compensation practices and programs, and the Governance Committee oversees risks relating to BD s corporate governance practices, including director independence, related person transactions and conflicts of interest. In connection with its oversight responsibilities, each Committee often meets with members of management who are primarily responsible for the management of risk in their respective areas, including, among others, BD s Chief Financial Officer, Chief Human Resources Officer, General Counsel, and senior regulatory, IT and compliance officers.

Risk assessment of compensation programs

With respect to our compensation policies and practices, BD s management has reviewed our policies and practices to determine whether they create risks that are reasonably likely to have a material adverse effect on BD. In connection with this risk assessment, management reviewed the design of BD s compensation and benefits programs (in particular, our performance-based compensation programs) and related policies, potential risks that could be created by the programs, and features of our programs and corporate governance generally that help to mitigate risk. Among the factors considered were the mix of cash and equity compensation, and of fixed and variable compensation, paid to our associates; the balance between short- and long-term objectives in our incentive compensation; the performance targets, mix of performance metrics, vesting periods, threshold performance requirements and funding formulas related to our incentive compensation; the degree to which programs are formulaic or provide discretion to determine payout amounts; caps on payouts; our clawback and share ownership policies; and our general governance structure. Based on this review, we believe that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on BD.

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Director nomination process

The Governance Committee reviews potential director candidates and recommends nominees for director to the full Board for approval. In making its recommendations, the Governance Committee assesses the overall composition of the Board, including diversity, age, skills, background, experience and prominence in areas of importance to BD. The Board seeks to achieve among its directors a diversity of viewpoint, experience, knowledge, ethnicity and gender that fits the needs of the Board at that particular time.

When considering individual director candidates, the Governance Committee will seek individuals with backgrounds and qualities that, when combined with those of BD s other directors, provide a blend of skills and experience that will further enhance the Board s effectiveness. From time-to-time, the Governance Committee has retained an executive search firm to assist it in its efforts to identify and evaluate potential director candidates.

The Governance Committee believes that any nominee for director must meet the following minimum qualifications:

- Candidates should be persons of high integrity who possess independence, forthrightness, inquisitiveness, good judgment and strong analytical skills.

- Candidates should demonstrate a commitment to devote the time required for Board duties, including, but not limited to, attendance at meetings.

- Candidates should be team-oriented and committed to the interests of all shareholders as opposed to those of any particular constituency.

The Governance Committee assesses the characteristics and performance of incumbent director nominees against the above criteria as well, and, to the extent applicable, considers the impact of any change in the principal occupations of such directors during the last year. To aid in this process, each director completes an annual evaluation of all the other directors on the Board. Upon completion of the individual director evaluation process, the Governance Committee reports its conclusions and recommendations for nominations to the full Board.

It is the Governance Committee s policy to consider referrals of prospective nominees for the Board from other Board members and management, as well as shareholders and other external sources, such as retained executive search firms. The Governance Committee utilizes the same criteria for evaluating candidates, irrespective of their source.

To recommend a candidate for consideration, a shareholder should submit a written statement of the qualifications of the proposed nominee, including full name and address, to the Corporate Secretary, Becton Dickinson and Company, 1 Becton Drive, Franklin Lakes, New Jersey 07417-1880.

Other significant governance practices

Described below are some of the other significant corporate governance practices that have been instituted by the BD Board.

Annual election of directors

BD s directors are elected annually. The Board believes that annual elections of directors reflect a corporate governance best practice, as it provides shareholders the opportunity to express their views on the performance of the entire Board each year.

Voting for directors

Under our By-Laws, in uncontested elections (where the number of nominees does not exceed the number of directors to be elected), nominees for director must receive the affirmative vote of a majority of the votes cast in order to be elected to the Board of Directors. Any incumbent director who fails to receive the requisite affirmative vote is required to offer to submit his or her resignation to the Board following the shareholder vote. The Governance Committee will consider and recommend to the Board whether to accept the resignation offer. The Board will act on such recommendation and publicly disclose its decision within 90 days following the shareholder vote. This structure allows the Board the opportunity to identify and assess the reasons for the vote, including whether the vote is attributable to dissatisfaction with a director s overall performance or is the result of shareholder views on a particular issue, and enables the Board to avoid undesirable and disruptive governance consequences.

Board self-evaluation

Each year the Board conducts a self-evaluation of its performance and effectiveness. As part of this process, each director completes an evaluation form on specific aspects of the Board s role, organization and meetings. The collective comments are then presented by the chair of the Governance Committee to the full Board. As part of the evaluation, the Board assesses the progress in the areas targeted for improvement a year earlier, and develops actions to be taken to enhance the Board s effectiveness over the next year. A complete list of the areas covered by the Board evaluation is available on BD s website at *www.bd.com/investors/corporate_governance*. Additionally, each Committee conducts an annual self-evaluation of its performance through a similar process.

Equity ownership by directors

The Board believes that directors should hold meaningful equity ownership positions in BD. To that end, a significant portion of non-management director compensation is in the form of restricted stock units. The Board believes that these equity interests help to better align the interests of the non-management directors with our shareholders. Under the Board s share ownership guidelines, each non-management director is required to own shares of common stock (which includes restricted stock units) valued at five times the annual cash retainer and must comply with the guidelines within three years of joining the Board. All of our non-management directors either have achieved the required share ownership or are within the three-year grace period.

Shareholder engagement

Our relationship with our shareholders and their views about BD are important to us, and the Board recognizes the value of director engagement with BD s major shareholders. To that end, the Board has established a process by which shareholders can request direct engagement with our non-management directors regarding executive compensation, corporate governance, board and CEO succession, risk management oversight and other matters within the purview of the Board. This process can be found on our website at *www.bd.com/investors/corporate_governance/*. The Board may also initiate direct communications with BD shareholders at any time, in its discretion.

Director Emeritus

The Board may, from time to time, appoint a former director as Director Emeritus. A Director Emeritus serves as a consultant to the Board, and may be invited to attend Board or Committee meetings. Director Emeritus is an honorary position, and a Director Emeritus will not receive any compensation for serving in that role or have a vote on any matter coming before the Board or any Committee. It is the Board s intention that the appointment of a Director Emeritus will occur only in exceptional cases.

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Annual Report of Charitable Contributions

In furtherance of BD s commitment to good governance and disclosure practices, the Principles require that BD s charitable contributions or pledges in an aggregate amount of $50,000 or more (not including contributions under BD s Matching Gift Program) to entities with which BD s directors and executive officers, or their families, are affiliated must be approved by the Governance Committee. In addition, BD posts on its website, at *www.bd.com/investors/corporate_governance/*, an Annual Report of Charitable Contributions (the Contributions Report) listing all contributions and pledges made by BD during the preceding fiscal year in an amount of $10,000 or more to organizations affiliated with any director or executive officer. The Contributions Report includes a discussion of BD s contributions philosophy and the alignment of BD s philanthropic activities with this philosophy.

Enterprise compliance

Under the oversight of the Audit Committee, BD s enterprise compliance function seeks to ensure that BD has policies and procedures designed to prevent and detect violations of the many laws, regulations and policies affecting its business, and that BD continuously encourages lawful and ethical conduct. BD s enterprise compliance function supplements the various compliance and ethics functions that are also in place at BD, and seeks to ensure better coordination and effectiveness through program design, prevention, and promotion of an organizational culture of compliance. A committee comprised of members of senior management oversees these activities. Another key element of this program is training. This includes a global on-line compliance training program focused on BD s Code of Conduct, as well as other courses covering various compliance topics such as antitrust, anti-bribery, conflicts of interest, financial integrity, industry marketing codes and information security.

Political contributions

We prohibit the use of BD corporate funds and assets to support any candidate, political party, ballot measure or referendum campaign, unless an exception is approved by the CEO and the General Counsel. To date, no exceptions have been sought or approved. If an exception is approved, it may only be granted without regard to the personal political affiliations or views of any individual BD associate at any level across the organization.

As permitted under U.S. law, BD operates a political action committee. The BD PAC is a mechanism to enable eligible U.S. associates to voluntarily support candidates for elected office who share BD s perspectives and approaches to public policy issues. BD provides administrative support to the PAC, as permitted under federal law.

In all cases, BD policy prohibits directors and employees from using company resources to promote their personal political views, causes or candidates, and specifies that the company will not directly or indirectly reimburse any personal political contributions or expenses.

BD is a member of numerous trade associations that provide a venue for the medical technology sector to work together to advocate its position on issues that impact our industry. In the U.S., the major associations of which BD is a member include AdvaMed and AdvaMedDx, the Healthcare Institute of New Jersey and the California Life Sciences Association. We have informed our major U.S. trade associations that they are not permitted to use any BD fees to support any candidate, political party, ballot measure or referendum campaign, unless approved by BD s CEO and General Counsel.

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Director independence; Policy regarding related person transactions

Director independence

Under the NYSE rules and our Principles, a director is deemed not to be independent if the director has a direct or indirect material relationship with BD (other than his or her relationship as a director). The Governance Committee annually reviews the independence of all directors and nominees for director and reports its findings to the full Board. To assist in this review, the Board has adopted director independence guidelines (Independence Guidelines) that are contained in the Principles. The Independence Guidelines set forth certain categories of relationships (and related dollar thresholds) between BD and directors and their immediate family members, or entities with which they have a relationship, which the Board, in its judgment, has deemed to be either material or immaterial for purposes of assessing a director s independence. In the event that a director has any relationship with BD that is not addressed in the Independence Guidelines, the independent members of the Board review the facts and circumstances to determine whether such relationship is material. The Principles are available on BD s website at *www.bd.com/investors/corporate-governance/*. The Independence Guidelines are contained in Principle No. 7.

The Board has determined that the following directors are independent under the NYSE rules and our Independence Guidelines: Basil L. Anderson, Henry P. Becton, Jr., Catherine M. Burzik, Edward F. DeGraan, Claire M. Fraser, Christopher Jones, Marshall O. Larsen, Gary A. Mecklenburg, James F. Orr, Willard J. Overlock, Jr., Claire Pomeroy, Rebecca W. Rimel, and Bertram L. Scott. Vincent A. Forlenza is an employee of BD and, therefore, is not independent under the NYSE rules and the Principles.

In determining that each of these directors is independent, the Board reviewed BD s transactions or other dealings with organizations with which a director may be affiliated, such as service by the director as an employee of the organization or as a member of a governing or advisory board of the organization. Based on its review, the Board determined that, in each instance, the nature of the relationship, the degree of the director s involvement with the organization and the amount involved was such that it would not constitute a material relationship or otherwise impair the director s independence.

The types of transactions with director-affiliated organizations considered by the Board consisted of the purchase or sale of products and/or services (in the cases of Anderson, Burzik, Fraser, Jones, Larsen, Mecklenburg, Overlock, Pomeroy and Scott), the licensing of intellectual property rights (in the cases of Fraser and Jones) and charitable contributions (in the case of Jones).

Related person transactions

The Board has also established a written policy (the Policy) requiring Board approval or ratification of transactions involving more than $120,000 per year in which a director, executive officer or shareholder owning more than 5% of BD s stock (excluding certain passive investors) or their immediate family members has, or will have, a material interest. The Policy is available on BD s website at *www.bd.com/investors/corporate_governance/*. The Policy excludes certain specified transactions, including certain charitable contributions and transactions available to BD associates generally. The Governance Committee is responsible for the review and approval or ratification of transactions subject to the Policy. The Governance Committee will approve or ratify only those transactions that it determines in its business judgment are fair and reasonable to BD and in (or not inconsistent with) the best interests of BD and its shareholders, and that do not impact the director s independence.

There were no transactions involving BD s executive officers or directors, or their immediate families, in 2015 that were subject to the Policy. During fiscal year 2015, BD paid affiliates of State Street Corporation (State Street), a beneficial owner of more than 5% of BD common stock, approximately $1,210,000 for serving as trustee of BD s 401(k) plan and investment management of various 401(k) funds. These transactions were not required to be approved under the Policy, since State Street is considered a passive investor in BD.

Code of Conduct

BD maintains a Code of Conduct that is applicable to all directors, officers and associates of BD, including its CEO, Chief Financial Officer, principal accounting officer and other senior financial officers. It sets forth BD s policies and expectations on a number of topics, including conflicts of interest, confidentiality, compliance with laws (including insider trading laws), preservation and use of BD s assets, and business ethics. The Code of Conduct also sets forth procedures for the communicating and handling of any potential conflict of interest (or the appearance of any conflict of interest) involving directors or executive officers, and for the confidential communication and handling of issues regarding accounting, internal control and auditing matters.

BD also maintains an Ethics Help Line telephone number (the Help Line) for BD associates as a means of raising concerns or seeking advice. The Help Line is serviced by an independent contractor and is available to all associates worldwide. Associates using the Help Line may choose to remain anonymous and all inquiries are kept confidential to the extent practicable in connection with the investigation of an inquiry. All Help Line inquiries are forwarded to BD s Chief Ethics and Compliance Officer for investigation. The Audit Committee is informed of any matters reported to the Chief Ethics and Compliance Officer, whether through the Help Line or otherwise, involving accounting, internal control or auditing matters, or any fraud involving management or persons who have a significant role in BD s internal controls.

The Chief Ethics and Compliance Officer leads the BD Ethics Office, which administers BD s ethics program. In addition to the Help Line, the ethics program provides for broad communication of BD s Core Values, associate education regarding the Code of Conduct and its requirements, and ethics training sessions.

Any waivers from any provisions of the Code of Conduct for executive officers and directors will be promptly disclosed to shareholders. In addition, certain amendments to the Code of Conduct, as well as any waivers from certain provisions of the Code of Conduct given to BD s CEO, Chief Financial Officer or principal accounting officer, will be posted at the website address set forth below.

The Code of Conduct is available on BD s website at *www.bd.com/investors/corporate_governance/*. Printed copies of the Code of Conduct may be obtained, without charge, by contacting the Corporate Secretary, Becton, Dickinson and Company, 1 Becton Drive, Franklin Lakes, New Jersey 07417-1880, phone 201-847-6800.

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REPORT OF THE COMPENSATION

AND MANAGEMENT DEVELOPMENT COMMITTEE

The primary objective of the BD compensation program is to fully support the strategic business goal of delivering superior long-term shareholder returns through sustained revenue growth, earnings per share growth, return on capital and other metrics. As such, we intend to ensure a high degree of alignment between pay and the long-term value and financial soundness of BD. The Compensation Committee has established the following compensation principles to meet this objective:

Aligning the interests of executives and shareholders

Through equity compensation and equity ownership guidelines for executives, we seek to align the interests of executives with those of BD s shareholders. This represents the largest portion of our compensation structure in terms of target value.

Linking rewards to performance

We maintain a pay-for-performance philosophy based on actual performance as against clear, measurable company performance targets, particularly those metrics that support the creation of long-term shareholder value.

Delivering superior business and financial results

Performance targets are set to reward executives for achieving short- and long-term results in line with our objective of enhancing long-term shareholder value. In setting short-term goals and in rewarding performance, we will take care to ensure that we do not create incentives to take inappropriate risks.

Offering a competitive compensation structure

We have established and intend to maintain a competitive structure that supports the recruitment and retention of high-performance executives essential to driving the business results required to execute our strategy and create long-term value for shareholders. This structure is determined, in part, by evaluating peer group data which is provided and analyzed by the Compensation Committee s independent consultant, Pay Governance LLC (Pay Governance).

Maintaining a transparent compensation structure

The Compensation Committee strives to provide absolute transparency to executives, employees and shareholders of all aspects of BD s compensation and benefits structure. This includes disclosure of performance targets, payout formulas, details of other earned benefits and the Compensation Committee s use of discretion in determining award payouts.

Maintaining Compensation Committee independence

The Compensation Committee is made up exclusively of independent directors and utilizes an independent compensation consultant, Pay Governance, which, by Compensation Committee policy, is prohibited from performing any services for BD or its management without the Compensation Committee s prior approval.

Retaining prerogative to adjust programs

The Compensation Committee retains the prerogative to change or modify BD s compensation and benefit programs to reflect prevailing economic, market or company financial conditions.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in BD s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 and in this proxy statement.

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COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Marshall O. Larsen Chair

Basil L. Anderson

Edward F. DeGraan

Gary A. Mecklenburg

James F. Orr

Bertram L. Scott

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COMPENSATION DISCUSSION AND ANALYSIS

This section discusses our executive compensation program and the compensation actions taken with respect to the persons named in the Summary Compensation Table (who we refer to as the named executive officers) on page 40. All references in this section to years are references to our fiscal year, which ends on September 30, unless otherwise noted.

In this section, while discussing Performance Unit payouts and awards under our Performance Incentive Plan (the PIP), we refer to certain financial measures that do not conform to generally accepted accounting principles (GAAP). **Appendix A to this proxy statement contains reconciliations of these non-GAAP measures to the comparable GAAP financial measures.**

Executive Summary

Our goal is to provide an executive compensation program that best serves the long-term interests of our shareholders. We believe that attracting and retaining superior talent and rewarding performance is key to delivering long-term shareholder returns, and that a competitive compensation program is critical to that end. Therefore, we strive to provide a competitive compensation package to our executives that ties a significant portion of pay to performance and uses components that align the interests of our executives with those of BD s shareholders.

Approximately 95% of the shares voted at last year s annual meeting were cast in support of BD s advisory vote on named executive officer compensation. The Compensation Committee views the results of this vote as broad general shareholder support for our executive compensation program. Based on our say-on-pay vote and the Compensation Committee s ongoing benchmarking of our compensation policies and practices, the Compensation Committee believes that our compensation program effectively aligns the interests of our named executive officers with the long-term goals of BD and our shareholders. Accordingly, the Compensation Committee did not make any significant changes from 2014 as a result of our say-on-pay vote.

Our compensation practices

The following is a summary of important aspects of our executive compensation program discussed later in this section.

- ***Balanced mix of pay components and incentives.*** Our compensation program targets a balanced mix of cash and equity compensation, and of annual and long-term incentives. The key elements of our program are salary, annual cash incentives under the PIP and long-term equity compensation consisting of stock-settled performance-based units (Performance Units), stock appreciation rights (SARs) and time-vested units (TVUs).

- ***Significant performance-based compensation.*** We emphasize pay-for-performance to align executive compensation with our business strategy and the creation of long-term shareholder value.

  - Approximately three-quarters of the total target compensation of our CEO in 2015 was performance-based.

  - Our performance-based compensation uses performance metrics that are aligned with and support BD s business strategy.

  - While we emphasize at risk pay tied to performance, we believe that our program does not encourage excessive risk taking by management.

- ***Share retention guidelines and policy against pledging/hedging.*** Our executives are subject to robust share retention and ownership guidelines and are prohibited from pledging BD shares or hedging against the economic risk of their ownership.

Limited perquisites and no employment agreements. We offer our named executive officers very limited perquisites, and none of them have employment agreements.

Compensation clawback policy. We have a compensation recovery policy that gives the Board the authority to recover incentive compensation paid to senior management in the event of a restatement of our financial statements resulting from misconduct.

Change in control agreements. We have double-trigger change in control agreements with our executives to provide continuity of management in the event of an actual or potential change in control of BD. We have adopted a policy of eliminating excise tax gross-ups from future change in control agreements.

Use of independent consultant. The Compensation Committee uses an independent consultant to assist it in designing our compensation program and making compensation decisions. The independent consultant did not provide any services to BD or BD management in 2015.

2015 operating performance and executive compensation decisions

Operating Performance

2015 was a transformational year for BD, as we signed and closed the acquisition of CareFusion Corporation (CareFusion), the largest acquisition in BD s history, which positions BD as a global leader in medication management. While the acquisition and integration of CareFusion required significant management attention throughout the year, BD still delivered strong financial and operational performance in 2015 that exceeded our internal expectations. Highlights of our performance for the year include:

Revenue and earnings growth exceeded our internal expectations, both for the combined company and the legacy BD business.

Substantial progress was made on the integration of the CareFusion acquisition, as we achieved approximately $50 million of cost synergies for the year. As a result of these efforts, we subsequently raised our estimate of the cost synergies that we believe can be achieved from the transaction.

We were able to finance the CareFusion transaction with less debt than we originally communicated, lowering the interest expense we will incur going forward. We also paid off the $1 billion term loan used to partially fund the acquisition, allowing us to remain on track to reach our debt leverage target.

Our underlying margins expanded significantly, due to management s integration efforts and our operating effectiveness and efficiency initiatives.

We maintained our investment in emerging markets, which continue to be a key driver of BD s growth, and began work to introduce CareFusion products into these markets.

We continued our strategy of supplementing our growth with strategic acquisitions with our acquisition of CRISI Medical Systems, a medical technology company dedicated to improving the safety and delivery of intravenous injectable medications, and of GenCell Biosystems and Cellular Research in our Life Sciences segment, which enable us to enter into the high growth area of genomics.

Cash flows from operations remained strong at $2.1 billion, and we returned $485 million to our shareholders through dividends, as we increased our dividend for the 43rd consecutive year.

Compensation decisions

Salary. Mr. Forlenza, our CEO, received a salary increase during the year from $1,000,000 to $1,060,000 in order to keep his salary competitive with the median of peer companies. The other named executive officers received salary increases that were in line with increases at BD generally.

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PIP awards. For 2015, we met or exceeded each of the performance targets set under the PIP. This resulted in available funding for PIP awards at 112% of target. The PIP award made to Mr. Forlenza was 112% of his target award opportunity, and awards ranged from 114% to 147% of target opportunity for our other named executive officers. We believe that the 2015 PIP awards appropriately reflected senior management s role in the successful acquisition and integration to date of CareFusion, as well as our strong financial performance during the year and the individual contributions of our executive officers to that performance.

Equity compensation. Consistent with our past practice, equity compensation represented a significant component of total compensation in 2015. Among the changes in equity compensation awards in 2015 was an increase in Mr. Forlenza s award value based on performance and to move his target equity compensation closer to the median of select peer companies.

Change to our compensation program in 2015

In November 2014, our equity compensation plan was amended to move from single-trigger to double-trigger vesting in the event of a change in control. As a result, equity compensation awards made after January 1, 2015 that either continue or are replaced by similar awards following a change in control will not automatically vest unless the participant (including our named executive officers) is subsequently terminated within two years of the change in control. This change aligns BD s plan with what the Compensation Committee believes are best practices in this area.

Objectives of Our Executive Compensation Program

The objectives of our executive compensation program include:

Aligning executives with our shareholders. We seek to align the interests of our executives with those of our shareholders through equity compensation and share retention guidelines.

Linking compensation to performance. We seek to implement a pay-for-performance philosophy by tying a significant portion of pay to financial and other goals that support the creation of long-term shareholder value.

Offering competitive compensation. We seek to offer a competitive compensation package that helps us attract and retain our executives.

The Process for Setting Executive Compensation

The role of the Compensation Committee, its consultant and management

The Compensation Committee oversees the compensation program for our executive officers. The Compensation Committee recommends compensation actions regarding the CEO for approval by independent members of the Board, and sets the compensation of the other named executive officers. The Compensation Committee is assisted in fulfilling its responsibilities by its independent consultant, Pay Governance, and BD s senior management. Additional information about our process for setting executive compensation, including the roles of Pay Governance and management, is found on pages 11-12.

In order to maintain the independence of its outside consultant, the Compensation Committee has established a policy that prohibits its consultant from performing any services for BD or BD s management without the Compensation Committee s prior approval. In accordance with this policy, Pay Governance did not perform services for BD or BD management in 2015.

The use of market comparison data

The Compensation Committee considers a number of factors in structuring our program, determining pay components and making compensation decisions. This includes the compensation practices of select peer companies in the healthcare industry, which we refer to as the Comparison Group. These companies were chosen by the Compensation Committee after considering the recommendations of Pay Governance and management, and were selected because they have significant lines of business that are similar to BD s and are companies that we believe we compete with for executive talent. The Compensation Committee reviews the composition of the Comparison Group at least annually. The companies in the Comparison Group for 2015 were:

Agilent Technologies, Inc.	PerkinElmer, Inc.
Allergan plc	St. Jude Medical, Inc.
C.R. Bard, Inc.	Stryker Corporation
Baxter International Inc.	Thermo Fisher Scientific Inc.
Boston Scientific Corporation	Zimmer Biomet Holdings, Inc.
Medtronic plc	

In addition to the Comparison Group, compensation data regarding certain positions at Abbott Laboratories, Johnson & Johnson and Roche Diagnostics is considered by the Compensation Committee when reviewing the compensation of Mr. Kozy in order to increase the number of comparable positions for which compensation data is available.

Comparison Group Data

	Revenue for the twelve months ended September 30, 2015 (in millions)	Market capitalization on September 30, 2015 (in millions)
25th Percentile	$ 5,098	$ 15,800
Median	$ 7,272	$ 19,102
75th Percentile	$ 16,590	$ 42,081
BD	$ 10,282	$ 27,892
BD Percentile Rank	**61%**	**64%**

We attempt to set the compensation of the named executive officers at levels that are competitive with the companies listed above, and use market comparison data regarding these companies as a guide. The Compensation Committee estimates the median salary, annual cash incentive and equity compensation (and the combined total of these elements) of persons holding the same or similar positions at the companies mentioned above, based on available data. The Compensation Committee (and the independent directors in the case of our CEO) then generally seeks to set the compensation of our executive officers for each of these elements within a competitive range of the median, assuming payout of performance-based compensation at target. The use of market comparison data, however, is just one of the tools used to determine executive compensation, and the Compensation Committee and the independent directors retain the flexibility to set target compensation at levels deemed appropriate for an individual or for a specific element of compensation. Based on the market data provided by Pay Governance, the Compensation Committee believes that the total target compensation set for the named executive officers in 2015 approximated median competitive levels.

Because each compensation element is reviewed individually, compensation decisions made with respect to one element of compensation generally do not affect decisions made with respect to other elements. It is also for this reason that no specific formula is used to determine the allocation between cash and equity compensation, although it is the Compensation Committee s intent that equity compensation represent the largest portion of total target compensation. In addition, because an executive s compensation target is set by reference to persons with similar duties at peer companies, we do not establish any fixed relationship between the amount of compensation paid to our CEO and that paid to the other named executive officers.

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The use of tally sheets

The Compensation Committee is from time-to-time provided a tally sheet report prepared by management for each named executive officer. The tally sheet includes, among other things, total annual compensation, the value of unexercised or unvested equity compensation awards, and amounts payable upon termination of employment under various scenarios, including retirement or following a change in control. The Compensation Committee uses tally sheets to provide additional perspective on the value the executives have accumulated from prior equity awards and plan accruals and their retentive value.

The Key Elements of Our Compensation Program

The key elements of our executive compensation program are summarized in the table below.

Component	Description	Purpose
Base salary	Fixed cash compensation based on performance, scope of responsibilities, experience and competitive pay practices.	Provide a fixed, baseline level of compensation.
PIP	Annual variable cash payment tied to performance during the fiscal year.	Drive business performance on an annual basis. Reward individual contributions to BD s performance.
Long-term equity compensation:		
SARs	Right to receive shares equal in value to difference between exercise price and BD stock price. SARs vest over four years and have 10-year term.	
Performance Units	Performance-based restricted stock units. Payout is tied to BD s performance over three-year performance period.	
TVUs	Restricted stock units that vest in three annual installments following grant.	Increase executive ownership to align interests with shareholders. Promote executive retention. Drive long-term business performance. Reward creation of shareholder value.

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Our Emphasis on Pay-for-Performance

Performance-based compensation

Performance-based compensation represents a significant portion of the named executive officers compensation. The charts below show the performance-based portion of 2015 target compensation for Mr. Forlenza and the other named executive officers.

2015 Total Target Compensation*

* Performance-based compensation includes PIP awards, Performance Units and SARs, while Fixed compensation includes salary and TVUs. The above charts are based on target values, and actual amounts received (and the percentage of total compensation coming from performance-based compensation) may differ based on actual performance and BD s stock price.

How our performance metrics support BD s strategy

BD s strategy is focused on becoming a global provider of innovative healthcare solutions. To this end, our strategic objectives include increasing revenue from our core products, increasing investments in research and innovation, growing our operations in emerging markets and improving operating effectiveness and productivity. The Compensation Committee believes it is important that our compensation program reinforce and reward behaviors that support these business objectives. In addition, the Compensation Committee believes executive compensation should be based in part on how BD s performance compares to peer companies facing the same market conditions as BD. These considerations inform the Compensation Committee s selection of the performance measures for BD s performance-based compensation.

Performance Period and Metrics for

Performance-based Compensation

1 Year	**3 years**	**10 years**
PIP Awards	Performance Units	SARS
EPS*	ROIC	Stock price appreciation
Revenues*	Relative TSR	
Free cash flow as a percentage of sales*		

* *Measured on a currency-neutral basis.*

PIP. We evaluate corporate performance under the PIP against the following metrics:

EPS. The Compensation Committee uses earnings per share from continuing operations (EPS) as a performance measure because it is the primary basis on which BD sets performance expectations for the year and it is a widely used measure of overall company performance.

Revenues. Revenue is a measure of BD s ability to innovate and compete in the marketplace. This measure focuses management on achieving strong top-line growth, consistent with our business strategy.

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Free cash flow as a percentage of sales. This metric is used to recognize the importance of the efficient use of cash to our ability to fund ongoing investments in our business, including product development, innovation and geographic expansion, as well as the increased focus on this metric by the investor community. Free cash flow means cash flow from our operating activities, less capital expenditures and capitalized software.

These three measures combined provide a balanced set of performance targets that focus on growth, profitability and operating efficiency. EPS performance is weighted 50%, and revenue and free cash flow as a percentage of sales are each weighted 25%. Because EPS is the primary basis on which we set our performance expectations for the year, it is more heavily weighted than the other measures.

PIP performance targets are based on BD s business plan for the fiscal year. Performance is measured on a currency-neutral basis. This means that BD s actual performance is adjusted for the impact of changes in foreign currency exchange rates during the year, whether favorable or unfavorable to BD, compared to our budgeted rates when the targets are set. We eliminate this impact of foreign currency translation so that only BD s underlying performance is considered in determining PIP awards.

Equity compensation. Equity compensation links executive compensation to BD s performance against three-year performance goals and stock price appreciation. For the Performance Units granted in 2015, two metrics were used to measure performance, each weighted 50%:

ROIC. Return on invested capital (ROIC) measures profitability and how effectively company assets are being used. This metric requires management to effectively manage a number of different aspects of the business, including new product introductions, productivity improvements and geographic expansion.

Relative total shareholder return (TSR). This metric measures BD s stock performance (assuming reinvestment of dividends) during the performance period against that of a group of 14 companies in the healthcare industry (the TSR Group). This measure compares BD s performance, as reflected in our stock price over time, to peer companies facing similar business conditions and is directly tied to shareholder returns. The TSR Group is broader than the Comparison Group used for compensation market data in order to reduce the volatility in relative performance that can come from the use of a relatively smaller number of companies.

How performance goals are set

When setting performance targets for the PIP and Performance Units, the Compensation Committee considers the environment in which BD is operating. The healthcare industry continues to face challenges, and the Compensation Committee seeks to reward what it deems to be superior performance by management in light of current industry conditions and growth trends. The Compensation Committee sets what it believes are reasonably achievable performance targets for BD at the time, and structures payouts so that they are aligned with BD s performance against those targets.

Our risk analysis of performance-based compensation

While a significant portion of our executive compensation is performance-based, we do not believe that our program encourages excessive or unnecessary risk-taking. While risk-taking is a necessary part of operating and growing a business, the Compensation Committee focuses on aligning BD s compensation practices with BD s long-term strategy and attempts to avoid short-term rewards for management decisions that could pose long-term risks to BD. This includes:

Limits on PIP awards. We do not overweight short-term incentives as a proportion of total pay. PIP awards are also capped at 200% of an executive s target award to protect against disproportionately large short-term incentives, and the Compensation Committee has the discretion to set PIP awards based on any factors it deems appropriate, including whether management has taken unnecessary or excessive risk.

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Share retention and ownership guidelines. Our share retention and ownership guidelines ensure that our executives have a significant amount of their personal assets tied to the long-term success of BD.

Use of long-term equity compensation. The largest portion of the compensation paid to our named executive officers is long-term equity compensation that vests over a period of years, which encourages our executives to focus on sustaining BD s long-term performance.

Use of Performance Units. A significant portion of executive equity compensation consists of Performance Units that have a three-year performance cycle. This focuses management on sustaining BD s long-term performance. We also cap the payout of these awards at 200% of target.

Use of multiple performance metrics. We use a number of different performance metrics in our performance-based compensation, with no overlapping metrics among our different compensation components.

How PIP Awards Are Made

The PIP provides our executives an opportunity to receive a cash award for BD s performance for the fiscal year and their contribution to that performance, as part of our pay-for-performance philosophy.

Award targets

Target PIP awards for the named executive officers are expressed as a percentage of base salary earned during the year. The Grants of Plan-Based Awards in Fiscal Year 2015 table on page 42 shows the range of possible awards under the PIP for 2015, based on certain assumptions.

The factors the Compensation Committee and the independent directors consider when setting actual PIP awards include BD s overall performance against the pre-set performance targets and the resulting available funding (discussed below), the executive s target award and the executive s individual performance. Our CEO s performance is measured against the individual goals for the year established by the Board. For our other executive officers, performance is measured against the performance objectives set for the businesses, regions or functions they oversee. In each case, the performance objectives for a named executive officer involve a combination of quantitative and qualitative goals. However, no specific formula or weighting of individual performance objectives is used to determine a named executive officer s PIP award, nor is the achievement of any particular individual performance objective a condition to receiving an award. Instead, the Compensation Committee and the independent directors use their business judgment to determine the appropriate PIP award to recognize BD s performance and the executive s contribution to that performance.

Funding for awards

Available funding for PIP awards is determined by a formula. For each measure, the Compensation Committee reviews how BD performed against the target goal set by the Compensation Committee in order to arrive at a performance factor for that measure.

For every 1% of performance above target, funding with respect to that measure is increased 5% above target funding (up to a maximum of 150%), and for every 1% below target, funding decreases 2.5% below target funding.

Performance below 90% of target for revenues or EPS results in no funding for that particular measure, while performance below 80% of the free cash flow target results in no funding for that measure.

The performance factors for the three measures are then weighted to arrive at an overall funding factor. Actual awards, as a percentage of a named executive officer s target, may be more or less than the overall funding factor.

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When comparing BD s operating results against the performance targets, the Compensation Committee has the discretion to adjust BD s results to account for unbudgeted acquisitions and divestitures during the year, and for other unbudgeted items that are not considered part of our ordinary operations. This ensures that business decisions are made based on what management believes is in the best interests of BD, rather than the possible effects on compensation. This discretion is also used to make sure our executives are not unfairly penalized by or rewarded for these types of events.

How Equity Compensation Awards Are Made

We use a mix of equity compensation vehicles to promote the objectives of our program.

SARs reward executives for the creation of shareholder value over the term of the award.

Performance Units, which measure performance over a three-year period, are intended to reward sustained long-term financial performance.

TVUs, which represent the smallest portion of equity compensation, are used to reduce the volatility in amounts realized from equity compensation that can arise when purely performance-based equity compensation is used.

Because they are equity-based and subject to vesting, each award also serves to align the interests of our executives with those of our shareholders and to promote executive retention.

Award values

The Compensation Committee determines the total grant date dollar value of the equity compensation to be paid to a named executive officer. SAR, Performance Unit and TVU awards are then made to the executive based on their estimated grant date values, with SARs and Performance Units each making up approximately 40% of the total award value, and TVUs the remaining 20%. The values given to equity compensation awards are only estimates and actual amounts realized from these awards may differ from these estimated values.

Performance Unit payout formula

The performance measures used for the Performance Units granted in 2015 were average annual ROIC and relative TSR, each weighted 50%. A payout factor for each measure is calculated to determine a final share payout, which can range anywhere from zero to 200% of target.

ROIC. The payout factor for ROIC performance is determined by a scale, with threshold performance set at 5% below the ROIC target (resulting in a 50% payout factor), and maximum performance set at 5% above target (resulting in a 200% payout factor). Performance below the threshold level results in a zero payout factor for the ROIC measure.

Relative TSR. The payout factor for relative TSR performance is determined by the following table:

BD s Percentile Rank	TSR Factor
³85th	200%
75th	165%
50th	100%
25th	35%
Less than 25th	0

In the event BD has a negative absolute TSR for the performance period, the factor assigned to relative TSR may not be more than 100%, regardless of BD s TSR relative to the TSR Group. The Compensation Committee believes that in instances where BD has a negative absolute TSR, BD s executives should still be rewarded for superior relative TSR performance, but that it is appropriate that the payout be limited.

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Similar to the PIP, the Compensation Committee has the discretion to adjust BD s average ROIC performance for acquisitions and divestitures and other items not considered part of our ordinary operations, and to remove companies from the TSR Group, or adjust the TSR of companies within the TSR Group or of BD, to account for acquisitions or mergers or other significant events, such as a changes in capital structure.

2015 Compensation Actions

Below is a discussion of compensation actions taken in 2015 with respect to the named executive officers.

Salary adjustments

The base salaries of the named executive officers are reviewed each November, and any adjustments go into effect on January 1 of the following calendar year. Effective January 1, 2015, Mr. Forlenza s salary was increased from $1,000,000 to $1,060,000 in order to keep his salary competitive with the median of the Comparison Group. The other named executive officers received salary increases that were in line with increases at BD generally.

PIP awards

The threshold performance, target performance and maximum performance under the PIP for 2015, along with BD s adjusted performance during the year, are set forth below.

	Range of Performance				Percentage	Weighted
	Minimum	Target	Maximum	Adjusted Performance	of Target Achieved	Performance Factor
EPS (50%)*	$ 6.62	$ 7.36	$ 8.10	$ 7.56	102.7%	57.00%
Revenues (25%) (in millions)*	$9,556	$10,618	$11,680	$10,659	100.4%	25.50%
Free cash flow as % of sales (25%)*	10.4%	13.0%	14.3%	13.5%	103.4%	29.25%
Total (rounded)						112.0%

* *Measured on a currency-neutral basis.*

The EPS and revenue targets set at the beginning of 2015 were $6.80 and $8.638 billion, respectively. These targets were adjusted upwards following our acquisition of CareFusion to account for the expected contribution of the CareFusion business for the balance of 2015. As BD owned CareFusion for a little over half of 2015, the Compensation Committee believed it appropriate to measure PIP performance for 2015 based on the performance of the combined company rather than just on BD stand-alone results. Including CareFusion s operating results also ensured management focus on running the businesses as an integrated company.

In reviewing BD s 2015 performance, the Compensation Committee made adjustments for:

- financing, transaction, integration and restructuring costs associated with the CareFusion acquisition,
- the net impact of purchase account adjustments related to acquisitions, including CareFusion, which include, among other things, non-cash expenses associated with the amortization of acquisition-related intangible assets,
- the favorable impact on revenues from acquisitions other than CareFusion,

a gain recognized on an equity investment in a company that BD eventually acquired,

litigation charges,

the favorable impact of an adjustment to an accrual recorded in 2014, and

dilution resulting from the issuance of shares in the CareFusion transaction prior to the time that we included CareFusion in our consolidated results.

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The Committee made these adjustments so that the PIP funding factor appropriately reflected BD s underlying operating results and was not impacted by acquisition-related factors and items not considered to be part of BD s ordinary operations. These adjustments increased our currency-neutral EPS results for the year for purposes of the PIP by $3.81, and increased revenues by a net $13 million. The adjustments made by the Compensation Committee are consistent with the way in which management communicated BD s 2015 financial performance to the financial community.

The following table shows the PIP awards granted for 2015. These awards are also set forth in the Summary Compensation Table on page 40 under the heading Non-Equity Incentive Plan Compensation.

Name	Target Incentive Award	Actual Incentive Award
Vincent A. Forlenza	$ 1,484,000	$ 1,662,080
Christopher R. Reidy	611,646	712,788
William A. Kozy	681,408	1,000,000
Jeffrey S. Sherman	395,577	458,198
Ellen R. Strahlman, M.D.	514,188	585,508

The PIP awards made to the named executive officers were generally in-line with our financial performance for the year, as reflected in the PIP performance factor of 112%. Except for Mr. Kozy, no individual s actual award, as a percentage of the executive s award target, exceeded the PIP performance factor by more than 5%. In making these awards, the Compensation Committee considered BD s performance during the year and individual contributions to that performance. In particular, the Compensation Committee noted management s role in completing the acquisition of CareFusion and the substantial progress made during the year in integrating the CareFusion business, including the fact that, as a result of management s efforts, BD was able to raise its estimate of the cost synergies it believes can be achieved from the transaction. The Compensation Committee also considered BD s strong financial performance for the year, despite the significant management attention required by the CareFusion transaction and integration. This included revenue and earnings growth that exceeded our internal expectations, both for the combined company and the legacy BD business, and significant improvement in BD s underlying margins as a result of management s integration efforts and BD s operating effectiveness and efficiency initiatives.

With respect to Mr. Kozy, the Compensation Committee authorized a PIP award of 147% of his target (inclusive of the 112% performance factor) to recognize Mr. Kozy s role following the CareFusion acquisition in leading the business integration efforts on behalf of BD, and the success he achieved in that role during the year.

The Compensation Committee believes the PIP awards made to the named executive officers appropriately reflect their efforts during the year and are consistent with our pay-for-performance philosophy.

Equity compensation awards

The Compensation Committee made the equity compensation awards to the named executive officers shown in the Summary Compensation Table on page 40 in November 2014. Mr. Forlenza s target award value was increased compared to 2014 to reflect Mr. Forlenza s performance and to move his target award value closer to the median of the Comparison Group.

The Performance Units included in the awards to our named executive officers cover the 2015-2017 performance period, and originally had a target ROIC of 22% (with threshold performance at 17% and maximum performance of 27%) along with the relative TSR performance metric discussed earlier. Following the CareFusion acquisition, the ROIC target for these Performance Units was changed to 15.6% to reflect the ROIC of the combined company over the performance period. (At the same time, the ROIC target for the Performance Units granted in 2014 was reduced to 18.1% from 22.9%.) The decrease in the ROIC target of the combined company is primarily attributable to the increase in BD s asset base that resulted from the transaction. The relative TSR metric for the Performance Units was not changed.

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Payout of Performance Unit awards

During fiscal year 2015, Performance Units covering the fiscal 2012-2014 performance period vested. The payout of these awards is reflected in the SAR Exercises and Stock Vested in Fiscal Year 2015 table on page 46. These awards had performance targets of 4.3% average annual revenue growth (currency-neutral) and 24% average ROIC. Our average annual revenue growth and average ROIC over the performance period were 5% and 21.6%, respectively. To account for the impact of acquisitions during the period, average annual revenue growth was adjusted down to 4.8%. Consistent with the Compensation Committee s past practices, ROIC for the performance period was adjusted for a number of items, including acquisitions and divestitures (and related costs), litigation matters and other items are not considered part of our ordinary operations. These items are identified on Appendix A. These adjustments increased average ROIC for the period to 23.8%. These adjustments to revenue growth and ROIC resulted in a modified payout of the awards at 104% of the share target.

Other Benefits Under Our Executive Compensation Program

Company transportation

Mr. Forlenza is encouraged to use BD aircraft for both personal and business travel in order to make more efficient use of his travel time, for personal security and to reduce business continuity risk. Mr. Forlenza has entered into a time-sharing arrangement under which he makes payments to BD for his personal use of BD aircraft. For 2015, Mr. Forlenza s time-share payments exceeded BD s incremental costs relating to his personal flights. Additional information on the time-sharing arrangement is set forth in the notes to the Summary Compensation Table on page 41.

Deferred compensation

Our Restoration Plan, an unfunded, nonqualified plan, allows eligible associates to defer receipt of cash compensation and shares issuable under certain equity compensation awards on a pre-tax basis in addition to what is allowed under the SIP, our tax-qualified 401(k) plan. The plan is offered as part of a competitive compensation program. We do not provide any guaranteed earnings on amounts deferred by the named executive officers, and earnings on these accounts are based on their individual investment elections. BD provides matching contributions on cash amounts deferred under the plan, subject to certain limits. A more complete description of the deferred compensation provisions of the Restoration Plan begins on page 48.

Pension benefits

We offer retirement benefits for all of our BD U.S. associates. Because the Internal Revenue Code limits the maximum annual benefit that may be paid to an individual under our qualified Retirement Plan, we provide additional retirement benefits through our Restoration Plan. Together, the Retirement Plan and Restoration Plan are designed to provide a market-competitive level of income replacement for our retirement-eligible associates and reduce associate turnover. The named executive officers participate in these plans on the same basis as all eligible associates. We do not include the value of equity compensation in calculating pension benefits. A more complete description of our pension benefits begins on page 46.

Change in control agreements

We have entered into agreements with the named executive officers relating to their employment following a change in control. These agreements provide the executives with continued employment for a period of two years following a change in control of BD, and provide certain benefits to the executives in the event their employment is terminated without cause or they leave their employment for good reason (also known as a constructive termination) during such period. Generally, these benefits include a severance payment equal to a multiple of the executive s salary and PIP award, and certain other benefits. A more complete description of the terms and potential payouts of our change in control agreements begins on page 50.

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General purpose. Our change in control agreements are intended to retain the executives and provide continuity of management in the event of an actual or potential change in control of BD. These change in control benefits are reviewed from time-to-time by the Compensation Committee to ensure that they are consistent with our compensation objectives and market practices. Based on information provided by Pay Governance, change in control arrangements are used by a substantial majority of the companies in the Comparison Group, and the terms of our agreements, including the severance multiple, are consistent with the prevailing practices at those companies. The Compensation Committee believes the benefits provided under these agreements are appropriate and consistent with our objective of attracting and retaining highly qualified executives.

Triggering events. Our agreements contain a double trigger that is, there must be a change in control of BD *and* a termination of the executive s employment in order for any payments to be made. We opted for a double trigger, rather than a single trigger that provides for severance payments solely on the basis of a change in control, since a double trigger is consistent with the purpose of encouraging the continued employment of the executive following a change in control.

Tax reimbursement payments. In certain instances, payments made to an executive on account of his termination may be subject to a 20% excise tax. Under the agreements with Messrs. Forlenza, Kozy and Sherman, to offset the effect of this tax, we will reimburse the executive for any resulting excise tax. We provide for these payments because they allow the executive to recognize the full intended economic benefit of the agreement and eliminate unintended disparities between executives that the excise tax can arbitrarily impose, owing to the particular structure of this tax provision. However, while we believe these tax reimbursement provisions serve a valid purpose, in light of trends in executive compensation practices, it has been our policy since 2011 that any new change in control agreements that we enter into with executive officers will not contain these provisions.

Other change in control provisions

Upon a change in control, outstanding equity compensation awards granted to our associates prior to January 1, 2015, including the named executive officers, immediately vest. Unlike the double trigger discussed above, no termination of employment is required for the accelerated vesting of the awards. This single-trigger vesting provides our associates with the same opportunity as our shareholders to realize the value created by the transaction.

In November, 2014, we amended our equity compensation plan to include a double-trigger vesting provision upon a change in control. Under this provision, awards made after January 1, 2015 will not automatically vest upon a change in control if the awards are either continued or replaced with similar awards. In those instances, the awards will automatically vest only if the associate is terminated without cause or the associate terminates employment for good reason (as such terms are defined in the plan) within two years of the change in control.

Significant Policies and Additional Information Regarding Executive Compensation

Clawback policy

We have a policy that gives the Board the discretion to require a member of the BD Leadership Team (which includes 87 senior BD leaders, including the named executive officers) to reimburse BD for any PIP award or Performance Unit payout that was based on financial results that were subsequently restated as a result of that person s misconduct. The Board also has the discretion to cancel any equity compensation awards (or recover payouts under such awards) that were granted to such person with respect to the restated period, and to require the person to reimburse BD for any profits realized on any sale of BD stock occurring after the public issuance of the financial statements that were subsequently restated.

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The policy also gives the Board the authority to require members of the BD Leadership Team who were not involved in the misconduct to reimburse BD for the amount by which their PIP award or Performance Unit payouts exceeded the amount they would have received based on the restated results.

Share retention and ownership guidelines

To increase executive share ownership and promote a long-term perspective when managing our business, our executive officers and other members of the BD Leadership Team are required to retain, in shares of BD stock, 75% of the net after-tax proceeds from any equity compensation awards granted to them after they become a member of the BD Leadership Team. They are subject to these requirements until they achieve and maintain the required ownership level. The required ownership levels are:

Chief Executive Officer	5 times salary
Other Executive Officers	3 times salary
Other BD Leadership Team Members	1 times salary

Shares held directly, shares held indirectly through our SIP and Restoration Plan, and TVUs are included in determining a person s share ownership. Messrs. Forlenza, Kozy, and Sherman have holdings in excess of their ownership requirement. Dr. Strahlman and Mr. Reidy, each of whom has been with BD for less than three years, have not yet attained their required ownership level.

We have a policy that prohibits our directors and associates from pledging BD shares, or engaging in options, puts, calls or other transactions that are intended to hedge against the economic risk of owning BD shares.

Equity award policy

The Compensation Committee has adopted a policy that prohibits the backdating of any equity compensation award and requires our annual equity compensation awards and any off-cycle awards approved by our CEO to be made on fixed dates. The policy also prohibits manipulating the timing of either the public release of information or the grant of an award in order to increase the value of an award. Under the policy, the exercise price of any stock option or SAR award will be the closing price of BD stock on the grant date.

Tax considerations

Section 162(m) of the Internal Revenue Code precludes BD from taking a federal income tax deduction for compensation paid in excess of $1 million to its CEO and its three other most highly-compensated executive officers (other than the CFO). This limitation does not apply, however, to performance-based compensation. While the Compensation Committee generally attempts to maximize the tax deductibility of executive compensation, the Compensation Committee believes that the primary purpose of our compensation program is to support BD s business strategy and the long-term interests of our shareholders. Therefore, the Compensation Committee maintains the flexibility to award compensation that may not be tax-deductible if doing so furthers the objectives of our executive compensation program.

This section includes a discussion of performance targets in the limited context of our executive compensation program. These targets are not statements of management s expectations of our future results or other guidance. Investors should not use or evaluate these targets in any other context or for any other purpose.

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COMPENSATION OF NAMED EXECUTIVE OFFICERS

The following table shows the compensation provided by BD to each of the named executive officers in fiscal year 2015.

Fiscal Year 2015 Summary Compensation Table

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards ($)(1)	SAR Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)	Total ($)
Vincent A. Forlenza	2015	1,045,000	0	5,381,613	3,576,512	1,662,080	0	44,827	11,710,032
Chairman, Chief Executive	2014	985,000	0	4,653,236	3,153,732	1,400,000	755,859	35,691	10,983,518
Officer and President	2013	930,000	0	3,758,005	2,449,317	1,225,000	784,753	35,958	9,183,033
Christopher R. Reidy(5)	2015	713,501	0	1,361,651	904,912	712,788	77,550	48,725	3,819,127
Executive Vice President,	2014	690,188	0	1,240,875	840,994	663,946	42,116	21,500	3,499,619
Chief Financial Officer and	2013	144,247	0	0	0	131,192	6,346	4,619	286,404
Chief Administrative Officer									
William A. Kozy	2015	749,840	0	1,750,770	1,163,438	1,000,000	459,932	49,517	5,173,497
Executive Vice President	2014	721,000	0	1,861,313	1,261,501	736,117	450,118	40,412	5,070,461
and Chief Operating Officer	2013	690,000	0	1,844,731	1,202,322	865,095	741,154	39,704	5,383,006
Jeffrey S. Sherman	2015	560,333	0	875,459	581,731	458,198	121,987	48,725	2,646,433
Executive Vice President and	2014	540,750	0	806,560	546,653	408,954	104,456	39,750	2,447,123
General Counsel	2013	516,250	0	903,154	588,622	530,854	603,993	38,975	3,181,848
Ellen R. Strahlman, M.D.(6)	2015	637,301	0	972,660	646,362	585,508	66,642	43,725	2,952,198
Executive Vice President,	2014	615,750	285,000(7)	806,560	546,653	531,576	43,380	11,700	2,840,619
Research and Development and									
Chief Medical Officer									

(1) *Stock Awards and SAR Awards.* The amounts shown in the Stock Awards column (which includes Performance Units and TVUs) and SAR Awards column (which includes SARs) reflect the grant date fair value of the awards under FASB ASC Topic 718 (disregarding estimated forfeitures). For a description of the methodology and assumptions used to determine the amounts reflected in these columns, see Note 7 to the consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

The amounts included in the Stock Awards column for the Performance Units awarded in 2015 reflect the grant date fair values of these awards at target payout, which we believe is the most probable outcome based on the applicable performance conditions. Below are the grant date fair values of these awards, assuming a maximum payout of 200% of target:

Name	Grant date fair value at target payout	Grant date fair value at maximum payout
Vincent A. Forlenza	$ 3,618,246	$ 7,236,492
William A. Kozy	1,177,066	2,354,132
Christopher R. Reidy	915,479	1,830,958
Jeffrey S. Sherman	588,607	1,177,214
Ellen R. Strahlman	653,893	1,307,786

(2) *Non-Equity Incentive Plan Compensation.* Includes amounts earned under BD s PIP. These amounts are paid in January following the fiscal year in which they are earned, unless deferred at the election of the named executive officer.

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(3) *Change in Pension Value and Nonqualified Deferred Compensation Earnings.*

Pension Amounts shown are the aggregate changes in the actuarial present value of accumulated benefits under our defined benefit pension plans (including our nonqualified Restoration Plan). These amounts represent the difference between the present value of accumulated pension benefits (determined as of the first date on which the executives are eligible to retire and commence unreduced benefit payments) at the beginning and end of the fiscal years shown. A decrease in present value is shown as 0 . During the 2015 fiscal year, the actuarial present value of accumulated benefits for Mr. Forlenza decreased by $40,050. Information regarding our pension plans begins on page 46.

Deferred Compensation Earnings on nonqualified deferred compensation are not included in this column, because no named executive officer earned above-market or preferential earnings on nonqualified deferred compensation during the fiscal years shown. Information on the named executive officers nonqualified deferred compensation accounts is on page 49.

(4) *All Other Compensation.* Amounts shown for fiscal year 2015 include the following:

	Vincent A. Forlenza	**Christopher R. Reidy**	**William A. Kozy**	**Jeffrey S. Sherman**	**Ellen R. Strahlman**
Matching contributions under plans	$ 43,725	$ 43,725	$ 43,725	$ 43,725	$ 43,725
Matching charitable gifts		5,000	5,000	5,000	
Term life insurance	1,102		792		
Total	$ 44,827	$ 48,725	$ 49,517	$ 48,725	$ 43,725

The following is a description of these benefits:

Matching contributions under plans The amounts shown reflect matching contributions made by BD pursuant to the SIP, our 401(k) plan, and the Restoration Plan.

Matching charitable gifts The amounts shown are matching contributions made (or committed to be made) by BD through our Matching Gift Program, under which BD matches up to $5,000 of contributions per calendar year made to qualifying non-profit organizations.

Term life insurance BD provides incremental term life insurance benefits to certain named executive officers beyond those provided to BD associates generally. The amounts shown reflect the dollar value of the insurance premiums paid by BD for this incremental insurance.

Pursuant to a policy adopted by the Board of Directors, Mr. Forlenza is encouraged to use BD aircraft for personal and business travel. The value of his personal use of BD aircraft is measured by the incremental variable costs incurred by BD in connection with his personal flights that are not reimbursed by him. These variable costs include fuel, trip-related maintenance, crew travel expenses, on-board catering, and landing and parking fees. If the aircraft flies empty before picking up or after dropping off Mr. Forlenza at a destination, the cost of the empty flight is included in the incremental cost. Since BD aircraft are used predominantly for business purposes, we do not include fixed costs that do not change in amount based on usage, such as depreciation and pilot salaries.

Mr. Forlenza has entered into a time-sharing arrangement under which he makes time-share payments to BD for the personal use of BD aircraft. The payments are for the maximum amount permitted by Federal Aviation Administration regulations without subjecting BD to regulation as a charter carrier. Mr. Forlenza is responsible for the payment of any tax on any income imputed to him as a result of his personal use of corporate aircraft. For 2015, Mr. Forlenza s time-share payments exceeded BD s incremental costs relating to his personal flights.

(5) Mr. Reidy s employment at BD commenced July 15, 2013.

(6) Dr. Strahlman s employment at BD commenced April 22, 2013.

(7) Represents a payment pursuant to Dr. Strahlman s sign-on agreement to compensate her for the forfeiture of equity compensation awards she had received from her former employer.

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Information Regarding Plan Awards in Fiscal Year 2015

Set forth below is information regarding awards granted to the named executive officers in fiscal year 2015. The non-equity incentive plan awards were made under the PIP. The equity compensation awards were made under BD s 2004 Employee and Director Equity-Based Compensation Plan.

Grants of Plan-Based Awards in Fiscal Year 2015

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)						
Name	Award Type(1)	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other SAR Awards: Number of Securities Underlying SARs (#)	Exercise or Base Price of SAR Awards ($/Sh)(4)	Grant Date Fair Value of Stock and SAR Awards($)(5)
Vincent A. Forlenza	PIP	N/A	1,023,960	1,484,000	2,968,000							
	PU	11/25/14				10,387	24,441	48,882				3,618,246
	TVU	11/25/14							13,813			1,763,368
	SAR	11/25/14								144,098	134.73	3,576,512
Christopher R. Reidy	PIP	N/A	422,036	611,646	1,223,292							
	PU	11/25/14				2,628	6,184	12,368				915,479
	TVU	11/25/14							3,495			446,172
	SAR	11/25/14								36,459	134.73	904,912
William A. Kozy	PIP	N/A	470,172	681,408	1,362,816							
	PU	11/25/14				3,379	7,951	15,902				1,177,066
	TVU	11/25/14							4,494			573,704
	SAR	11/25/14								46,875	134.73	1,163,438
Jeffrey S. Sherman	PIP	N/A	272,948	395,577	791,154							
	PU	11/25/14				1,690	3,976	7,952				588,607
	TVU	11/25/14							2,247			286,852
	SAR	11/25/14								23,438	134.73	581,731
Ellen R. Strahlman	PIP	N/A	354,790	514,188	1,028,376							
	PU	11/25/14				1,877	4,417	8,834				653,893
	TVU	11/25/14							2,497			318,767
	SAR	11/25/14								26,042	134.73	646,362

(1) Award Type:
PIP = Performance Incentive Plan

PU = Performance Unit

TVU = Time-Vested Unit

SAR = Stock Appreciation Right

(2) The amounts shown represent the range of possible dollar payouts that a named executive officer could earn under the PIP for fiscal year 2015, based on certain assumptions. Actual payments to the named executive officers under the PIP are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 40. The amount in the Threshold column assumes BD achieved the minimum performance levels for each performance measure, resulting in available funding for awards at 69% of target, and that the named executive officer received a payment equal to 69% of his or her award target. The Maximum column reflects an award at 200% of target, the maximum award an individual may receive under the PIP.

(3) The amounts shown represent the range of potential share payouts under Performance Unit awards. The amount in the Threshold column shows the number of shares that will be paid out assuming BD achieves the minimum performance level for each performance measure under the award.

(4) The exercise price is the closing price of BD common stock on the date of grant, as reported on the NYSE.

(5) The amounts shown in this column reflect the grant date fair value of the awards under FASB ASC Topic 718 used by BD for financial statement reporting purposes (disregarding estimated forfeitures). For a discussion of the assumptions made to determine the grant date fair value of these awards, see Note 7 to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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Description of awards

PIP

The PIP provides an opportunity for annual cash incentive payments to eligible associates. A more detailed discussion of the PIP and the performance targets established under the PIP for fiscal year 2015 appears in the Compensation Discussion and Analysis section of this proxy statement. Total awards to BD s executive officers may not, in the absence of special circumstances, exceed 3% of our reported after-tax net income for the fiscal year.

Equity compensation awards

Performance Units. Performance Units are performance-based restricted stock units that vest three years after grant. The potential payouts under these awards range from zero to 200% of target. The actual payout will be based on BD s performance against the performance targets for these awards over the three-year performance period covering fiscal years 2015-2017. A more detailed discussion of these performance targets appears in the Compensation Discussion and Analysis section of this proxy statement. Performance Units are not transferable, and holders may not vote any shares underlying the award until the shares have been distributed. Dividends do not accrue on these awards.

TVUs. TVUs are restricted stock units that represent the right to receive one share of BD common stock upon vesting. TVUs vest in three annual installments, beginning one year from the grant date. TVUs are not transferable, and holders may not vote any shares underlying the award until the shares have been distributed. Dividends do not accrue on these awards.

SARs. A SAR represents the right to receive, upon exercise, shares of BD common stock equal in value to the difference between the BD common stock price at the time of exercise and the exercise price. SARs have a ten-year term, and become exercisable in four equal annual installments, beginning one year from the grant date.

Change in control. Performance Units, TVUs and SARs listed in the above table fully vest in the event of a change in control (see Accelerated vesting of equity compensation awards upon a change in control on page 52).

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Outstanding Equity Awards

The following table sets forth the outstanding equity awards held by the named executive officers at the end of fiscal year 2015.

Outstanding Equity Awards at 2015 Fiscal Year-End

		SAR Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price ($/Sh)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Vincent A. Forlenza	11/21/2006	18,073	0	$ 71.72	11/21/2016				
	11/20/2007	18,157	0	$ 84.33	11/20/2017				
	11/25/2008	34,544	0	$ 62.50	11/25/2018				
	11/24/2009	54,742	0	$ 75.63	11/24/2019				
	11/23/2010	85,372	0	$ 76.64	11/23/2020				
	11/22/2011	136,344	45,450	$ 72.12	11/22/2021				
	11/20/2012	101,378	101,380	$ 76.18	11/20/2022				
	11/26/2013	39,619	118,860	$ 108.89	11/26/2023				
	11/25/2014	0	144,098	$ 134.73	11/25/2024				
	Various					122,288	16,222,726	105,328	13,972,812
William A. Kozy	11/24/2009	40,235	0	$ 75.63	11/24/2019				
	11/23/2010	51,833	0	$ 76.64	11/23/2020				
	11/22/2011	54,261	18,090	$ 72.12	11/22/2021				
	11/20/2012	49,764	49,766	$ 76.18	11/20/2022				
	11/26/2013	15,848	47,544	$ 108.89	11/26/2023				
	11/25/2014	0	46,875	$ 134.73	11/25/2024				
	Various					75,517	10,018,085	38,480	5,104,756
Christopher R. Reidy	11/26/2013	10,565	31,696	$ 108.89	11/26/2023				
	11/25/2014	0	36,459	$ 134.73	11/25/2024				
	Various					7,483	992,695	27,420	3,637,537
Jeffrey S. Sherman	11/24/2009	26,002	0	$ 75.63	11/24/2019				
	11/23/2010	37,198	0	$ 76.64	11/23/2020				
	11/22/2011	33,273	11,091	$ 72.12	11/22/2021				
	11/20/2012	24,362	24,365	$ 76.18	11/20/2022				
	11/26/2013	6,867	20,603	$ 108.89	11/26/2023				
	11/25/2014	0	23,438	$ 134.73	11/25/2024				
	Various					37,588	4,986,424	17,736	2,352,858
Ellen R. Strahlman	11/26/2013	6,867	20,603	$ 108.89	11/26/2023				
	11/25/2014	0	26,042	$ 134.73	11/25/2024				
	Various					7,965	1,056,637	18,618	2,469,864

(1) SARs are included in these columns. SARs become exercisable in four equal annual installments, beginning one year following the date of grant.

Set forth below is the value of the exercisable SARs held by named executive officers at the end of fiscal year 2015. The value represents the difference between $132.66, the closing price of BD common stock on September 30, 2015, and the exercise price of each exercisable SAR held by the named executive officer. These values may not reflect the value actually realized by the named executive officers upon exercise.

Name	Value of Vested SARs
Vincent A. Forlenza	$ 37,539,641
Christopher R. Reidy	1,150,423
William A. Kozy	16,445,468
Jeffrey S. Sherman	9,820,680
Ellen R. Strahlman	747,748

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(2) The amounts shown in this column include grants of restricted stock unit awards that are not performance-based. These include TVUs granted on November 20, 2012, November 26, 2013 and November 25, 2014, which vest three years after grant. The amounts shown for Messrs. Forlenza, Kozy and Sherman also include awards that vest at, or one year following, the retirement of the named executive officer. Also included in this column are shares payable under Performance Units granted on November 20, 2012, which covered the fiscal year 2013-2015 performance period and vested on November 20, 2015.

(3) Market value has been calculated by multiplying the number of unvested units by $132.66, the closing price of BD common stock on September 30, 2015. These values may not reflect the value actually realized by the named executive officers.

(4) The amounts in this column represent the Performance Unit awards shown below at maximum payout. The actual number of shares issued under these awards will be based on BD s performance over the applicable performance period.

For Mr. Forlenza:

Grant Date	Number of Shares Issuable	Performance Period	Vesting Date
11/26/2013	56,446	Fiscal years 2014-2016	11/26/2016
11/25/2014	48,882	Fiscal years 2015-2017	11/25/2017

For Mr. Reidy:

Grant Date	Number of Shares Issuable	Performance Period	Vesting Date
11/26/2013	15,052	Fiscal years 2014-2016	11/26/2016
11/25/2014	12,368	Fiscal years 2015-2017	11/25/2017

For Mr. Kozy:

Grant Date	Number of Shares Issuable	Performance Period	Vesting Date
11/26/2013	22,578	Fiscal years 2014-2016	11/26/2016
11/25/2014	15,902	Fiscal years 2015-2017	11/25/2017

For Mr. Sherman:

Grant Date	Number of Shares Issuable	Performance Period	Vesting Date
11/26/2013	9,784	Fiscal years 2014-2016	11/26/2016
11/25/2014	7,952	Fiscal years 2015-2017	11/25/2017

For Dr. Strahlman:

Grant Date	Number of Shares Issuable	Performance Period	Vesting Date
11/26/2013	9,784	Fiscal years 2014-2016	11/26/2016
11/25/2014	8,834	Fiscal years 2015-2017	11/25/2017

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SAR Exercises and Vesting of Stock Units

The following table contains information relating to the exercise of SARs, and the vesting of TVUs and Performance Units, during fiscal year 2015.

SAR Exercises and Stock Vested in Fiscal Year 2015

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)(2)	Value Realized on Vesting ($)(3)
Vincent A. Forlenza	0	0	52,222	6,808,704
Christopher R. Reidy	0	0	0	0
William A. Kozy	42,079	2,947,170	20,785	2,709,948
Jeffrey S. Sherman	12,380	671,794	12,745	1,661,693
Ellen R. Strahlman	0	0	0	0

(1) Represents the difference between the exercise price and the BD common stock price at exercise. Mr. Kozy s exercise of 42,079 SARs resulted in the acquisition of 20,761 net shares. Mr. Sherman s exercise of 12,380 SARs resulted in the acquisition of 4,847 net shares.

(2) Shows the shares, including dividend reinvestment shares, vesting in fiscal year 2015 under TVUs and under Performance Units that covered the fiscal year 2012-2014 performance period.

(3) Based on the closing price of BD stock of $130.38 on the vesting date.

Other Compensation

Retirement Plan

General. BD s Retirement Plan is a non-contributory defined benefit plan. The Retirement Plan is generally available to all active full-time and part-time U.S. BD associates.

The Internal Revenue Code limits the maximum annual benefit that may be paid to an individual under the Retirement Plan and the amount of compensation that may be recognized in calculating these benefits. BD makes supplemental payments to its nonqualified Restoration Plan to offset any reductions in benefits that result from these limitations. BD s obligations to pay retirement benefits under the Restoration Plan are funded through a trust. The trust is currently secured by a letter of credit. The trustee is required to draw on the letter of credit, up to specified limits, following a change in control of BD (as defined in the trust agreement).

The Retirement Plan and the Restoration Plan generally provide retirement benefits on a cash balance basis. Under the cash balance provisions, an associate has an account that is increased by pay credits based on compensation, age and service, and by interest credits based on the rate prescribed by the plans.

Prior to January 1, 2013, benefits were based on a final average pay formula for associates who were hired before April 1, 2007 and who did not elect to be covered under the cash balance formula. Effective January 1, 2013, all final average pay participants were converted to the cash balance formula, with an opening cash balance equal to the actuarial present value of the accrued final average pay benefit accrued, based on service and pay through December 31, 2012. Upon retirement, the value of this opening cash balance (with interest credits) is compared to the value of the December 31, 2012 benefit accrued under the final average pay formula and the greater of the two is payable to the participant. Benefits accrued after December 31, 2012 are determined under the cash balance formula only.

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Estimated benefits. The following table shows the actuarial present value on September 30, 2015 (assuming payment as a single life annuity) of accumulated retirement benefits payable under our plans as of the first date on which the named executive officer is eligible to retire and commence unreduced benefit payments. For a description of the other assumptions used in calculating the present value of these benefits, see Note 8 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended September 30, 2015.

PENSION BENEFITS AT 2015 FISCAL YEAR-END

Name	Plan name	Number of years credited service (#)	Present value of accumulated benefit ($)
Vincent A. Forlenza	Retirement Plan	35	1,621,069
	Restoration Plan	35	8,668,799
Christopher R. Reidy	Retirement Plan	3	43,623
	Restoration Plan	3	82,389
William A. Kozy	Retirement Plan	41	2,012,324
	Restoration Plan	41	7,777,568
Jeffrey S. Sherman	Retirement Plan	12	380,127
	Restoration Plan	12	902,508
Ellen R. Strahlman	Retirement Plan	3	43,727
	Restoration Plan	3	79,074

Amounts shown are not subject to any further deduction for Social Security benefits or other offsets. Associates may elect to receive a lifetime pension or the actuarial value of their retirement benefits in a lump sum, as described below.

Calculation of Benefits

Final average pay provisions used to determine benefits accrued prior to January 1, 2013. The monthly pension benefit payable in cases of retirement at normal retirement age under the final average pay provisions is calculated using the following formula:

(1% of average final covered compensation, plus 1.5% of average final excess compensation)

multiplied by years and months of credited service

For purposes of the formula, average final covered compensation was generally the portion of an associate s covered compensation subject to Social Security tax, and average final excess compensation is the portion that is not subject to such tax. Covered compensation included salary and other forms of regular compensation, including commissions and PIP awards. As noted above, effective January 1, 2013, all final average pay participants were converted to the cash balance formula, with an opening cash balance equal to the actuarial present value of the accrued final average pay benefit accrued, based on service and pay through December 31, 2012.

Cash Balance Provisions. Each month, an associate s cash balance account is credited with an amount equal to a percentage of the associate s total compensation for the month (generally, salary and other forms of regular compensation, including commissions and PIP awards). Such percentage is calculated as follows:

Age plus years of credited service as of the upcoming December 31	Credit percentage
Less than 40	3%
40-49	4%
50-59	5%
60-69	6%
70 or more	7%

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In addition, each month the associate s account is credited with interest. The rate used during the calendar year is determined based on the 30-year U.S. Treasury rates in effect during the prior September, subject to a minimum rate.

Early retirement. An associate is eligible to retire early and commence benefit payments if the associate is at least age 55 and has at least 10 years of credited service. Messrs. Forlenza, Kozy and Sherman are currently eligible for early retirement under the plans. Participants may commence payment of benefits under the cash balance formula prior to early retirement eligibility at any age if the participant terminates with at least three years of service.

Under the cash balance provisions, the amount of the associate s benefit will be the associate s vested account balance on the early retirement date. The associate may elect to begin payment of the account balance on the early retirement date or delay payment until the normal retirement date.

For those named executive officers who formerly participated in the final average pay formula and were converted to cash balance, the portion of the cash balance account attributable to the converted final average pay benefit is compared to the final average pay benefit accrued through the date of conversion under the final average formula. The result that produces the higher benefit is payable.

Form of benefit. Participants may elect to receive their benefits in various forms. Participants may select a single life annuity, in which pension payments will be payable only during the associate s lifetime. Associates may also elect to receive their benefits in a single lump sum payment. Under the final average pay provisions, this lump sum is actuarially equivalent to the benefit payable under the single life annuity option. Under the cash balance provisions, the lump sum is equal to the associate s account balance.

Married participants may select a joint and survivor annuity option. Under this option, the associate receives a reduced benefit during his or her lifetime, and, upon death, the associate s spouse will receive monthly payments for the remainder of the spouse s lifetime. The associate can choose a continuation benefit of 50%, 75% or 100% of the amount that was paid to the associate. The degree to which the pension benefit is reduced depends upon the age difference of the associate and the spouse, and on the percentage of the continuation benefit that is selected.

Associates may also select a guaranteed payment option. The associate chooses a designated number of guaranteed monthly payments (either a 60-month minimum guarantee or a 120-month minimum guarantee). If the associate dies before receiving all of the minimum payments, the associate s beneficiary will receive the balance of the payments. If this option is selected, the single life annuity otherwise payable is reduced to cover the cost of the guarantee. The amount of the reduction is 3% if the 60-month option is chosen, and 7% if the 120-month option is chosen.

Deferred compensation

Cash deferrals. The Restoration Plan also allows an eligible BD associate to defer receipt of up to 75% of salary and/or up to 100% of a PIP award until the date or dates elected by the associate. The amounts deferred are invested in a BD common stock account or in cash accounts that mirror the gains and/or losses of several different publicly available investment funds, based on the investment selections of the participants. The investment risk is borne solely by the participant. Participants are entitled to change their investment elections at any time with respect to prior deferrals, future deferrals or both. The plan does not offer any above-market or preferential rates. The investment options available to participants may be changed by BD at any time.

Deferral of equity awards. The plan also allows associates to defer receipt of up to 100% of the shares issuable under their Performance Units and TVUs. These deferred shares are allocated to the participant s BD stock account and must stay in such account until they are distributed.

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Withdrawals and distributions. Participants may elect to receive deferred amounts either during their employment or following termination of employment. Participants may elect to receive distributions in installments or in a lump sum. Except in an unforeseen emergency, participants may not withdraw deferred funds prior to their scheduled distribution date.

Matching contributions. BD provides matching contributions on cash amounts deferred under the plan. These contributions are made in the first calendar quarter following the calendar year in which the compensation was deferred. BD matches 75% of the first 6% of salary and PIP award deferred by a participant under the plan, subject to certain limits.

Unfunded liability. BD is not required to make any contributions to the plan with respect to its obligations to pay deferred compensation. BD has unrestricted use of any cash amounts deferred by participants. Participants have an unsecured contractual commitment from BD to pay the amounts due under the plan. When such payments are due, the cash and/or stock will be distributed from BD s general assets. BD has purchased corporate-owned life insurance that mirrors the returns on cash amounts deferred under the plan to substantially offset this liability.

Account information. The following table sets forth information regarding activity during fiscal year 2015 in the plan accounts maintained by the named executive officers.

NONQUALIFIED DEFERRED COMPENSATION IN FISCAL YEAR 2015

Name	Executive contributions in last fiscal year ($)(1)	Registrant contributions in last fiscal year ($)(2)	Aggregate earnings in last fiscal year ($)	Aggregate balance at last fiscal year-end ($)(3)
Vincent A. Forlenza	244,385	31,800	(27,129)	1,955,658
Christopher R. Reidy	85,113	31,800	(10,588)	161,537
William A. Kozy	148,540	31,800	(43,775)	1,772,987
Jeffrey S. Sherman	58,135	31,800	281,677	3,392,791
Ellen R. Strahlman	46,969	31,800	(3,315)	75,454

(1) The following amounts are reported as compensation in the fiscal year 2015 Salary column of the Summary Compensation Table appearing on page 40: Mr. Forlenza $104,385; Mr. Reidy $18,718; Mr. Kozy $74,928; Dr. Strahlman $46,969; and Mr. Sherman $33,598. The remaining executive contributions relate to the deferral of fiscal year 2014 PIP awards that were payable in 2015.

(2) Amounts in this column are included in the All Other Compensation column of the Summary Compensation Table and reflect matching credits that were earned by participants in 2015. These amounts are not credited to participant accounts until 2016.

(3) Reflects amounts in which the named executive officer is vested. BD matching contributions fully vest after a participant has been at BD for four years.

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Payments Upon Termination of Employment or Change In Control

Payments upon termination of employment

The following table shows the estimated payments and benefits that would be paid by BD to each of the named executive officers as a result of a termination of employment under various scenarios. The amounts shown assume termination of employment on September 30, 2015. However, the actual amounts that would be paid to these named executive officers under each scenario can only be determined at the actual time of termination.

Name	Termination without cause or for good reason following a change in control($)(1)	Termination due to retirement($)(2)	Termination without cause($)(3)	Termination due to disability($)(4)	Termination due to death($)(5)
Vincent A. Forlenza	29,694,445	40,556,716	41,205,149	39,032,187	41,152,187
Christopher R. Reidy	3,813,150		1,615,948	2,584,255	3,304,255
William A. Kozy	15,604,792	25,882,513	26,533,801	25,134,045	26,649,045
Jeffrey S. Sherman	4,201,663	9,263,297	9,630,348	8,896,890	9,462,890
Ellen R. Strahlman	3,339,643		1,737,831	2,105,797	2,748,797

(1) Includes amounts payable under change in control employment agreements (which are described below), and amounts distributable under BD s retirement plans, assuming payout as a lump sum. Also includes for Mr. Reidy and Dr. Strahlman the accelerated vesting of company matching contributions under the SIP and the Restoration Plan. Does not include the accelerated vesting of equity compensation awards that occurs solely upon a change in control, which is discussed below.

(2) Includes amounts distributable under BD s retirement plans, assuming payout as a lump sum, and the accelerated vesting of equity compensation awards upon retirement. The amounts included for equity compensation includes the pro rata amount of Performance Units earned as of September 30, 2015, with awards that vested in November 2015 included at actual payout and all other Performance Units at their target payout. Mr. Reidy and Dr. Strahlman were not eligible for retirement under BD s plans as of September 30, 2015.

(3) Includes amounts distributable under BD s retirement plans, assuming payout as a lump sum, the accelerated vesting of equity compensation awards, outplacement services (with an assumed maximum cost of $100,000), health and welfare benefits and severance benefits. BD s severance policy for U.S. associates provides for severance payments equal to two weeks salary for each year of service (assuming the associate grants a general release to BD).

(4) Includes amounts distributable under BD s retirement plans, assuming payout as a lump sum, and the accelerated vesting of equity compensation awards.

(5) Includes amounts distributable under BD s retirement plans, assuming payout as a lump sum, the accelerated vesting of equity compensation awards and life insurance benefits.

The amounts shown in the above table do not include vested deferred compensation distributable upon termination, which is shown on page 49. The amounts shown also do not include the value of vested SARs held by the named executive officers as of September 30, 2015. The value of these vested SARs appears on page 44.

Payments upon termination under change in control agreements

BD has entered into agreements with the named executive officers that provide for the continued employment of the executive for a period of two years following a change in control of BD. These agreements are designed to retain the executives and provide continuity of management in the event of an actual or potential change in control of BD. The following is a summary of the key terms of the agreements.

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The agreement provides that BD will continue to employ the executive for two years following a change in control, and that, during this period, the executive s position and responsibilities at BD will be materially the same as those prior to the change in control. The agreement also provides for minimum salary, PIP award and other benefits during this two-year period. Change in control is defined under the agreement generally as:

- the acquisition by any person or group of 25% or more of the outstanding BD common stock;
- the incumbent members of the Board ceasing to constitute at least a majority of the Board;
- certain business combinations; and
- shareholder approval of the liquidation or dissolution of BD.

The agreement also provides that, in the event the executive is terminated without cause or the executive terminates his employment for good reason during the two years following a change in control, the executive would receive:

- a pro rata PIP award for the year of termination based on the greater of (i) the executive s average PIP award for the last three fiscal years prior to termination, and (ii) the executive s target PIP award for the year in which the termination occurs (the greater of the two being referred to herein as the Incentive Payment);
- a lump sum severance payment equal to three times (in the case of Messrs. Forlenza and Kozy) or two times (in the case of Messrs. Reidy and Sherman and Dr. Strahlman) the sum of the executive s annual salary and his or her Incentive Payment;
- a lump sum payment equal to the present value of the increased pension benefits the executive would have received had the executive remained employed for an additional three years (in the case of Messrs. Forlenza and Kozy) or two years (in the case of Messrs. Reidy and Sherman and Dr. Strahlman) following termination;
- continuation of the executive s health and welfare benefits (reduced to the extent provided by any subsequent employer) for a period of three years (in the case of Messrs. Forlenza and Kozy) or two years (in the case of Messrs. Reidy and Sherman and Dr. Strahlman); and
- outplacement services, subject to a limit on the cost to BD of $100,000.

Cause is generally defined as the willful and continued failure of the executive to substantially perform his or her duties, or illegal conduct or gross misconduct that is materially injurious to BD. Good reason is generally defined to include (i) any significant adverse change in the executive s position or responsibilities, (ii) the failure of BD to pay any compensation called for by the agreement, or (iii) certain relocations of the executive.

Under the agreements with Messrs. Forlenza, Kozy and Sherman, if any payments or distributions made by BD to the executive as a result of a change in control would be subject to an excise tax imposed by the Internal Revenue Code, BD will make an additional tax reimbursement payment to the executive. As a result of this payment, the executive would retain the same amount, net of all taxes, that he would have retained had the excise tax not been triggered. This provision applies to any payments or distributions resulting from the change in control, including the accelerated vesting of equity awards. However, if such payments and distributions do not exceed 110% of the level that triggers the excise tax, the payments will be reduced to the extent necessary to avoid the excise tax.

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The following table sets forth the estimated benefits each named executive officer would receive under his or her agreement in the event the executive was terminated without cause or terminated his or her employment for good reason following a change in control. The table assumes a termination date of September 30, 2015. These estimates are based on salary rates in effect as of September 30, 2015, and use the 2015 target PIP awards of the named executive officers as the Incentive Payment.

Name	Incentive Payment($)	Severance Payment($)	Additional Retirement Benefits($)	Health and Welfare Benefits($)	Outplacement Services($)	Tax Reimbursement($)	Total($)
Vincent A. Forlenza	1,484,000	7,632,000	534,240	40,500	100,000	9,715,407	19,506,147
Christopher R. Reidy	611,646	2,662,460	285,896	27,000	100,000	0	3,687,002
William A. Kozy	775,237	4,597,072	302,091	40,500	100,000	0	5,814,900
Jeffrey S. Sherman	461,369	2,052,959	280,845	27,000	100,000	0	2,922,173
Ellen R. Strahlman	514,188	2,313,846	261,720	27,000	100,000	0	3,216,754

Accelerated vesting of equity compensation awards upon a change in control

Upon a change in control, as defined in our equity compensation plan, all unvested SARs become fully vested and exercisable, and all time-vested restricted stock units and Performance Units become fully vested and payable (with Performance Units being payable at their target amount). This accelerated vesting occurs with respect to all equity compensation awards granted by BD, not just those granted to executive officers. No termination of employment is required to trigger this acceleration.

In November 2014, we amended our equity compensation plan to include a double-trigger vesting provision upon a change in control. Under this provision, awards made after January 1, 2015 will not automatically vest upon a change in control if the awards are either continued or replaced with similar awards. In those instances, the awards will automatically vest only if the associate is terminated without cause or the associate terminates employment for good reason (as such terms are defined in the plan) within two years of the change in control.

The following table sets forth the value to the named executive officers of the accelerated vesting of unvested equity compensation awards held at the end of fiscal year 2015, assuming a change in control of BD occurred on September 30, 2015. The BD common stock closing price of $132.66 on September 30, 2015 is used for purposes of these calculations.

Name	Time-vested restricted stock units($)	Performance Units($)	SARs($)	Total($)
Vincent A. Forlenza	9,996,329	11,598,464	11,302,788	32,897,581
Christopher R. Reidy	992,695	1,818,769	753,414	3,564,878
William A. Kozy	6,961,599	4,816,354	5,036,073	16,814,026
Jeffrey S. Sherman	3,490,019	2,284,803	2,537,318	8,312,140
Ellen R. Strahlman	1,056,637	1,234,932	489,733	2,781,302

The value of unvested restricted stock units and Performance Units is calculated by multiplying the shares distributable by $132.66. The value of unvested SARs is calculated using the difference between the exercise price of each SAR and $132.66.

Equity compensation upon termination of employment

Upon a named executive officer s termination due to retirement:

all unvested SARs held by the named executive officer become fully exercisable for their remaining term;

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- all time-vested units held by the named executive officer vest at, or on the first anniversary of, retirement; and

- all Performance Units held by the named executive officer vest pro rata based on the amount of the vesting period that had elapsed. The payments would be made after the end of the applicable vesting periods and would be based on BD s actual performance for the applicable performance periods, rather than award targets.

Upon a named executive officer s termination due to involuntary termination without cause:

- the named executive officer is entitled to exercise his SARs for three months following termination, but only to the extent they were vested at the time of termination;

- all TVUs held by the named executive officer vest pro rata based on the amount of the vesting period that had elapsed and all other time-vested restricted stock units fully vest; and

- all Performance Units held by the named executive officer vest pro rata based on the amount of the vesting period that had elapsed. The payments would be made after the end of the applicable vesting periods and would be based on BD s actual performance for the applicable performance periods, rather than award targets.

Upon a named executive officer s termination due to death or disability:

- all unvested SARs held by the named executive officer become fully exercisable for their remaining term;

- all time-vested units held by the named executive officer fully vest; and

- all Performance Units held by the named executive officer vest pro rata based on the amount of the vesting period that had elapsed. The payment would be based on award targets.

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Proposal 2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP (E&Y) has been selected by the Audit Committee of the Board to audit the accounts of BD and its subsidiaries for the fiscal year ending September 30, 2015. A representative of E&Y is expected to attend the meeting to respond to appropriate questions and will have the opportunity to make a statement.

Listed below are the fees billed to BD by E&Y for services rendered during fiscal years 2015 and 2014. The increase in Audit Fees compared to last year is primarily attributable to audit services performed in connection with the acquisition and integration of CareFusion.

	2015	2014	
Audit Fees	$ 13,681,000	$ 7,282,000	Audit Fees include fees associated with the annual audit of BD s consolidated financial statements, reviews of BD s quarterly reports on Form 10-Q, registration statements filed with the SEC and statutory audits required internationally.
Audit Related Fees	$ 148,000	$ 186,000	Audit Related Fees consist of assurance and related services that are reasonably related to the performance of the audit or interim financial statement review and are not reported under Audit Fees. These services include benefit plan audits and other audit services requested by management, which are in addition to the scope of the financial statement audit.
Tax Fees	$ 932,000	$ 268,000	Tax Fees includes tax compliance, assistance with tax audits, tax advice and tax planning.
All Other Fees	$ 466,000	$ 277,000	All Other Fees includes various miscellaneous services.
Total	$ 15,227,000	$ 8,013,000	

Pre-Approval of Audit and Non-Audit Services

The Audit Committee is responsible for appointing BD s independent registered public accounting firm (the independent auditors) and approving the terms of the independent auditors services. The Audit Committee has established a policy for the pre-approval of all audit and permissible non-audit services to be provided by the independent auditors, as described below. All of the services listed in the above table were approved pursuant to this policy.

Audit Services. Under the policy, the Audit Committee will appoint BD s independent auditors each fiscal year and pre-approve the engagement of the independent auditors for the audit services to be provided.

Non-Audit Services. In accordance with the policy, the Audit Committee has established detailed pre-approved categories of non-audit services that may be performed by the independent auditors during the fiscal year, subject to the dollar limitations set by the Audit Committee. The Audit Committee has also delegated to the Chair of the Audit Committee the authority to approve additional non-audit services to be performed by the independent auditors, subject to certain dollar limitations, and provided that the full Audit Committee is informed of each service. All other non-audit services are required to be pre-approved by the entire Audit Committee.

The Audit Committee believes that the provision of the non-audit services described above by E&Y is consistent with maintaining the independence of E&Y.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 2. IF RATIFICATION IS WITHHELD, THE AUDIT COMMITTEE WILL RECONSIDER ITS SELECTION.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews BD s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible for performing an independent audit of BD s consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Committee monitors these processes.

In this context, the Committee met and held discussions with management and the independent auditors. Management represented to the Committee that BD s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Committee reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee also discussed with the independent auditors the matters required to be discussed by the applicable auditing standards.

In addition, the Committee discussed with the independent auditors the auditors independence from BD and its management, and the independent auditors provided to the Committee the written disclosures and the letter pursuant to the applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor s communications with the Committee concerning independence. The Committee discussed with BD s internal and independent auditors the overall scope and plans for their respective audits. The Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of BD s internal controls, and the overall quality of BD s financial reporting. Management has also reviewed with the Audit Committee its report on the effectiveness of BD s internal control over financial reporting. The Audit Committee also received the report from the independent auditors on BD s internal control over financial reporting.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in BD s Annual Report on Form 10-K for the fiscal year ended September 30, 2015, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Bertram L. Scott, Chair

Basil L. Anderson

Catherine M. Burzik

Christopher Jones

Willard J. Overlock, Jr.

Rebecca W. Rimel

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Proposal 3. ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Compensation Discussion and Analysis beginning on page 26 of this proxy statement describes BD s executive compensation program and the compensation decisions made with respect to our CEO and the other individuals named in the Summary Compensation Table on page 40 (who we refer to as the named executive officers). Pursuant to Section 14A of the Securities Exchange Act of 1934, the Board of Directors is asking shareholders to cast a non-binding advisory vote on the following resolution:

RESOLVED, that the shareholders of Becton, Dickinson and Company (BD) approve the compensation of the BD executive officers named in the Summary Compensation Table, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the executive compensation tables and the related footnotes and narrative accompanying the tables).

As we describe in the Compensation Discussion and Analysis, our executive compensation program embodies a pay-for-performance philosophy that supports BD s business strategy and aligns the interests of our executives with those of our shareholders. At the same time, we believe our program does not encourage excessive risk-taking by management. We believe that the compensation actions discussed in the Compensation Discussion and Analysis appropriately reflected the performance of our named executive officers and BD during the year, and that payouts under our long-term incentive compensation demonstrate a high degree of alignment with BD s performance against the targets set by our Compensation Committee.

For these reasons, the Board is asking shareholders to support this proposal. While the advisory vote we are asking you to cast is non-binding, the Compensation Committee and the Board value the views of our shareholders and will take into account the outcome of the vote when considering our compensation program and future compensation decisions for our executive officers. BD holds an advisory vote to approve named executive officer compensation on an annual basis.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 3.

Proposal 4. APPROVAL OF AMENDMENT TO THE 2004 EMPLOYEE AND DIRECTOR EQUITY-BASED COMPENSATION PLAN

At the Annual Meeting, BD shareholders will be asked to approve an amendment to our 2004 Employee and Director Equity-Based Compensation Plan (the 2004 Plan) to increase the maximum number of shares of our common stock that may be issued under the 2004 Plan.

We use awards under the 2004 Plan to attract, retain and motivate associates throughout the BD organization who are important to BD s future, and to align the interests of our associates with those of BD s shareholders. We do not believe that there are enough authorized shares remaining under the 2004 Plan to meet our anticipated needs. Accordingly, the Board has adopted, subject to shareholder approval, an amendment to the 2004 Plan to increase the number of shares available for awards. The Board believes that BD must continue to offer equity compensation awards to successfully attract and retain the best possible BD associates.

Accretion of discount

4,737

Amortization of premium	(1,702)
Realized credit losses	3,666
Purchases	(2,265)
Sales	28,154

7,831

(8,436

)

Net impairment losses recognized in earnings

(8,445

)

Transfers/release of credit reserve(2)

11,285

(8,667

)

(2,618

)

Balance at end of period

$

(118,090

)

$

(143,896

)

$	43,407

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.
(2) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

	Three months ended March 31, 2015					
	Discount Designated as Credit Reserve and OTTI		Accretable Discount(1)		Amortizable Premium(1)	
Balance at beginning of period	$	(182,007)	$	(105,804)	$	82,228
Securities previously accounted for as linked transactions(2)		(2,320)		(1,393)		4,587
Accretion of discount				5,154		
Amortization of premium						(2,728)
Realized credit losses		2,668				
Purchases		(30,587)		(48,298)		2,057
Sales		53,815		36,852		(9,946)
Net impairment losses recognized in earnings		(3,529)				
Transfers/release of credit reserve(3)		(1,932)		1,687		245
Balance at end of period	$	(163,892)	$	(111,802)	$	76,443

(1) Together with coupon interest, accretable purchase discount and amortizable premium is recognized as interest income over the life of the security.
(2) Resulting from the implementation of guidance issued by the Financial Accounting Standards Board which eliminated the requirement to account for certain financial instruments as linked transactions.
(3) Subsequent reductions of a security s non-accretable discount results in a corresponding reduction in its amortizable premium.

The following tables present the fair value and contractual maturities of the Company s investment securities at March 31, 2016 and December 31, 2015 (dollars in thousands)**:**

	March 31, 2016									
	< or equal to 10 years		> 10 years and < or equal to 20 years		> 20 years and < or equal to 30 years		> 30 years		Total	
Agency RMBS:										
20-Year mortgage	$		$	592,573	$		$		$	592,573
30-Year mortgage						1,008,436				1,008,436
Agency RMBS Interest-Only Strips				22,651		10,020				32,671
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives		1,075		9,010		26,454		12,456		48,995
Non-Agency RMBS		14		67,868		66,757		219,660		354,299
Non-Agency RMBS Interest- Only Strips						22,604		61,937		84,541

Agency and Non-Agency CMBS	46,083	28,788	149,581	197,800	422,252
Agency CMBS Interest-Only Strips	1,652				1,652
Other securities	11,536	9,310	6,079	21,074	47,999
Total	$ 60,360	$ 730,200	$ 1,289,931	$ 512,927	$ 2,593,418

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	December 31, 2015				
	< or equal to 10 years	> 10 years and < or equal to 20 years	> 20 years and < or equal to 30 years	> 30 years	Total
Agency RMBS:					
20-Year mortgage	$	$ 687,272	$	$	$ 687,272
30-Year mortgage			926,459		926,459
Agency RMBS Interest-Only Strips		40,900	31,054		71,954
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives	1,310	10,081	35,219	13,377	59,987
Non-Agency RMBS	15	86,172	59,502	299,760	445,449
Non-Agency RMBS Interest- Only Strips			20,639	60,550	81,189
Agency and Non-Agency CMBS	65,213	27,849	167,355	215,188	475,605
Agency CMBS Interest-Only Strips	2,113				2,113
Other securities	29,102	11,088	39,256	21,653	101,099
Total	$ 97,753	$ 863,362	$ 1,279,484	$ 610,528	$ 2,851,127

The following tables present the gross unrealized losses and estimated fair value of the Company s MBS and other securities by length of time that such securities have been in a continuous unrealized loss position at March 31, 2016 and December 31, 2015 (dollars in thousands):

[redacted]

	Fair Value	Losses	Securities	Fair Value	Losses	Securities	Fair Value	Losses	Securities
Agency RMBS:									
20-Year mortgage	$ 50,288	$ (100)	2	$ 46,978	$ (129)	13	$ 97,266	$ (229)	15
30-Year mortgage	156,253	(33)	16	247,475	(2,447)	45	403,728	(2,480)	61
Agency RMBS Interest-Only Strips	21,658	(908)	13				21,658	(908)	13
Non-Agency RMBS	170,213	(6,959)	34	16,500	(579)	4	186,713	(7,538)	38
Non-Agency RMBS Interest-Only Strips	3,755	(214)	1				3,755	(214)	1
Agency and Non-Agency CMBS	318,025	(30,380)	63	45,855	(5,473)	11	363,880	(35,853)	74
Other securities	34,208	(2,309)	4				34,208	(2,309)	4
Total	$ 754,400	$ (40,903)	133	$ 356,808	$ (8,628)	73	$ 1,111,208	$ (49,531)	206

	December 31, 2015								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
Agency RMBS:									

20-Year mortgage	$	113,919	$	(1,229)	35	$	44,470	$	(590)	10	$	158,389	$	(1,819)	45
30-Year mortgage		68,890		(1,325)	17		329,716		(10,399)	55		398,606		(11,724)	72
Agency RMBS Interest-Only Strips		39,091		(2,177)	18							39,091		(2,177)	18
Non-Agency RMBS		234,897		(6,928)	36		19,656		(519)	5		254,553		(7,447)	41
Agency and Non-Agency CMBS		298,369		(19,888)	55		27,755		(1,294)	7		326,124		(21,182)	62
Other securities		59,610		(1,746)	5		11,334		(1,166)	1		70,944		(2,912)	6
Total	$	814,776	$	(33,293)	166	$	432,931	$	(13,968)	78	$	1,247,707	$	(47,261)	244

At March 31, 2016, the Company did not intend to sell any of its MBS and other securities that were in an unrealized loss position, and it is more likely than not that the Company will not be required to sell these MBS and other securities before recovery of their amortized cost basis, which may be at their maturity.

The Company assesses its Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, the Company considers several factors, including the nature of the investment, communications (if any) from the securitization trustee regarding the credit quality of the security, the severity and duration of the impairment, the cause of the impairment, and the Company s intent not to sell the security and that it is more likely than not that the Company will not be required to sell the security until recovery of its amortized cost. In addition, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other than temporary impairment.

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For Non-Agency MBS and other securities rated below AA at the time of purchase and Agency and Non-Agency Interest-Only Strips, excluding Interest-Only Strips classified as derivatives, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the beneficial interest is less than its carrying amount. Other than for plain-vanilla variable rate Non-Agency MBS, the Company does not bifurcate the loss between credit loss and loss attributed to change in interest rates, therefore, the entire loss is recorded as other-than-temporary. These adjustments are reflected in the Company s Consolidated Statement of Operations as Other than temporary impairment. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. If an other-than-temporary impairment is recognized as a result of this analysis, the yield is maintained at the current accretion rate. The last revised estimated cash flows are then used for future impairment analysis purposes. The Company s prepayment speed estimate was the primary assumption used to determine other-than temporary-impairments for Interest-Only Strips, excluding Agency and Non-Agency Interest-Only Strips accounted for as derivatives, for the three months ended March 31, 2016, and March 31, 2015.

With respect to the Company s security portfolio, OTTI is generally recorded when the credit quality of the underlying collateral deteriorates and or the schedule payments are faster than previously projected. The credit deterioration could be as a result of, but not limited to, increased projected realized losses, foreclosures, delinquencies and the likelihood of the borrower being able to make payments in the future. Generally, a prepayment occurs when a loan has a higher interest rate relative to current interest rates and lenders are willing to extend credit at the lower current interest rate of the underlying collateral for the loan is sold or transferred. OTTI is reported in the Company s Consolidated Statement of Operations.

The following table presents the OTTI the Company recorded on its securities portfolio (dollars in thousands):

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Agency RMBS	$ 727	$ 1,122
Non-Agency RMBS	4,917	2,667
Non-Agency CMBS	2,785	599
Other securities	2,368	263
Total	$ 10,797	$ 4,651

The Company has made investments in certain Non-Agency RMBS inverse floaters. These securities coupon rates have an inverse relationship to a benchmark rate. When the benchmark interest rate increases the coupon payment rate will decrease because the benchmark interest rate is deducted from the coupon payment. The Company has generally purchased these securities at a premium. Accelerated prepayments on these securities could result in an economic loss, as the Company would not recover the upfront premium. The premiums are amortized into income using the effective interest rate method. As of March 31, 2016 and March 31, 2015, the Company held $81.4 million and $90.0 million, respectively, in Non-Agency RMBS inverse floaters.

The following tables present components of interest income on the Company s MBS and other securities (dollars in thousands):

	For the three months ended March 31, 2016		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 17,323	$ (8,505)	$ 8,818
Non-Agency RMBS	9,778	(1,836)	7,942
Agency and Non-Agency CMBS	7,572	1,359	8,931
Other securities	694	798	1,492
Total(1)	$ 35,367	$ (8,184)	$ 27,183

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium/discount amortization and interest income of approximately $2.5 million, $(597) thousand and $1.9 million on Residential Whole-Loans, respectively and coupon interest, net premium amortization and interest income of $569 thousand, $0 and $569 thousand on a securitized commercial loan, respectively.

	For the three months ended March 31, 2015		
	Coupon Interest	Net (Premium Amortization/ Amortization Basis) Discount Amortization	Interest Income
Agency RMBS	$ 37,451	$ (15,407)	$ 22,044
Non-Agency RMBS	11,869	(2,427)	9,442
Agency and Non-Agency CMBS	6,902	575	7,477
Other securities	1,267	431	1,698
Total(1)	$ 57,489	$ (16,828)	$ 40,661

(1) Interest income in the Consolidated Statements of Operations includes coupon interest, net premium amortization and interest income of $117 thousand, $(46) thousand and $71 thousand on Residential Whole-Loans, respectively and coupon interest, net premium amortization and interest income of $74 thousand, $0 and $74 thousand on Commercial Whole-Loans.

The following tables present the sales and realized gain (loss) of the Company s MBS and other securities (dollars in thousands):

	For the three months ended March 31, 2016			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 310,480	$ 5,250	$ (5,151)	$ 99
Non-Agency RMBS	82,801	1,219	(4,244)	(3,025)
Agency and Non-Agency CMBS	19,035		(2,838)	(2,838)
Other securities	750,226	1,818	(2,109)	(291)
Total	$ 1,162,542	$ 8,287	$ (14,342)	$ (6,055)

(1) Excludes proceeds for Agency Interest-Only Strips, accounted for as derivatives, of approximately $4.2 million, gross realized gains of $300 thousand and gross realized losses of $0.

	For the three months ended March 31, 2015			
	Proceeds	Gross Gains	Gross Losses	Net Gain (Loss)
Agency RMBS (1)	$ 301,732	$ 290	$ (2,897)	$ (2,607)
Non-Agency RMBS	207,594	9,761	(174)	9,587
Agency and Non-Agency CMBS	27,543	488		488
Total	$ 536,869	$ 10,539	$ (3,071)	$ 7,468

(1) Excludes gross realized gains of $(2) thousand for Agency Interest-Only Strips, accounted for as derivatives, as a result of the settlement of prior year sales in January 2015.

Note 5 Variable Interest Entities

Residential Whole-Loan Trusts

The consolidated financial statements also include the consolidation of certain trusts that each meet the definition of a VIE related to the acquisition of Residential Whole-Loans in which the Company has determined itself to be the primary beneficiary of each such trust. The Company determined that it was the primary beneficiary of the two residential Whole-Loan trusts, which were merged into one trust during the first quarter of 2016, because it was involved in certain aspects of the design of each trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. The trust has issued a trust certificate to the Company, which represents the beneficial interest in pools of Residential Whole-Loans held by such trust. As of March 31, 2016, the Company financed the trust certificates with $164.0 million of repurchase borrowings, which is a liability held outside the trusts. The Company classifies the underlying Residential Whole-Loans owned by the trusts in Residential Whole-Loans at fair value in the Consolidated Balance Sheets and has eliminated the intercompany trust certificates in consolidation.

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Commercial Loan Trust

In November 2015, the Company acquired $14.0 million interest in the trust certificate issued by CMSC Trust 2015 Longhouse MZ (CMSC Trust), with a fair value of $13.3 million at March 31, 2016, which is financed with $6.8 million of repurchase borrowings. The Company determined that CMSC Trust was a VIE and itself the primary beneficiary because it was involved in certain aspects of the design of the trust, has certain oversight rights on defaulted assets and has other significant decision making powers. In addition, the Company has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. The CMSC Trust holds a $25.0 million mezzanine loan collateralized by interests in commercial real estate. The mezzanine loan serves as collateral for the $25.0 million of trust certificates issued. As of March 31, 2016, the Company classified the mezzanine loan at fair value in Securitized commercial loan in the Consolidated Balance Sheets. The $25.0 million of trust certificates, of which $14.0 million was eliminated in consolidation and the remaining $11.0 million held by an affiliate is carried at a fair value of $10.4 million and classified as Securitized debt in the Consolidated Balance Sheets.

The Company assesses modifications to VIEs on an ongoing basis to determine if a significant reconsideration event has occurred that would change the Company s initial consolidation assessment. The consolidated two trusts hold 499 performing Residential Whole-Loans and 1 performing commercial loan. The following table presents a summary of the assets and liabilities of the residential and commercial loan trusts included in the Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 (dollars in thousands).

	March 31, 2016	December 31, 2015
Residential Whole-Loans, at fair value	$ 201,267	$ 218,538
Securitized commercial loan, at fair value	23,675	25,000
Investment related receivable	3,200	
Accrued interest receivable	1,737	1,836
Total assets	$ 229,879	$ 245,374
Securitized debt	$ 10,417	$ 11,000
Accrued interest payable	85	85
Accounts payable and accrued expenses	2	2
Total liabilities	$ 10,504	$ 11,087

The Company s risk with respect to its investment in each trust is limited to its direct ownership in the trust. The Residential Whole-Loans and securitized commercial loan held by the consolidated trusts are held solely to satisfy the liabilities of the trust, and creditors of the trust have no recourse to the general credit of the Company for the trust certificates issued by the trusts. The assets of a consolidated trust can only be used to satisfy the obligations of that trust. The Company is not contractually required and has not provided any additional financial support to the trusts for the three months ended March 31, 2016 and March 31, 2015. The Company did not deconsolidate any trusts during the three months ended March 31, 2016 and March 31, 2015.

The following table presents the components of the carrying value of Residential Whole-Loans and securitized commercial loan as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	Residential Whole-Loans		Securitized Commercial Loan	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Principal balance	$ 195,425	$ 212,647	$ 25,000	$ 25,000
Unamortized premium	1,860	2,410		
Unamortized discount	(206)	(161)		
Gross unrealized gains	4,188	3,642		
Gross unrealized losses			(1,325)	
Fair value	$ 201,267	$ 218,538	$ 23,675	$ 25,000

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The Residential Whole-Loans are comprised of non-qualifying, mostly adjustable rate mortgages with low loan to values (or LTV). The following tables present certain information about the Company s Residential Whole-Loans investment portfolio at March 31, 2016 and December 31, 2015 (dollars in thousands):

March 31, 2016

				Weighted Average			
Current Coupon Rate	**Number of Loans**	**Principal Balance**	**Original LTV**	**Original FICO Score(1)**	**Expected Life (years)**	**Contractual Maturity (years)**	**Coupon Rate**
3.01 4.00%	26	$ 6,662	56.0%	764	1.4	27.1	4.0%
4.01 5.00%	181	68,806	57.0%	725	1.3	27.2	4.5%
5.01 6.00%	285	116,469	54.9%	721	1.5	27.6	5.1%
6.01 7.00%	7	3,488	70.4%	731	1.3	22.4	6.4%
Total	499	$ 195,425	56.0%	724	1.4	27.4	4.8%

(1) The original FICO score is not available for 135 loans with a principal balance of approximately $56.8 million at March 31, 2016. The Company has excluded those loans from the weighted average computation.

December 31, 2015

				Weighted Average			
Current Coupon Rate	**Number of Loans**	**Principal Balance**	**Original LTV**	**Original FICO Score(1)**	**Expected Life (years)**	**Contractual Maturity (years)**	**Coupon Rate**
3.01 4.00%	2	$ 698	35.7%	766	1.9	29.4	3.9%
4.01 5.00%	211	79,696	56.6%	728	1.4	27.5	4.5%
5.01 6.00%	302	128,204	55.1%	723	1.6	27.9	5.1%
6.01 7.00%	9	4,049	71.0%	723	1.4	23.4	6.4%
Total	524	$ 212,647	55.9%	725	1.5	27.6	4.9%

(2) The original FICO score is not available for 139 loans with a principal balance of approximately $58.7 million at December 31, 2015. The Company has excluded those loans from the weighted average computation.

The following tables present the U.S. states in which the collateral securing the Company s Residential Whole-Loans at March 31, 2016 and December 31, 2015, based on principal balance, is located (dollars in thousands):

	March 31, 2016	
	State Concentration	**Principal Balance**
California	83.8%	$ 163,725
Washington	6.2	12,269
Massachusetts	5.7	11,168
New York	2.6	5,007
Georgia	0.8	1,624
Other	0.9	1,632
Total	100.0%	$ 195,425

	State Concentration	Principal Balance
California	83.1%	$ 176,611
Washington	6.8	14,442
Massachusetts	5.6	12,000
New York	2.5	5,399
Georgia	0.9	1,813
Other	1.1	2,382
Total	100.0%	$ 212,647

As of March 31, 2016, the aggregate fair value of the securitized debt issued by the consolidated VIE was $10.4 million which is classified as Securitized debt, at fair value on the Company s Consolidated Balance sheets. The cost of financing the securitized debt is approximately 8.9%.

Unconsolidated VIEs

As of March 31, 2016 and December 31, 2015, the Company had three investments in VIEs where it was not the primary beneficiary, and accordingly, the VIEs were not consolidated in the Company s consolidated financial statements. As of March 31, 2016 and December 31, 2015, the Company s maximum exposure to loss from these investments did not exceed the sum of the $56.9 million and $58.2 million carrying value of the investments, respectively, which are classified in Mortgage-backed securities and other securities, at fair value on the Company s Consolidated Balance sheets.

Note 6 Borrowings under Repurchase Agreements

As of March 31, 2016, the Company had master repurchase agreements with 27 counterparties. As of March 31, 2016, the Company had borrowings under repurchase agreements with 20 counterparties. The following tables summarize certain characteristics of the Company s repurchase agreements at March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016		
Securities Pledged	**Repurchase Agreement Borrowings**	**Weighted Average Interest Rate on Borrowings Outstanding at end of period**	**Weighted Average Remaining Maturity (days)**
Agency RMBS	$ 1,591,880	0.75%	38
Non-Agency RMBS	295,369	2.21%	52
Agency and Non-Agency CMBS	318,146	2.12%	34
Whole-Loans and securitized commercial loan(1)	170,788	2.46%	8
Other securities	26,946	2.68%	11
Borrowings under repurchase agreements, net	$ 2,403,129	1.25%	36

(1) Repurchase agreement borrowings on Whole-Loans and securitized commercial loan owned through trust certificates. The trust certificates are eliminated upon consolidation.

	December 31, 2015		
Securities Pledged	**Repurchase Agreement Borrowings**	**Weighted Average Interest Rate on Borrowings Outstanding at end of period**	**Weighted Average Remaining Maturity (days)**

Agency RMBS	$	1,601,713	0.66%	41
Non-Agency RMBS		380,177	1.91%	44
Agency and Non-Agency CMBS		356,369	1.84%	35
Whole-Loans and securitized commercial loan(1)		180,892	2.38%	26
Other securities		66,650	2.33%	60
Borrowings under repurchase agreements		2,585,801	1.17%	38
Less unamortized debt issuance cost		134	N/A	N/A
Borrowings under repurchase agreements, net	$	2,585,667	1.17%	38

(1) Repurchase agreement borrowings on Whole-Loans and securitized commercial loan owned through trust certificates. The trust certificates are eliminated upon consolidation.

For the three months ended March 31, 2016 and December 31, 2015, the Company had average borrowings under its repurchase agreements of approximately $2.4 billion and $2.8 billion, respectively, had a maximum month-end balance during the periods of approximately $2.4 billion and $3.0 billion, respectively. The Company had accrued interest payable at March 31, 2016 and December 31, 2015 of approximately $3.2 million and $3.0 million, respectively. In addition, at March 31, 2016, the Company had not entered into any repurchase agreement borrowings which settled subsequent to March 31, 2016.

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The repurchase agreements bear interest at a contractually agreed-upon rate and typically have terms ranging from one month to three months. The Company s repurchase agreement borrowings are accounted for as secured borrowings when the Company maintains effective control of the financed assets. Under the repurchase agreements, the respective counterparties retain the right to determine the fair value of the underlying collateral. A reduction in the value of pledged assets requires the Company to post additional securities as collateral, pay down borrowings or establish cash margin accounts with the counterparties in order to re-establish the agreed-upon collateral requirements, and is referred to as a margin call. The inability of the Company to post adequate collateral for a margin call by a counterparty, in a timeframe as short as the close of the same business day, could result in a condition of default under the Company s repurchase agreements, thereby enabling the counterparty to liquidate the collateral pledged by the Company, which may have a material adverse effect on the Company s financial position, results of operations and cash flows. During 2015, the Company also rehypothecated pledged U.S. Treasury securities it received from its repurchase agreement and interest rate swap counterparties as incremental collateral in order to increase the Company s cash position. The maximum amount of repurchase borrowings for the rehypothecated U.S. Treasury securities was $0 and $530 thousand during the three months ended March 31, 2016 and March 31, 2015, respectively. At March 31, 2016 and March 31, 2015, the Company did not have any rehypothecated U.S. Treasury securities.

Volatility in the mortgage markets may create additional stress on the overall liquidity of the Company due to the long-term nature of its assets and the short-term nature of its liabilities. In an instance of severe volatility, or where the additional stress on liquidity resulting from volatility is sustained over an extended period of time, the Company could be required to sell assets, possibly even at a loss, to generate sufficient liquidity to satisfy collateral and margin requirements which could have a material adverse effect on the Company s financial position, results of operations and cash flows. The majority of the Company s repurchase agreement counterparties are either U.S. financial institutions or the U.S. broker-dealer subsidiaries of foreign financial institutions.

Further, if the Company is unable to renew, replace or expand repurchase financing with other sources of financing on substantially similar terms it may have a material adverse effect on the Company s financial position, results of operations and cash flow, due to the long term nature of the Company s investments and relatively short-term maturities of the Company s repurchase agreements. Certain of the repurchase agreements provide the counterparty with the right to terminate the agreement if the Company does not maintain certain equity and leverage metrics, the most restrictive of which include a limit on leverage based on the composition of the Company s portfolio. The Company was in compliance with the terms of such financial tests as of March 31, 2016.

At March 31, 2016 and December 31, 2015, repurchase agreements collateralized by investments had the following remaining maturities:

(dollars in thousands)	**March 31, 2016**	**December 31, 2015(1)**
Overnight	$	$
1 to 29 days	1,238,642	1,335,119
30 to 59 days	501,051	362,940
60 to 89 days	648,589	847,781
90 to 119 days	14,847	
Greater than or equal to 120 days		39,961
Total	$ 2,403,129	$ 2,585,801

(1) Excludes unamortized debt issuance costs of $134 thousand.

At March 31, 2016, the following table reflects amounts of collateral at risk under its repurchase agreements greater than 10% of the Company s equity with any counterparty (dollars in thousands):

Counterparty	Amount of Collateral at Risk, at fair value	March 31, 2016 Weighted Average Remaining Maturity (days)	Percentage of Stockholders Equity
Credit Suisse Securities (USA) LLC	$ 100,635	9	22.0%
RBC (Barbados) Trading Bank Corporation	100,608	43	22.0

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Note 7 Collateral Positions

The following tables summarize the Company s collateral positions, with respect to its borrowings under repurchase agreements, securitized debt, derivatives and clearing margin account at March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016		
	Assets Pledged- Fair Value	Accrued Interest	Fair Value of Assets Pledged and Accrued Interest
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 1,663,353	$ 6,549	$ 1,669,902
Non-Agency RMBS	442,742	782	443,524
Agency and Non-Agency CMBS	433,752	2,821	436,573
Whole-Loans and securitized commercial loan(1)	214,525	1,634	216,159
Other securities	47,999	43	48,042
Cash (2)	19,540		19,540
Securitized commercial loan pledged for securitized debt	10,417	85	10,502
Cash collateral for derivatives (2):	260,931		260,931
Total	$ 3,093,259	$ 11,914	$ 3,105,173

(1) Whole-Loans and securitized commercial loan owned through trust certificates are pledged as collateral. The trust certificates are eliminated upon consolidation.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

	December 31, 2015		
	Assets Pledged- Fair Value	Accrued Interest	Fair Value of Assets Pledged and Accrued Interest
Assets pledged for borrowings under repurchase agreements:			
Agency RMBS	$ 1,658,865	$ 7,366	$ 1,666,231
Non-Agency RMBS	530,110	1,053	531,163
Agency and Non-Agency CMBS	487,643	3,291	490,934
Whole-Loans and securitized commercial loan(1)	232,538	1,750	234,288
Other securities	101,099	270	101,369
Cash (2)	38,300		38,300
Securitized commercial loan pledged for securitized debt	11,000	85	11,085
Cash collateral for derivatives (2):	211,263		211,263
Total	$ 3,270,818	$ 13,815	$ 3,284,633

(1) Whole-Loans and securitized commercial loan owned through trust certificates are pledged as collateral. The trust certificates are eliminated upon consolidation.

(2) Cash posted as collateral is included in Due from counterparties on the Company s Consolidated Balance Sheets.

A reduction in the value of pledged assets typically results in the repurchase agreement counterparties, derivative counterparties and clearing margin counterparty initiating a daily margin call. At March 31, 2016 and December 31, 2015, investments held by counterparties as security for repurchase agreements totaled approximately $2.8 billion and approximately $3.0 billion, respectively. Cash collateral held by counterparties at March 31, 2016 and December 31, 2015 was approximately $280.5 million and approximately $249.6 million, respectively. Cash posted by counterparties at March 31, 2016 and December 31, 2015, was approximately $12.7 million and approximately $10.0 million, respectively. In addition, at March 31, 2016 and December 31, 2015, the Company held securities with a fair value of approximately $577 thousand and $0, respectively, received as collateral from its repurchase agreement counterparties to satisfy margin requirements. The Company has the ability to repledge collateral received from its repurchase counterparties.

The Company has an obligation to return Agency RMBS pledged under reverse repurchase agreements accounted for as securities borrowing transaction which were subsequently sold by the Company with a fair value of $10.1 million as of March 31, 2016. The borrowed securities were collateral for payments made by the Company of $9.3 million, which are presented as a receivable under reverse repurchase agreements in the Consolidated Balance Sheets. The reverse repurchase agreements have a weighted average maturity of 18 days and a weighted average interest rate of 0.57%. The Company did not have any obligation to return securities received under reverse repurchase agreements as collateral at December 31, 2015.

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Note 8 Derivative Instruments

The Company s derivatives currently include interest rate swaps, interest rate swaptions, futures contracts, TBAs, currency swaps and forwards, Agency and Non-Agency Interest-Only Strips that are classified as derivatives, and total return swaps.

Interest rate swaps and interest rate swaptions

The Company is exposed to certain risks arising from both its business operations and economic conditions. Specifically, the Company s primary source of debt funding is repurchase agreements and the Company enters into derivative financial instruments to manage exposure to variable cash flows on portions of its borrowings under those repurchase agreements. Since the interest rates on repurchase agreements typically change with market interest rates such as LIBOR, the Company is exposed to constantly changing interest rates, which accordingly affects cash flows associated with these rates on its borrowings. To mitigate the effect of changes in these interest rates, the Company enters into interest rate swap agreements, which help to mitigate the volatility in the interest rate exposures and their related cash flows. Interest rate swaps generally involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. Notwithstanding the foregoing, in order to manage its hedge position with regard to its liabilities, the Company on occasion will enter into interest rate swaps which involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. The Company also enters into forward starting swaps and interest rate swaptions to help mitigate the effects of changes in interest rates on a portion of its borrowings under repurchase agreements. Interest rate swaptions provide the Company the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and pay and receive interest rates in the future. On occasion the Company may enter into a MAC interest rate swap in which it may receive or make a payment at the time of entering such interest rate swap to compensate for the out of the market nature of such interest rate swap. Similar to all other interest rate swaps, these interest rate swaps are also subject to margin requirements as previously described.

While the Company has not elected to account for its interest rate swap derivative instruments as hedges under GAAP, it does not use interest rate swaps and swaptions for speculative purposes, but rather uses such instruments to manage interest rate risk and views them as economic hedges. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings together with periodic net interest settlement amounts.

Currency Swaps and Forwards

The Company has invested in and, in the future, may invest in additional securities which are denominated in a currency or currencies other than U.S. dollars. Similarly, it has and may in the future, finance such assets in a currency or currencies other than U.S. dollars. In order to mitigate the impact to the Company, the Company may enter into derivative financial instruments, including foreign currency swaps and foreign currency forwards, to manage fluctuations in the valuation between U.S. dollars and such foreign currencies. Foreign currency swaps involve the payment of a foreign currency at fixed interest rate on a fixed notional amount and the receipt of U.S. dollars at a fixed interest rate on a fixed notional amount. Foreign currency forwards provide for the payment of a fixed amount of a foreign currency in exchange for a fixed amount of U.S. dollars at a date certain in the future. The carrying value of foreign currency swaps and forwards is included in Derivative assets (liabilities), at fair value in the Consolidated Balance Sheets with changes in valuation included in Gain (loss) on derivative instruments, net in the Consolidated Statement of Operations.

Interest-Only Strips

The Company also invests in Interest-Only Strips. In determining the classification of its holdings of Interest-Only Strips, the Company evaluates the securities to determine if the nature of the cash flows has been altered from that of the underlying mortgage collateral. Generally, Interest-Only Strips for which the security represents a strip off of a mortgage pass through security will be considered a hybrid instrument classified as a MBS investment in the Consolidated Balance Sheets utilizing the fair value option. Alternatively, those Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives at fair value with changes recognized in Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations, along with any interest received. The carrying value of these Interest-Only Strips is included in Mortgage-backed securities and other securities, at fair value in the Consolidated Balance Sheets.

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To-Be-Announced Securities

The Company has also purchased or sold TBAs. As of March 31, 2016 and December 31, 2015, the Company had contracts to purchase (long position) and sell (short position) TBAs on a forward basis.

Futures Contracts

The Company also enters into Eurodollar, Volatility Index and U.S. Treasury futures. As of March 31, 2016, the Company had entered into contracts to buy (long position) U.S. Treasuries with a notional amount of $343.1 million, a fair value in a liability position of $1.8 million and an expiration date of June 2016. As of December 31, 2015, the Company had entered into contracts to buy (long position) U.S. Treasuries with a notional amount of $480.8 million, a fair value in a liability position of $635 thousand and an expiration date of March 2016.

Total Return Swap

In 2016, the Company has entered into a total return swap and in the future may continue to enter into these types of credit derivatives. This swap transfers the total return of the referenced asset, including interim cash flows and capital appreciation or depreciation from a specified price to the Company. The total return swap has a referenced asset which is a security collateralized by residential loans with a notional of 51.0 million. The Company receives interest from the referenced asset equal to EURIBOR plus 2.75% and is required to pay the counterparty EURIBOR plus 0.50% through June 23, 2019, with the spread decreasing to 0.25% through December 2019, with the spread further decreasing to 0% through the maturity date of the referenced asset in December 2020. The Company was required to post $9.7 million in cash collateral which is recorded in Due from counterparties in the Consolidated Balance Sheets.

The following tables summarize the Company s derivative instruments at March 31, 2016 and December 31, 2015 (dollars in thousands):

			March 31, 2016		
Derivative Instrument	**Accounting Designation**	**Consolidated Balance Sheets Location**	**Notional Amount**	**Fair Value, excluding accrued interest**	**Accrued Interest Payable (receivable)**
Interest rate swaps, assets	Non-Hedge	Derivative assets, at fair value	$ 4,011,800	$ 95,426	$ (11,946)
Interest rate swaptions, assets	Non-Hedge	Derivative assets, at fair value	105,000		
Foreign currency swaps, asset	Non-Hedge	Derivative assets, at fair value	11,560	2,599	(83)
Foreign currency forward contracts, asset	Non-Hedge	Derivative assets, at fair value	1,622	77	
TBA securities, assets	Non-Hedge	Derivative assets, at fair value	900,000	2,059	
Total derivative instruments, assets				100,161	(12,029)

Interest rate swaps, liability	Non-Hedge	Derivative liability, at fair value	5,333,800		(318,645)		16,725
Futures contract, liability	Non-Hedge	Derivative liability, at fair value	343,100		(1,794)		
Total return swaps - liability	Non-Hedge	Derivative liability, at fair value	55,764		(866)		(108)
Foreign currency forward contracts, liability	Non-Hedge	Derivative liability, at fair value	5,538		(256)		
TBA securities, liabilities	Non-Hedge	Derivative liability, at fair value	450,000		(826)		
Total derivative instruments, liabilities					(322,387)		16,617
Total derivative instruments				$	(222,226)	$	4,588

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Derivative Instrument	Accounting Designation	Consolidated Balance Sheets Location		Notional Amount		December 31, 2015 Fair Value, excluding accrued interest		Accrued Interest Payable (receivable)
Interest rate swaps, assets	Non-Hedge	Derivative assets, at fair value	$	2,808,700	$	9,635	$	1,287
Interest rate swaptions, assets	Non-Hedge	Derivative assets, at fair value		1,105,000		1,479		
Futures contract, asset	Non-Hedge	Derivative assets, at fair value		201,600		63		
Foreign currency swaps, asset	Non-Hedge	Derivative assets, at fair value		25,160		7,168		(398)
Foreign currency forward contracts, asset	Non-Hedge	Derivative assets, at fair value		5,825		302		
TBA securities, assets	Non-Hedge	Derivative assets, at fair value		1,650,000		3,268		
Total derivative instruments, assets						21,915		889
Interest rate swaps, liability	Non-Hedge	Derivative liability, at fair value		5,631,800		(178,305)		7,875
Futures contract, liability	Non-Hedge	Derivative liability, at fair value		279,200		(698)		
Foreign currency forward contracts, liability	Non-Hedge	Derivative liability, at fair value		7,671		(281)		
TBA securities, liabilities	Non-Hedge	Derivative liability, at fair value		825,000		(893)		
Total derivative instruments, liabilities						(180,177)		7,875
Total derivative instruments					$	(158,262)	$	8,764

Interest Rate Swaps

The following tables summarize the average fixed pay rate and average maturity for the Company s interest rate swaps as of March 31, 2016 and December 31, 2015 (excludes interest rate swaptions) (dollars in thousands):

Remaining Interest Rate Swap Term		Notional Amount		March 31, 2016 Fair Value Asset (Liability), net	Average Fixed Pay Rate	Average Maturity (Years)	Forward Starting
Greater than 1 year and less than 3 years	$	980,900	$	(1,287)	1.1%	2.0	89.2%
Greater than 3 years and less than 5 years		2,011,200		(57,781)	1.9	4.6	33.8
Greater than 5 years		2,654,600		(255,837)	2.6	9.6	4.1
Total	$	5,646,700	$	(314,905)	2.1%	6.5	29.5%

Remaining Interest Rate Swap Term	Notional Amount	December 31, 2015 Fair Value Asset (Liability), net	Average Fixed Pay Rate	Average Maturity (Years)	Forward Starting

1 year or less	$ 1,286,000	$ 163	0.6%	0.6	%
Greater than 1 year and less than 3 years	1,131,800	(1,450)	1.1	1.4	
Greater than 3 years and less than 5 years	1,345,200	(22,705)	2.1	4.6	
Greater than 5 years	2,404,600	(131,744)	2.8	10.2	29.5
Total	$ 6,167,600	$ (155,736)	1.9%	5.4	11.5%

The Company has entered into swaps to effectively fix the interest rate (for the life of the swap); net of variable-rate payment swaps, of approximately $282.8 million of borrowings under its repurchase agreements, excluding forward starting swaps of approximately $1.7 billion.

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The following tables summarize the average variable pay-rate and average maturity for the Company s interest rate swaps as of March 31, 2016 and December 31, 2015 (excludes interest rate swaptions) (dollars in thousands):

	March 31, 2016							
Remaining Interest Rate interest rate swap Term		Notional Amount		Fair Value Asset (Liability), net	Average Variable Pay Rate	Average Maturity (Years)	Forward Starting	
Greater than 3 years and less than 5 years	$	1,998,600	$	25,321	0.6%	4.5		%
Greater than 5 years		1,700,300		66,365	0.6	10.5		
Total	$	3,698,900	$	91,686	0.6%	7.2		%

	December 31, 2015							
Remaining Interest Rate interest rate swap Term		Notional Amount		Fair Value Asset (Liability), net	Average Variable Pay Rate	Average Maturity (Years)	Forward Starting	
Greater than 3 years and less than 5 years	$	1,170,700	$	(8,902)	0.4%	4.5		%
Greater than 5 years		1,102,200		(4,032)	0.4	12.3		
Total	$	2,272,900	$	(12,934)	0.4%	8.2		%

The Company s agreements with certain of its bilateral interest rate swap counterparties may be terminated at the option of the counterparty, and settled at fair value, if the Company does not maintain certain equity and leverage metrics. The most restrictive of which contain provisions which become more restrictive based upon portfolio composition. Through March 31, 2016, the Company was in compliance with the terms of such financial tests.

Interest Rate Swaptions

The following tables present information about the Company s interest rate swaptions as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016					
	Option			Underlying Swap		
Fixed-Pay Rate for Underlying Swap		Fair Value	Weighted Average Months Until Option Expiration		Notional Amount	Weighted Average Swap Term (Years)
2.26 2.50%	$		2.8	$	105,000	1.0
	$		2.8	$	105,000	1.0

	December 31, 2015	
	Option	Underlying Swap
Fixed-Pay Rate for Underlying Swap	Fair Value	

		Weighted Average Months Until Option Expiration	Notional Amount	Weighted Average Swap Term (Years)
1.76 2.00%	$ 890	2.1	$ 400,000	5.0
2.01 2.25%	129	2.1	100,000	5.0
2.26 2.50%	1	5.8	105,000	1.0
	$ 1,020	2.7	$ 605,000	4.3

	December 31, 2015			
	Option		Underlying Swap	
Variable-Pay Rate for Underlying Swap	Fair Value	Weighted Average Months Until Option Expiration	Notional Amount	Weighted Average Swap Term (Years)
1.26 1.50%	$ 459	2.1	$ 500,000	5.0
	$ 459	2.1	$ 500,000	5.0

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Derivative Collateral

The Company has minimum collateral posting thresholds with certain of its derivative counterparties, including with its clearing broker for cleared swaps, for which it typically pledges cash. During 2015, the Company rehypothecated some of the U.S. Treasury securities it received as incremental collateral on its repurchase borrowings, swaps and swaptions, effectively entering into repurchase agreements with such securities, in order to increase its cash position. The maximum amount of repurchase borrowings for the rehypothecated U.S. Treasury securities was $0 and $530 thousand during the three months ended March 31, 2016 and March 31, 2015, respectively. At March 31, 2016, no U.S. Treasury securities were rehypothecated. As of March 31, 2016 and December 31, 2015, the Company had cash pledged as collateral for derivatives of approximately $260.9 million and approximately $211.3 million, respectively, which is reported in the Consolidated Balance Sheets as Due from counterparties. The Company held cash of approximately $3.8 million and approximately $9.4 million as collateral against derivatives at March 31, 2016 and December 31, 2015, respectively, which is reported in the Consolidated Balance Sheets as Due to counterparties.

As of March 31, 2016, the Company has swaps with two counterparties that are based in England and Switzerland, with fair values an asset position of approximately $2.7 million and with fair values in a liability position of approximately $2.4 million and notional balances of $11.6 million and $123.9 million, respectively. As of December 31, 2015, the Company has swaps with two counterparties that are based in England and Switzerland, with fair values in an asset position of approximately $7.6 million and with fair values in a liability position of approximately $183 thousand and notional balances of $25.2 million and $123.9 million, respectively. Included in the $260.9 million and $211.3 million pledged by the Company is cash pledged to the counterparty based in Switzerland of $3.3 million and $1.4 million at March 31, 2016 and December 31, 2015, respectively. Included in the $3.8 million and $9.4 million received by the Company is cash posted as collateral by the counterparty based in England of approximately $2.8 million and $7.4 million at March 31, 2016 and December 31, 2015, respectively.

Foreign Currency Forwards and Swaps

The following is a summary of the Company s foreign currency forwards at March 31, 2016 and December 31, 2015 (dollars and euros in thousands):

	March 31, 2016					
Derivative Type	**Notional Amount**		**Notional (USD Equivalent)**	**Maturity**		**Fair Value**
Buy EUR/Sell USD currency forward	1,490	$	1,622	April 2016	$	77
Currency forwards, assets	1,490	$	1,622	n/a	$	77
Buy USD/Sell EUR currency forward	5,083	$	5,538	April 2016	$	(256)
Currency forwards, liabilities	5,083	$	5,538	n/a	$	(256)
Total currency forwards	6,573	$	7,160	n/a	$	(179)

	December 31, 2015						
Derivative Type	Notional Amount		Notional (USD Equivalent)	Maturity		Fair Value
Buy USD/Sell EUR currency forward	5,083		5,825	January 2016	$	302
Currency forwards, assets	5,083	$	5,825	n/a	$	302
Buy EUR/Sell USD currency forward	6,800	$	7,671	January 2016	$	(281)
Currency forwards, liabilities	6,800	$	7,671	n/a	$	(281)
Total currency forwards	11,883	$	13,496	n/a	$	21

The following is a summary of the Company s foreign currency swaps with a fair value of $2.6 million and $7.2 million at March 31, 2016 and December 31, 2015, respectively (dollars and euros in thousands):

March 31, 2016

	Date entered	Maturity	Fixed Rate	Denomination	Notional Amount
Payer	June 2014	July 2024	7.25%	EUR	8,500
Receiver	June 2014	July 2024	9.005%	USD	11,560

December 31, 2015

	Date entered	Maturity	Fixed Rate	Denomination	Notional Amount
Payer	June 2014	July 2024	7.25%	EUR	18,500
Receiver	June 2014	July 2024	9.005%	USD	25,160

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To- Be- Announced Securities

The following table presents additional information about the Company s contracts to purchase and sell TBAs for the three months ended March 31, 2016 (dollars in thousands):

	Notional Amount as of December 31, 2015	Additions	Settlement, Termination, Expiration or Exercise	Notional Amount as of March 31, 2016
Purchase of TBAs	$ 1,650,000	$ 2,550,000	$ (3,300,000)	$ 900,000
Sale of TBAs	$ 825,000	$ 2,925,000	$ (3,300,000)	$ 450,000

Gain (loss) on derivative instruments

The below tables summarize the effects of the Company s derivative instruments, including Agency and Non-Agency Interest-Only Strips characterized as derivatives and TBAs, reported in Gain (loss) on derivative instruments, net in the Consolidated Statements of Operations for the three months ended March 31, 2016 and March 31, 2015 (dollars in thousands):

	Three months ended March 31, 2016				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (3,605)	$ (8,595)	$ 167	$ (54,248)	$ (66,281)
Interest rate swaptions	(712)			1,309	597
Agency and Non-Agency Interest-Only Strips accounted for as derivatives	300	4,146	(3,383)	(3,679)	(2,616)
Options	4,756				4,756
Futures contracts	14,316			(1,159)	13,157
Foreign currency forwards	(28)			(200)	(228)
Foreign currency swaps	3,942	113		(4,569)	(514)
Total return swaps	8	221		(866)	(637)
TBAs	7,739			(1,143)	6,596
Total	$ 26,716	$ (4,115)	$ (3,216)	$ (64,555)	$ (45,170)

	Three months ended March 31, 2015				
Description	**Realized Gain (Loss), net**	**Contractual interest income (expense), net(1)**	**Return (Recovery) of Basis**	**Mark-to-market adjustments**	**Total**
Interest rate swaps	$ (1,049)	$ (1,784)	$ 371	$ (53,205)	$ (55,667)
Interest rate swaptions	713			(873)	(160)
Agency and Non-Agency Interest-Only Strips accounted for as	(2)	5,654	(4,478)	(2,395)	(1,221)

derivatives					
Futures contracts				(74)	(74)
Foreign currency forwards	646			(1,195)	(549)
Foreign currency swaps		216		4,356	4,572
TBAs	7,448			(2,651)	4,797
Total	$ 7,756	$ 4,086	$ (4,107)	$ (56,037)	$ (48,302)

(1) Contractual interest income (expense), net on derivative instruments includes interest settlement paid or received.

Note 9 Offsetting Assets and Liabilities

The following tables present information about certain assets and liabilities that are subject to master netting agreements (or similar agreements) and can potentially be offset on the Company s Consolidated Balance Sheets at March 31, 2016 and December 31, 2015:

Offsetting of Derivative Assets and Reverse Repurchase Agreements As of March 31, 2016

$s in thousands Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments (1)	Cash Collateral Received	Net Amount
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives included in MBS	$ 48,995	$	$ 48,995	$ (44,375)	$	$ 4,620
Derivative asset, at fair value(2)	100,161		100,161	(96,330)	(2,909)	922
Receivable under reverse repurchase agreements	9,307		9,307	(9,307)		
Total	$ 158,463	$	$ 158,463	$ (150,012)	$ (2,909)	$ 5,542

Offsetting of Derivative Liabilities and Repurchase Agreements As of March 31, 2016

$s in thousands Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments (1)	Cash Collateral Pledged(1)	Net Amount
Derivative liability, at fair value(2)(3)	$ 322,387	$	$ 322,387	$ (96,330)	$ (225,877)	$ 180
Repurchase Agreements(4)	2,403,129		2,403,129	(2,403,129)		
	$ 2,725,516	$	$ 2,725,516	$ (2,499,459)	$ (225,877)	$ 180

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(1) Amounts disclosed in the Financial Instruments column of the tables above represent securities, Whole-Loans and securitized commercial loan collateral pledged and derivative assets that are available to be offset against liability balances associated with repurchase agreement and derivative liabilities. Amounts disclosed in the Cash Collateral Pledged column of the tables above represents amounts pledged as collateral against derivative transactions.

(2) Derivative asset, at fair value and Derivative liability, at fair value includes interest rate swaps, interest rate swaptions, mortgage put options, currency forwards, futures contracts, foreign currency swaps, total return swaps and

TBAs.

(3) Cash collateral pledged against the Company s derivative counterparties was approximately $260.9 million as of March 31, 2016.

(4) The fair value of investments pledged against the Company s repurchase agreements was approximately $2.8 billion as of March 31, 2016.

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Offsetting of Derivative Assets As of December 31, 2015

$s in thousands Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments (1)	Cash Collateral Received	Net Amount
Agency and Non-Agency Interest-Only Strips, accounted for as derivatives included in MBS	$ 59,987	$	$ 59,987	$ (55,372)	$	$ 4,615
Derivative asset, at fair value(2)	21,915		21,915	(10,177)	(8,647)	3,091
Total	$ 81,902	$	$ 81,902	$ (65,549)	$ (8,647)	$ 7,706

Offsetting of Derivative Liabilities and Repurchase Agreements As of December 31, 2015

$s in thousands Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets Financial Instruments (1)	Cash Collateral Pledged(1)	Net Amount
Derivative liability, at fair value(2)(3)	$ 180,177	$	$ 180,177	$ (10,177)	$ (169,887)	$ 113
Repurchase Agreements(4)	2,585,801		2,585,801	(2,585,801)		
	$ 2,765,978	$	$ 2,765,978	$ (2,595,978)	$ (169,887)	$ 113

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(1) Amounts disclosed in the Financial Instruments column of the tables above represent securities, Whole-Loans and securitized commercial loan collateral pledged and derivative assets that are available to be offset against liability balances associated with repurchase agreement and derivative liabilities. Amounts disclosed in the Cash Collateral Pledged column of the tables above represents amounts pledged as collateral against derivative transactions.

(2) Derivative asset, at fair value and Derivative liability, at fair value includes interest rate swaps, interest rate swaptions, mortgage put options, currency forwards, futures contracts, foreign currency swaps and TBAs.

(3) Cash collateral pledged against the Company s derivative counterparties was approximately $211.3 million as of December 31, 2015.

(4) The fair value of investments pledged against the Company s repurchase agreements was approximately $3.0 billion as of December 31, 2015.

Certain of the Company s repurchase agreement and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction.

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Note 10 Related Party Transactions

Management Agreement

In connection with the Company s IPO in May 2012, the Company entered into a management agreement (the Management Agreement) with the Manager, which describes the services to be provided by the Manager and compensation for such services. The Manager is responsible for managing the Company s operations, including: (i) performing all of its day-to-day functions; (ii) determining investment criteria in conjunction with the Board of Directors; (iii) sourcing, analyzing and executing investments, asset sales and financings; (iv) performing asset management duties; and (v) performing financial and accounting management, subject to the direction and oversight of the Company s Board of Directors. Pursuant to the terms of the Management Agreement, the Manager is paid a management fee equal to 1.50% per annum of the Company s stockholders equity (as defined in the Management Agreement), calculated and payable (in cash) quarterly in arrears. For purposes of calculating the management fee, stockholders equity means the sum of the net proceeds from any issuances of the Company s equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus retained earnings, calculated in accordance with GAAP, at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less any amount paid for repurchases of the Company s shares of common stock, excluding any unrealized gains, losses or other non-cash items, including OTTI charges; unrealized gain (loss), net; and the non-cash portion of gain (loss) on derivative instruments, that have impacted stockholder s equity as reported in the Company s consolidated financial statements prepared in accordance with GAAP, regardless of whether such items are included in other comprehensive income or loss, or in net income, and excluding one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between the Manager and the Company s independent directors and after approval by a majority of the Company s independent directors. However, if the Company s stockholders equity for any given quarter is negative based on the calculation described above, the Manager will not be entitled to receive any management fee for that quarter.

In addition, the Company may be required to reimburse the Manager for certain expenses as described below, and shall reimburse the Manager for the compensation paid to the Company s CFO and controller. Expense reimbursements to the Manager are made in cash on a regular basis. The Company s reimbursement obligation is not subject to any dollar limitation. Because the Manager s personnel perform certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, the Manager may be paid or reimbursed for the documented cost of performing such tasks, provided that such costs and reimbursements are in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm s-length basis.

The Management Agreement may be amended, supplemented or modified by agreement between the Company and the Manager. The Management Agreement expires on May 16, 2017. It is automatically renewed for one-year terms on each May 15th unless previously terminated as described below. The Company s independent directors review the Manager s performance and any fees payable to the Manager annually and, the Management Agreement may be terminated annually upon the affirmative vote of at least two-thirds (2/3) of the Company s independent directors, based upon: (i) the Manager s unsatisfactory performance that is materially detrimental to the Company; or (ii) the Company s determination that any fees payable to the Manager are not fair, subject to the Manager s right to prevent such termination due to unfair fees by accepting a reduction of management fees agreed to by at least two-thirds (2/3) of the Company s independent directors. The Company will provide the Manager 180 days prior notice of any such termination. Unless terminated for cause, the Company will pay the Manager a termination fee equal to three times the average annual management fee earned by the Manager during the prior 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination.

The Company may also terminate the Management Agreement at any time, without the payment of any termination fee, with 30 days prior written notice from the Company s Board of Directors for cause, which will be determined by at least two-thirds (2/3) of the Company s independent directors, which is defined as: (i) the Manager s continued material breach of any provision of the Management Agreement (including the Manager s failure to comply with the Company s investment guidelines); (ii) the Manager s fraud, misappropriation of funds, or embezzlement against the Company; (iii) the Manager s gross negligence in the performance of its duties under the Management Agreement; (iv) the occurrence of certain events with respect to the bankruptcy or insolvency of the Manager, including an order for relief in an involuntary bankruptcy case or the Manager authorizing or filing a voluntary bankruptcy petition; (v) the Manager is convicted (including a plea of nolo contendere) of a felony; or (vi) the dissolution of the Manager.

For the three months ended March 31, 2016 and March 31, 2015, the Company incurred approximately $2.8 million and approximately $2.7 million in management fees, respectively.

In addition to the management fee, the Company is also responsible for reimbursing the Manager for certain expenses paid by the Manager on behalf of the Company as defined in the Management Agreement. For the three months ended March 31, 2016 and March 31, 2015, the Company recorded expenses included in general and administrative expense totaling approximately $72 thousand and approximately $137 thousand, respectively, related to reimbursable employee costs. Any such expenses incurred by the Manager and reimbursed by the Company, including the employee compensation expense, are typically included in the Company s general and administrative expense on its Consolidated Statements of Operations, or may be reflected in the Consolidated Balance Sheets and associated Consolidated Statement of Changes in Stockholders Equity, based on the nature of the item. At March 31, 2016 and December 31, 2015, approximately $2.8 million and approximately $2.7 million, respectively for management fees incurred but not yet paid was included in Payable to related party in the Consolidated Balance Sheets. In addition, at March 31, 2016 and December 31, 2015, approximately $349 thousand and approximately $277 thousand, respectively of reimbursable costs incurred but not yet paid was included in Payable to related party in the Consolidated Balance Sheets.

Securitized debt

At March 31, 2016, the Company had securitized debt related to the consolidated VIEs, with a balance of $11.0 million (and a fair value of $10.4 million) which was held by an affiliate. The securitized debt of the VIEs can only be settled with the commercial loans that serve as collateral of the VIE and has non-recourse to the Company.

Note 11 Share-Based Payments

In conjunction with the Company s IPO and concurrent private placement, the Company s Board of Directors approved the Western Asset Mortgage Capital Corporation Equity Plan (the Equity Plan) and the Western Asset Manager Equity Plan (the Manager Equity Plan and collectively the Equity Incentive Plans). The Equity Incentive Plans include provisions for grants of restricted common stock and other equity-based awards to the Manager, its employees and employees of its affiliates and to the Company s directors, officers and employees. The Company can issue up to 3.0% of the total number of issued and outstanding shares of its common stock (on a fully diluted basis) at the time of each award (other than any shares previously issued or subject to awards made pursuant to one of the Company s Equity Incentive Plans) under these Equity Incentive Plans. At May 15, 2012, there were 308,335 shares of common stock initially reserved for issuance under the Equity Incentive Plans. Upon the completion of the October 3, 2012 follow-on common stock offering, the stock portion of the Company s dividend declared December 19, 2013, and the April 9, 2014 follow-on offering (which includes the partial exercise of the greenshoe on May 7, 2014) and private placement of common stock, the number of shares of common stock available for issuance under the Equity Incentive Plans increased to 1,237,711, inclusive of 664,838 shares of restricted stock granted and 24,276 shares of restricted stock issued as a result of the stock portion of the dividend declared on December 19, 2013 and restricted stock attributed to dividends on restricted stock under the Director Deferred Fee Plan. As of March 31, 2016, 548,597 shares remained available for issuance under the Equity Incentive Plans.

The Company made the following grants under the Equity Plan for the three months ended March 31, 2016 and the year ended December 31, 2015:

On March 1, 2015, the Company granted 200,000 shares of restricted common stock to the Manager under the Manager Equity Plan. One-third of the shares vested on March 1, 2016, one-third will vest on March 1, 2017 and the remaining one-third will vest on March 1, 2018.

On June 4, 2015, the Company granted a total of 10,500 (2,625 each) of restricted common stock under the Equity Plan to the Company s four independent directors. These restricted shares will vest in full on June 4, 2016, the first anniversary of the grant date. Each of the independent directors has elected to defer the shares granted to him under the Company s Director Deferred Fee Plan (the Director Deferred Fee Plan). The Director Deferred Fee Plan permits eligible members of the Company s board of directors to defer certain stock awards made under its director compensation programs. The Director Deferred Fee Plan allows directors to defer issuance of their stock awards and therefore defer payment of any tax liability until the deferral is terminated, pursuant to the election form executed each year by each eligible director.

On December 8, 2015 the Company s chief financial officer passed away and the board of directors approved the accelerated vesting of 13,980 shares of restricted common stock.

During the three months ended March 31, 2016 and March 31, 2015, 188,184 and 134,263 restricted common shares vested, respectively, including shares whose issuance has been deferred under the Director Deferred Fee Plan. The Company recognized stock-based compensation expense of approximately $572 thousand and approximately $679 thousand for the three months ended March 31, 2016 and March 31, 2015, respectively. In addition, the Company had unamortized compensation expense of $27 thousand for equity awards and approximately $1.9 million for liability awards and $67 thousand for equity awards and approximately $2.4 million for liability awards at March 31, 2016 and December 31, 2015, respectively.

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All restricted common shares granted, other than those whose issuance has been deferred pursuant to the Director Deferred Fee Plan, possess all incidents of ownership, including the right to receive dividends and distributions currently, and the right to vote. Dividend equivalent payments otherwise allocable to restricted common shares under the Deferred Compensation Plan are deemed to purchase additional phantom shares of the Company s common stock that are credited to each participant s deferral account. The award agreements include restrictions whereby the restricted shares cannot be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of prior to the lapse of restrictions under the respective award agreement. The restrictions lapse on the unvested restricted shares awarded when vested, subject to the grantee s continuing to provide services to the Company as of the vesting date. Unvested restricted shares and rights to dividends thereon are forfeited upon termination of the grantee.

The following is a summary of restricted common stock vesting dates as of March 31, 2016 and December 31, 2015, including shares whose issuance has been deferred under the Director Deferred Fee Plan:

Vesting Date	**March 31, 2016 Shares Vesting**	**December 31, 2015 Shares Vesting**
March 2016		188,184
June 2016	12,248	11,528
March 2017	133,334	133,334
March 2018	66,667	66,667
	212,249	399,713

The following table presents information with respect to the Company s restricted stock for the three months ended March 31, 2016 including shares whose issuance has been deferred under the Director Deferred Fee Plan:

	Shares of Restricted Stock		**Weighted Average Grant Date Fair Value (1)**
Outstanding at beginning of period	688,394	$	17.39
Granted (2)	720		9.31
Cancelled/forfeited			
Outstanding at end of period	689,114	$	17.38
Unvested at end of period	212,249	$	15.38

(1) The grant date fair value of restricted stock awards is based on the closing market price of the Company s common stock at the grant date.

(2) Included in Granted are restricted stock attributed to dividends on restricted stock under the Director Deferred Fee Plan of 720 shares.

Note 12 Stockholders Equity

Warrants

On May 9, 2012, the Company entered into agreements with certain institutional investors to sell 2,231,787 warrant units. Each warrant unit consists of one share of the Company s common stock and a warrant to purchase 0.5 of a share of the Company s common stock, subject to adjustment. As of March 31, 2016, the adjusted exercise price of the warrants was $16.70 and there were a total of 1,232,916 warrant shares purchasable. The warrants expire on May 15, 2019.

Share Repurchase Program

On February 25, 2016, the Board of Directors of the Company reauthorized its repurchase program of up to 2,050,000 shares of its common stock through December 31, 2017. The original authorization expired on December 31, 2015. Purchases made pursuant to the program will be made in the open market, in privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rules 10b5-1 and 10b-18 of the Securities and Exchange Commission. The authorization does not obligate the Company to acquire any particular amount of common shares and the program may be suspended or discontinued at the Company s discretion without prior notice. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The Company has not repurchased any shares of common stock pursuant to the authorization as of March 31, 2016.

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Dividends

The following table presents cash dividends declared and paid by the Company on its common stock:

Declaration Date	Record Date	Payment Date	Amount per Share		Tax Characterization
2016					
March 24, 2016	April 4, 2016	April 26, 2016	$	0.45	Not yet determined
2015					
December 17, 2015	December 28, 2015	January 26, 2016	$	0.58	Ordinary income
September 24, 2015	October 5, 2015	October 27, 2015	$	0.60	Ordinary income
June 18, 2015	June 29, 2015	July 28, 2015	$	0.64	Ordinary income
March 26, 2015	April 6, 2015	April 28, 2015	$	0.67	Ordinary income
2014					
December 18, 2014	December 29, 2014	January 27, 2015	$	0.70	Ordinary income
September 23, 2014	October 3, 2014	October 28, 2014	$	0.70	Ordinary income
June 19, 2014	June 30, 2014	July 29, 2014	$	0.67	Ordinary income
March 20, 2014	March 31, 2014	April 29, 2014	$	0.67	Ordinary income
2013					
April 1, 2013	April 12, 2013	April 30, 2013	$	0.95	Ordinary income
June 20, 2013	July 1, 2013	July 29, 2013	$	0.90	Ordinary income
September 19, 2013	September 30, 2013	October 29, 2013	$	0.90	Ordinary income
December 19, 2013	December 30, 2013	January 28, 2014	$	2.35(1)	Ordinary income

(1) Consisting of cash and stock. For stockholders who elected to receive the entire $2.35 per share dividend in stock, each stockholder received 0.1590 shares in newly issued common stock for each common share that they held as of the dividend record date. For stockholders who elected to receive the dividend in cash, or did not make an election, each stockholder received $0.9159 per share in cash and 0.0970 shares in newly issued common stock for each common share that they held as of the dividend record date.

Note 13 Net Income (Loss) per Common Share

The table below presents basic and diluted net income (loss) per share of common stock using the two-class method for the three months ended March 31, 2016 and March 31, 2015 (dollars, other than shares and per share amounts, in thousands):

	For the three months ended March 31, 2016	For the three months ended March 31, 2015
Numerator:		

Net income (loss) attributable to common stockholders and participating securities for basic and diluted earnings per share	$	(36,304)	$	14,146
Less:				
Dividends and undistributed earnings allocated to participating securities		159		259
Net income (loss) allocable to common stockholders basic and diluted	$	(36,463)	$	13,887
Denominator:				
Weighted average common shares outstanding for basic earnings per share		41,595,723		41,417,932
Weighted average diluted shares outstanding (warrants)				
Weighted average common shares outstanding for diluted earnings per share		41,595,723		41,417,932
Basic earnings per common share	$	(0.88)	$	0.34
Diluted earnings per common share	$	(0.88)	$	0.34

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For the three months ended March 31, 2016 and March 31, 2015, the Company excluded the effects of the warrants from the computation of diluted earnings per share since the average market value per share of the Company s common stock was below the exercise price of the warrants.

Note 14 Income Taxes

As a REIT, the Company is not subject to federal income tax to the extent that it makes qualifying distributions to its stockholders and satisfies on a continuing basis, through actual investment and operating results, the REIT requirements including certain asset, income and stock ownership tests.

Based on the Company s analysis of any potential uncertain income tax positions, the Company concluded that it does not have any uncertain tax positions that meet the recognition or measurement criteria as of March 31, 2016. The Company files U.S. federal and state income tax returns. As of March 31, 2016, tax returns filed by the Company for 2014, 2013 and 2012 are open for examination pursuant to relevant statutes of limitation. In the event that the Company incurs income tax related interest and penalties, the Company s policy is to classify them as a component of its provision for income taxes.

Subject to the limitation under the REIT asset test rules, the Company is permitted to own up to 100% of the stock of one or more TRS. Currently, the Company owns one TRS that is taxable as a corporation and is subject to federal, state and local income tax on its net income at the applicable corporate rates. The TRS, which was formed in Delaware on July 28, 2014, is a limited liability company and a wholly-owned subsidiary of the Company. As of March 31, 2016, the cumulative taxable loss of the TRS was de-minimis. As there can be no certainty that the TRS will have taxable income in the future, no tax benefit was included in these consolidated financial statements.

Note 15 Contingencies

From time to time, the Company may become involved in various claims and legal actions arising in the ordinary course of business. Management is not aware of any material contingencies at March 31, 2016.

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

FORWARD-LOOKING INFORMATION

The Company makes forward-looking statements herein and will make forward-looking statements in future filings with the Securities and Exchange Commission (the SEC), press releases or other written or oral communications within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). For these statements, the Company claims the protections of the safe harbor for forward-looking statements contained in such sections. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company s control. These forward-looking statements include information about possible or assumed future results of the Company s business, financial condition, liquidity, results of operations, plans and objectives. When the Company uses the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, the Company in identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company s industry, interest rates, real estate values, the debt securities markets, the U.S. housing and the U.S. and foreign commercial real estate markets or the general economy or the market for residential and/or commercial mortgage loans; the Company s business and investment strategy; the Company s projected operating results; actions and initiatives of the U.S. Government and changes to U.S. Government policies and the execution and impact of these actions, initiatives and policies; the state of the U.S. and to a lesser extent, international economy generally or in specific geographic regions; economic trends and economic recoveries; the Company s ability to obtain and maintain financing arrangements, including securitizations; the current potential return dynamics available in residential mortgage-backed securities (RMBS), and commercial mortgage-backed securities (CMBS and collectively with RMBS, MBS); the level of government involvement in the U.S. mortgage market; the anticipated default rates on Agency and Non-Agency MBS (as defined herein); the loss severity on Non-Agency MBS; the return of the Non-Agency RMBS, CMBS and asset-backed securities (ABS) securitization markets; the general volatility of the securities markets in which the Company participates; changes in the value of the Company s assets; the Company s expected portfolio of assets; the Company s expected investment and underwriting process; interest rate mismatches between the Company s target assets and any borrowings used to fund such assets; changes in interest rates and the market value of the Company s target assets; changes in prepayment rates on the Company s target assets; effects of hedging instruments on the Company s target assets; rates of default or decreased recovery rates on the Company s target assets; the degree to which the Company s hedging strategies may or may not protect the Company from interest rate and foreign currency volatility; the impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters; the Company s ability to maintain the Company s qualification as a real estate investment trust for U.S. federal income tax purposes; the Company s ability to maintain its exemption from registration under the Investment Company Act of 1940, as amended (the 1940 Act); the availability of opportunities to acquire Agency RMBS, Non-Agency RMBS, CMBS, Residential and Commercial Whole-Loans and other mortgage assets; the availability of opportunities to acquire ABS; the availability of qualified personnel; estimates relating to the Company s ability to make distributions to its stockholders in the future; and the Company s understanding of its competition.

The forward-looking statements are based on the Company s beliefs, assumptions and expectations of its future performance, taking into account all information currently available to it. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to the Company. Some of these factors, are described in Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (SEC) on March 11, 2016. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that the Company files with the SEC, could cause its actual results to differ materially from those included in any forward-looking statements the Company makes. All forward-looking statements speak only as of the date they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect the Company. Except as required by law, the Company is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Western Asset Mortgage Capital Corporation and Subsidiaries (the Company unless otherwise indicated or except where the context otherwise requires we , us or our) is a Delaware corporation commencing operations in May 2012, focused on investing in, financing and managing a diversified portfolio of real estate related securities, whole-loans and other financial assets. Our investment strategy is based on Western Asset Management Company s (our Manager) perspective of which mix of portfolio assets it believes provides us with the best risk-reward opportunities at any given time. Our Manager will vary the allocation among various asset classes subject to maintaining our qualification as a REIT under the federal tax law and maintaining our exemption from the 1940 Act. These restrictions limit our ability to invest in non-real estate assets and/or assets which are not secured by real estate.

We raised approximately $720.0 million, after subtracting underwriting commissions and offering expenses, and have invested the proceeds of our initial public offering or IPO and concurrent private placements along with proceeds from our follow-on public offerings and accompanying private placement primarily in Agency RMBS, including Mortgage pass-through certificates, Agency derivatives, Agency Interest-Only Strips, and Agency CMOs; Non-Agency RMBS; Agency CMBS, Non-Agency CMBS, Non U.S. CMBS, ABS as well as Residential and Commercial Whole-Loans. We have also used to-be-announced forward contracts, or TBAs, in order to invest in Agency RMBS. Pursuant to these TBAs, we agree to purchase (or deliver), for future settlement, Agency RMBS with certain principal and interest terms and certain underlying collateral.

At March 31, 2016, our investment portfolio was comprised of approximately $1.7 billion of Agency RMBS (including approximately $67.8 million of Agency Interest-Only Strips), approximately $442.8 million of Non-Agency RMBS (including approximately $88.5 million of Non-Agency Interest-Only Strips), approximately $28.2 million of Agency CMBS (including approximately $11.5 million of Agency CMBS Interest-Only Strips), approximately $405.5 million of Non-Agency CMBS, approximately $48.0 million of other securities and approximately $201.3 million of Residential Whole-Loans. In addition, we acquired a $14.0 million controlling financial interest in a CMBS trust, which resulted in the consolidation of the assets and liabilities of the trust. As a result of the consolidation of the CMBS trust, our holdings included a $13.3 million securitized commercial loan.

We generate income principally from the difference between the yields earned on our investments and our cost of borrowing and any hedging activity. We use leverage as part of our business strategy in order to increase potential returns to our stockholders. We primarily finance our investments through short-term borrowings structured as repurchase agreements. We may also change our financing strategy and leverage without the consent of our stockholders.

As of March 31, 2016, we had entered into master repurchase agreements or MRAs with 27 counterparties. As of March 31, 2016, we had approximately $2.4 billion of borrowings outstanding under our repurchase agreements collateralized by approximately $2.8 billion of our investments. We have entered into approximately $282.8 million of interest rate swaps to effectively fix the interest rate of our borrowings under our repurchase agreements; net of variable-rate payment interest rate swaps of approximately $3.7 billion, and excluding forward starting interest rate swaps of approximately $1.7 billion. In addition, as of March 31, 2016, we also owned swaptions on approximately an incremental $105.0 million notional of interest rate swaps. As of March 31, 2016, our aggregate debt-to-equity ratio was approximately 5.3 to 1. Our debt-to-equity ratio is computed by dividing the sum of our borrowings under repurchase agreements by total stockholders equity. The debt to equity ratio, it is not a comprehensive statement of overall investment portfolio leverage which is affected by any leverage embedded in

TBAs and derivative instruments.

We operate and elected to be taxed as a real estate investment trust (REIT), commencing with our taxable year ended December 31, 2012. To comply with the REIT requirements, some of our investments were held in a taxable REIT subsidiary or TRS . By acquiring investments or engaging in activities through the TRS, it enables us to engage in such activities without jeopardizing our REIT status. These investments or activities are not held or conducted at the REIT level and as a result would not impact our ability to maintain our qualification as a REIT. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute, in accordance with the REIT regulations, all of our net taxable income to stockholders and maintain our intended qualification as a REIT.

We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the 1940 Act.

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Factors Impacting Our Operating Results

Our results of operations are affected by a number of factors and primarily depend on our net interest income, changes in the market value of our investments, derivative instruments and to a lesser extent realized gains and losses on the sale of our investments and termination of our derivative instruments. Our overall performance is also impacted by the supply and demand for our target assets in the market, the terms and availability of financing for such assets, general economic conditions, the impact of U.S Government actions that affect the real estate and mortgage sectors, and the unanticipated credit events experienced by borrowers whose loans are included in our MBS, as well as our Whole-Loan borrowers.

Our net interest income varies primarily as a result of changes in market interest rates and constant prepayment rates (or CPR) on our RMBS. The CPR measures the amount of unscheduled principal prepayments on RMBS as a percentage of the principal balance, and includes the conditional repayment rate (or CRR), which measures voluntary prepayments of mortgages collateralizing a particular RMBS and conditional default rates (or CDR), which measures involuntary prepayments resulting from defaults of the underlying mortgage loans. CPRs vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. In addition, our borrowing costs and available credit are further affected by the collateral pledged and general conditions in the credit market. Interest income on our Non-Agency RMBS is recorded using an effective yield, which reflects an estimate of expected cash flows for each security. In forecasting cash flows on our Non-Agency RMBS, we make certain assumptions about the underlying mortgage loans which include, but are not limited to, future interest rates, voluntary prepayment rates, default rates, modifications and loss severities. To the extent that our current assessment of future performance differs from our prior assessment, such changes are either reflected in the current period as other-than-temporary impairment or in the income recognized on such securities prospectively. Credit losses greater than those anticipated, or in excess of purchase discount on a given security, could have a material adverse impact on our operating results.

Recent Market Conditions

Our business is affected by general U.S. residential real estate fundamentals, domestic and foreign commercial real estate fundamentals and the overall U.S. and international economic environment. In particular, our strategy is influenced by the specific characteristics of these markets, including but not limited to prepayment rates and interest rate levels. 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 investment portfolio and the supply of and demand for mortgage-related assets. Our net interest income, which includes the amortization of purchase premiums and accretion of discounts, will vary primarily as a result of changes in interest rates, defaults and loss severity rates, borrowing costs, and prepayment speeds on our MBS and other Target Asset (as defined herein) investments. Similarly, the overall value of our investment portfolio will be impacted by these factors as well as changes in the value of residential and commercial real estate and continuing regulatory changes. We continue to shift our portfolio to more credit sensitive assets from Agency securities, which we believe given the current economic and interest rate environment, will provide a better risk adjusted return going forward.

The first quarter was extremely challenging and volatile for the credit markets, resulting in a disappointing first quarter of 2016 for credit sensitive securities. The markets experienced a downturn in January and February as concerns surrounding global economic conditions and commodity prices exerted pressure on mortgage and asset backed securities, resulting in credit spreads widening during the quarter. The wider spreads on our investments combined with higher hedging costs were a driving factor in the further decline in our book value. We believe the spread widening in credit sensitive securities that negatively impacted our performance during the first quarter were more technical in nature and not driven by any fundamental deterioration in the fundamentals of the U.S real estate markets. Consumer mortgage credit continued to show stable to modest improvement in borrower performance. Home prices also continued to modestly rise and consumer appetite for housing continued to remain stable with expanding mortgage credit availability.

At the two-day meeting Federal Open Market Committee or FOMC meeting that ended on April 27, 2016, the Federal Reserve decided to maintain its target range of 0.25% to 0.5%, which was expected. The Federal Reserve cited slowdown in the U.S. economy as the primary reason for not raising the rates. While Wall Street is skeptical the Federal Reserve will raise rates at all in 2016, we believe the size of future rate hikes and the pace will be modest and slow.

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Our Investment Strategy

Our Manager s investment philosophy, which developed from a singular focus in fixed-income asset management over a variety of credit cycles and conditions, is to provide clients with diversified, tightly controlled, long-term value-oriented portfolios. Through rigorous analysis of all sectors of the fixed-income market, our Manager seeks to identify assets with the greatest risk-adjusted total value potential. In making investment decisions on our behalf, our Manager incorporates its views on the economic environment and the outlook for the mortgage markets, including relative valuation, supply and demand trends, the level of interest rates, the shape of the yield curve, prepayment rates, financing and liquidity, commercial and residential real estate prices, delinquencies, default rates, recovery of various segments of the economy and vintage of collateral, subject to maintaining our REIT qualification and our exemption from registration under the 1940 Act. We benefit from the breadth and depth of our Manager s overall investment philosophy, which focuses on a macroeconomic analysis as well as an in-depth analysis of individual assets and their relative value.

Our target assets are Agency RMBS (including to-be-announced securities or TBAs) and Non-Agency RMBS, Agency CMBS, Non-Agency CMBS, Non U.S. CMBS, ABS, Whole-Loans and Whole-Loan securities. In 2016, under current market conditions, we expect to continue to deploy an increasing portion of our capital to expand our investments in Non-Agency RMBS, Non-Agency CMBS, Whole-Loans and Whole-Loan securities as well as Non U.S. CMBS with the intention of shifting our investments towards a more diversified credit sensitive portfolio. We do not have specific investment guidelines providing for precise minimum or maximum allocations to any sector other than those necessary for maintaining our qualification as a REIT and our exemption from the 1940 Act. These regulatory limits restrict our ability to shift away from Agency securities and diversify the portfolio as certain MBS securities that do not qualify as real estate assets. Our Manager has not and does not expect to purchase securities on our behalf with a view to selling them shortly after purchase. However, in order to maximize returns and manage portfolio risk while remaining opportunistic, we may dispose of securities earlier than anticipated or hold securities longer than anticipated depending upon prevailing market conditions, credit performance, availability of leverage or other factors regarding a particular asset and/or our capital position.

As of March 31, 2016, the fair value of our investment portfolio, excluding the securitized commercial loan from a consolidated VIE, was comprised of 59.8% of Agency RMBS, 15.8% of Non-Agency RMBS, 1.0% of Agency CMBS, 14.5% of Non-Agency CMBS, 1.7% of other securities and 7.2% of Residential Whole-Loans.

Our Target Assets

We have invested the proceeds of our IPO, concurrent private placements and follow-on public offerings and expect to continue to focus on investing in the following types of securities:

Agency RMBS. - Agency RMBS, which are RMBS for which the principal and interest payments are guaranteed by a U.S. Government agency, such as the Government National Mortgage Association (GNMA or Ginnie Mae), or a U.S. Government-sponsored entity, such as the Federal National Mortgage Association (FNMA or Fannie Mae) or the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). The Agency RMBS we acquire can be secured by fixed-rate mortgages, adjustable-rate mortgages or hybrid adjustable-rate mortgages. Fixed-rate mortgages have interest rates that are fixed for the term of the loan and do not adjust. The interest rates on adjustable-rate mortgages generally adjust annually (although some may adjust more frequently) to an increment over a specified interest rate index. Hybrid adjustable-rate mortgages have interest rates that are fixed for a specified period of time (typically three, five, seven or ten years) and, thereafter, adjust to an increment over a specified interest rate index. Adjustable-rate mortgages and hybrid adjustable-rate mortgages generally have periodic and lifetime constraints on the amount by which the loan interest rate can change on any predetermined interest rate reset date.

Mortgage pass-through certificates. - Mortgage pass-through certificates are securities representing interests in pools of mortgage loans secured by residential real property where payments of both interest and scheduled principal, plus pre-paid principal, on the underlying loan pools are made monthly to holders of the securities, in effect passing through monthly payments made by the individual borrowers on the mortgage loans that underlie the securities, net of fees paid to the issuer/guarantor of the securities and servicers of the underlying mortgages.

Interest-Only Strips or IOs. - This type of security entitles the holder only to payments of interest based on a notional principal balance. The yield to maturity of Interest-Only Strips is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages. We invest in these types of securities primarily to take advantage of particularly attractive prepayment-related or structural opportunities in the MBS markets, as well as to help manage the duration of our overall portfolio.

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Inverse Interest-Only Strips or IIOs. - This type of security has a coupon with an inverse relationship to its index and is subject to caps and floors. Inverse Interest-Only MBS entitles the holder to interest only payments based on a notional principal balance, which is typically equal to a fixed rate of interest on the notional principal balance less a floating rate of interest on the notional principal balance that adjusts according to an index subject to set minimum and maximum rates. The current yield of Inverse Interest-Only MBS will generally decrease when its related index rate increases and increase when its related index rate decreases.

Principal-Only Strips or POs. This type of security generally only entitles the holder to receive cash flows that are derived from principal repayments of an underlying loan pool, but in the case of Non-Agency Principal-Only Strips will also include cash flows from default recoveries and excess interest. The yield to maturity of Principal-Only Strips is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages. We invest in these types of securities primarily to take advantage of structural opportunities in the MBS markets.

TBAs. - We may utilize TBAs, in order to invest in Agency RMBS. Pursuant to these TBAs, we agree to purchase (or deliver), for future settlement, Agency RMBS with certain principal and interest terms and certain underlying collateral, but the particular Agency RMBS to be delivered is not identified until shortly before the TBA settlement date. Our ability to invest in Agency RMBS through TBAs may be limited by the 75% real estate income and asset tests applicable to REITs.

Collateralized Mortgage Obligations or CMOs. These are securities that are structured from residential and/or commercial pass-through certificates, which receive monthly payments of principal and interest. CMOs divide the cash flows which come from the underlying mortgage pass-through certificates into different classes of securities that may have different maturities and different weighted average lives than the underlying pass-through certificates.

Non-Agency RMBS. - RMBS that are not guaranteed by a U.S. Government agency or U.S. Government-sponsored entity, with an emphasis on securities that when originally issued were rated in the highest rating category by one or more of the nationally recognized statistical rating organizations. The mortgage loan collateral for Non-Agency RMBS consists of residential mortgage loans that do not generally conform to underwriting guidelines issued by a U.S. Government agency or U.S. Government-sponsored entity due to certain factors, including mortgage balances in excess of Agency underwriting guidelines, borrower characteristics, loan characteristics and/or level of documentation, and therefore are not issued or guaranteed by a U.S. Government agency or U.S. Government-sponsored entity. The mortgage loan collateral may be classified as subprime, Alternative-A or prime depending on the borrower s credit rating and the underlying level of documentation. Non-Agency RMBS may be secured by fixed-rate mortgages, adjustable-rate mortgages or hybrid adjustable-rate mortgages.

Agency CMBS. - Fixed and floating rate CMBS, for which the principal and interest payments are guaranteed by a U.S. Government agency or U.S. Government-sponsored entity, but for which the underlying mortgage loans are secured by real property other than single family residences. These may include, but are not limited to Fannie Mae DUS (Delegated Underwriting and Servicing) MBS, Freddie Mac Multifamily Mortgage Participation Certificates, Ginnie Mae project loan pools, and/or CMOs structured from such collateral.

Non-Agency CMBS. - Fixed and floating rate CMBS for which the principal and interest payments are not guaranteed by a U.S. Government agency or U.S. Government-sponsored entity. We mainly acquire legacy securities that when originally issued were rated in the highest rating category by one or more of the nationally recognized statistical rating organizations but we have also invested in subordinated debt for which the property (properties) securing the underlying mortgage collateral is located within the U. S. or the European Union. We do not have an established minimum current rating requirement for such investments.

Non U.S. CMBS. - CMBS which is not guaranteed by a U.S. Government agency or U.S. Government-sponsored entity and which is secured by commercial real estate located outside of the U.S. Although our Manager believes that these investments can provide attractive risk-reward opportunities and offer additional asset diversification, investing in international real estate has a number of additional risks, including but not limited to currency risk, political risk and the legal risk of investing in jurisdiction(s) with varying laws and regulations and potential tax implications. See Item 7A: Quantitative and Qualitative Disclosures about Market Risk Foreign Investment Risk and Currency Risk herein.

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Agency and Non-Agency CMBS IO and IIO Securities. Interest-Only and Inverse Interest-Only securities for which the underlying collateral is commercial mortgages the principal and interest on which may or may not be guaranteed by a U.S Government agency or U.S. Government-sponsored entity. Unlike single family residential mortgages in which the borrower, generally, can prepay at any time, commercial mortgages frequently limit the ability of the borrower to prepay, thereby providing a certain level of prepayment protection. Common restrictions include yield maintenance and prepayment penalties, the proceeds of which are generally at least partially allocable to these securities, as well as, defeasance.

Risk Sharing Securities Issued by Fannie Mae and Freddie Mac. - From time to time we have and may in the future continue to invest in risk sharing securities issued by Fannie Mae and Freddie Mac. Principal and interest payments on these securities are based on the performance of a specified pool of Agency residential mortgages. The payments due on these securities, however, are not secured by the referenced mortgages, but are full faith and credit obligations of Fannie Mae or Freddie Mac respectively. Investments in these securities generally are not qualifying assets for purposes of the 75% real estate asset test applicable to REITs and generally do not generate qualifying income for purposes of the 75% real estate income test applicable to REITs. As a result, we may be limited in our ability to invest in such assets.

ABS. - Debt and/or equity tranches of securitizations backed by various asset classes including, but not limited to, aircrafts, automobiles, credit cards, equipment, franchises, recreational vehicles and student loans. Investments in ABS generally are not qualifying assets for purposes of the 75% real estate asset test applicable to REITs and generally do not generate qualifying income for purposes of the 75% real estate income test applicable to REITs. As a result, we may be limited in our ability to invest in such assets.

Residential Whole-Loans. Residential Whole-Loans are mortgages secured by single family residences held directly by us or through structured Non Agency RMBS programs crafted specifically for us and other clients of our Manager. To date our Residential Whole-Loans have been mostly adjustable rate loans that do not qualify for the Consumer Finance Protection Bureau s (or CFPB) safe harbor provision for qualifying mortgages . However, our Manager s review, relating to possible purchases of loans, includes an analysis of the loan originator s procedures and documentation for compliance with Ability to Repay requirements. These loans are held in consolidated trusts with the Company holding the beneficial interest in the trusts. The Company may in the future securitize the whole-loan interests, selling more senior interests in the pool of loans and retaining residual portions. The characteristics of the Company s Residential Whole-Loans may vary going forward.

Commercial Whole-Loans. - Our Manager is also actively exploring opportunities to invest in small balance, $2.5 million to $25.0 million, Commercial Whole-Loans, including commercial mortgages and Small Business Administration or SBA loans secured primarily by real estate. While our Manager has experience in CMBS and we currently invest in Agency and Non-Agency CMBS, as well as, Non U.S. CMBS, investing in Whole-Loans backed or secured by commercial real estate assets involves complex investment, structural, regulatory and accounting issues. Some of these issues are unique to Commercial Whole-Loans as opposed to residential mortgages. Accordingly, there is no assurance of the prevalence such investments will have in our overall portfolio in the future.

Other investments. - In addition to MBS, our principal investment, and ABS from time to time, we may also make other investments in securities, which our Manager believes will assist us in meeting our investment objective and are consistent with our overall investment policies. These investments will normally be limited by the REIT requirements that 75% our assets be real estate assets and that 75% of our income be generated from real estate, thereby limiting our ability to invest in such assets.

Our Financing Strategy

The leverage that we employ is specific to each asset class and is determined based on several factors, including potential asset price volatility, margin requirements, the current cycle for interest rates, the shape of the yield curve, the outlook for interest rates and our ability to use and the effectiveness of interest rate hedges. We analyze both historical volatility and market-driven implied volatility for each asset class in order to determine potential asset price volatility. Our leverage targets attempt to risk-adjust asset classes based on each asset class s potential price volatility. The goal of our leverage strategy is to ensure that, at all times, our investment portfolio s overall leverage ratio is appropriate for the level of risk inherent in the investment portfolio.

We may fund the acquisition of our assets through the use of leverage from a number of financing sources, subject to maintaining our qualification as a REIT. We finance our investments primarily through the use of repurchase agreements.

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. We use leverage to increase potential returns to our stockholders. We currently accomplish this by borrowing against existing investments through repurchase agreements. We may also change our financing strategy and leverage without the consent of our stockholders.

The costs associated with our borrowings are generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase while the yields earned on our existing portfolio of leveraged fixed-rate MBS and other fixed rate securities will remain static. This could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time, as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our assets. If either of these events happens, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

We primarily finance our investments through repurchase agreements for which we pledge our assets. Our pledged assets are currently comprised of Agency RMBS, Non-Agency RMBS, Agency CMBS, Non-Agency CMBS, other securities and Residential Whole-Loans. Our repurchase agreements have maturities generally ranging from one to three months, but in some cases longer. The amount borrowed under our repurchase agreements is a specified percentage of the asset s fair value, which is dependent on the collateral type. The portion of the pledged collateral held by the counterparty in excess of the amount borrowed under the repurchase agreement is the margin requirement for that borrowing. Repurchase agreements involve the transfer of the pledged collateral to a counterparty at an agreed upon price in exchange for such counterparty s simultaneous agreement to return the same security back to the borrower at a future date (i.e., the maturity of the borrowing). Under our repurchase agreements, we retain beneficial ownership of the pledged collateral, while the counterparty maintains custody of such collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, we are required to repay the loan, including any accrued interest, and concurrently reacquire custody of the pledged collateral or, with the consent of the counterparty, we may renew the repurchase financing at the then prevailing market interest rate and terms. Margin calls from counterparties are routinely experienced by us when the fair value of our existing pledged collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. As a result, the counterparty will require that we pledge additional securities and/or cash as collateral to secure our borrowings under repurchase financing. In certain circumstances, we also may make margin calls on our counterparties when collateral values increase. As of March 31 2016, we had $19.5 million of cash collateral held by our repurchase agreement counterparties and we have satisfied all of our margin calls.

We expect to maintain a debt to equity ratio of three to ten times the amount of our stockholders equity, although there is no stated minimum or maximum leverage in our investment policies. To the extent the Agency MBS percentage of our portfolio decreases, our overall leverage is likely to decrease. Depending on the different cost of borrowing funds at different maturities, we will vary the maturities of our borrowed funds to attempt to produce lower borrowing costs and reduce interest rate risk. Generally, we enter into collateralized borrowings only with institutions that are rated investment grade by at least one nationally-recognized statistical rating organization. We rely on financing to acquire, on a leveraged basis, assets in which we invest. If market conditions deteriorate, our counterparties may exit the repurchase market, and tighten lending standards, or increase the amount of equity capital required to obtain financing thereby making it more difficult and costly for us to obtain financing. In the future, we may be limited or restricted in the amount of leverage we may employ by the terms and provisions of any financing or other agreements.

Our Hedging Strategy

Subject to maintaining our qualification as a REIT for U.S. federal income purposes, we pursue various economic hedging strategies in an effort to reduce our exposure to adverse changes in interest rates and, to a more limited extent, foreign currency. The U.S. federal income tax rules applicable to REITs may require us to implement certain of these techniques through a domestic TRS that is fully subject to federal, state and local corporate income taxation.

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Our hedging activity varies in scope based on the level and volatility of interest rates, the type of assets held, including currency denomination and other changing market conditions. The majority of swaps we entered into are designed to mitigate the effects of increases in interest rates under a portion of our repurchase agreements. These swaps generally provide for fixed interest rates indexed off of the London interbank offered rate or LIBOR and effectively fix the floating interest rates. Notwithstanding the foregoing, in order to manage our hedge position with regard to our liabilities, we on occasion will enter into interest rate swaps which involve the receipt of fixed-rate amounts from counterparty in exchange for us making variable-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. We also enter into compression trades that enable us to terminate substantial amounts of swap contracts before they expire by their terms, when there has been substantial two-way (pay and receive) swap activity. These compression trades reduce the number of interest rate swaps outstanding. In addition to simplifying, our balance sheet, by reducing the number of interest rate swaps outstanding, we are frequently able to reduce the amount of margin required to carry such positions.

We utilize forward starting swaps and swaptions for several reasons including replacing expiring swaps, in anticipation of increasing our overall financing and reducing our exposure to future interest rate increases. Interest rate swaptions provide us the option to enter into an interest rate swap agreement for a predetermined notional amount, stated term and set pay and receive interest rates in the future.

We utilize foreign currency swaps, agreeing to pay a fixed amount of non U.S. currency such as the euro in exchange for a fixed amount of U.S. dollars as well as currency forwards. We entered into the currency swaps and forwards in order to hedge our exposure to foreign currency with respect to Non U.S. CMBS investments and the corresponding repurchase financings utilized to make such investments.

In order to enable us to maintain compliance with the REIT requirements, we have generally elected to treat the aforementioned derivative instruments as hedges for U.S. federal tax purposes. To date, however, we have not elected to apply hedge accounting for financial statement reporting purposes for our derivative instruments. As a result, we record the change in fair value of our derivatives and the associated interest and currency exchange in earnings. Additionally, we may enter into hedging transactions in the form of puts and calls or other financial instruments that we deem appropriate.

Our interest rate hedging techniques are partly based on assumed levels of prepayments of our target assets. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which would reduce the effectiveness of any of the interest rate hedging strategies we may use and may cause losses on such transactions. Hedging strategies, both interest rate and foreign currency, involve the use of derivative securities which are highly complex and may produce volatile returns.

We may invest in equity index derivatives such as futures, options on futures and options on indices. These instruments are used normally to hedge interest rate movements as well as credit risks and other risks associated with our portfolio which may be impacted by volatility in the equity markets. Tax and other regulatory rules may limit our overall ability to use these instruments even through a TRS. Investing in these instruments introduces equity market risks into the management of the portfolio although as noted above our Manager uses them for the purpose of hedging our overall interest rate risk. These hedging strategies involving equity index products may not be successful, and may expose us to additional losses, if expected correlations between such risks and the equity markets do not occur. The goal of our hedging strategy is to ensure that, at all times, we are appropriately hedged in accordance with the REIT requirements for the level of interest rate and currency risk inherent in our investment portfolio.

Critical Accounting Policies

The consolidated financial statements include our accounts, those of our consolidated subsidiary, our wholly-owned TRS and certain variable interest entities (VIEs) in which we are the primary beneficiary. All intercompany amounts have been eliminated in consolidation. In accordance with GAAP, our consolidated financial statements require the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. In accordance with SEC guidance, the following discussion addresses the accounting policies that we currently apply. Our most critical accounting policies will involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our consolidated financial statements have been based were reasonable at the time made and based upon information available to us at that time. We have identified what we believe will be our most critical accounting policies to be the following:

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Fair value option

We elected the fair value option for all of our investments at the date of purchase and for our securitized debt, which permits us to measure these investments and securitized debt at fair value with the change in fair value included as a component of earnings. Although we have elected the fair value option for our investments and securitized debt, we separately compute interest income on our MBS, other securities and Whole-Loans under the prescribed method based on the nature of the investment.

Valuation of financial instruments

We disclose the fair value of our financial instruments according to a fair value hierarchy (Levels I, II, and III, as defined below). In accordance with GAAP, we are required to provide enhanced disclosures regarding instruments in the Level III category (which require significant management judgment), including a separate reconciliation of the beginning and ending balances for each major category of assets and liabilities. GAAP establishes a framework for measuring fair value in accordance with GAAP and expands financial statement disclosure requirements for fair value measurements. GAAP further specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level I Quoted prices in active markets for identical assets or liabilities.

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

Level III Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

When available, we use quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, we will use independent pricing services and if the independent pricing service cannot price a particular asset or liability, we will obtain third party broker quotes. Our Manager s pricing group, which functions independently from its portfolio management personnel, corroborates the third party broker quote by comparing the broker price to alternate sources or using internal valuation techniques. If independent pricing service, or third party broker quotes are not available, we determine the fair value of the securities using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and when applicable, estimates of prepayments and credit losses.

Fair value under GAAP represents an exit price in the normal course of business, not a forced liquidation price. If we are forced to sell assets in a short period to meet liquidity needs, the prices we receive could be substantially less than the recorded fair values of our assets.

We perform quarterly reviews of the independent third party pricing data which may consist of a review of the daily change in the prices provided by the independent pricing vendor that exceed established tolerances or comparisons to executed transaction prices, utilizing our Manager s pricing group. Our Manager s pricing group corroborates the price differences or changes in price by comparing the vendor price to alternate sources including other independent pricing services or broker quotations. If the price change or difference cannot be corroborated, the Manager s pricing group consults with the portfolio management team for market color in reviewing such pricing data as warranted. To the extent that our Manager has information, typically in the form of broker quotations that would indicate that a price received from the independent pricing service is outside of a tolerance range, our Manager generally challenges the independent pricing service price.

Interest income recognition and Impairment

Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase

Interest income on mortgage-backed and other securities is accrued based on the respective outstanding principal balances and corresponding contractual terms. Premiums and discounts associated with Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, are amortized into interest income over the estimated life of such securities using the effective yield method. Adjustments to premium and discount amortization are made for actual prepayment activity. We estimate prepayments at least quarterly for our securities, and as a result, if prepayments increase (or are expected to increase), we will accelerate the rate of amortization on premiums or discounts and make a retrospective adjustment to historical amortization. Alternatively, if prepayments decrease (or are expected to decrease) we will reduce the rate of amortization on the premiums or discounts and make a retrospective adjustment to historical amortization.

We assess our Agency MBS, Non-Agency MBS and other securities, excluding Interest-Only Strips, rated AA and higher at the time of purchase, for other-than-temporary impairment on at least a quarterly basis. When the fair value of an investment is less than its amortized cost at the balance sheet date of the reporting period for which impairment is assessed, the impairment is designated as either temporary or other-than-temporary. In deciding on whether or not a security is other-than-temporarily impaired, we consider several factors, including the nature of the investment, communications (if any) from the securitization trustee regarding the credit quality of the security, the severity and duration of the impairment, the cause of the impairment, and our intent not to sell the security and whether it is more likely than not that we will not be required to sell the security until recovery of its amortized cost basis. An other-than-temporary impairment (OTTI) is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in our Consolidated Statement of Operations.

The determination as to whether an other-than-temporary impairment exists is subject to management estimates based on consideration of both factual information available at the time of assessment as well as our estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of an other-than-temporary impairment constitutes an accounting estimate that may change materially over time.

Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives

Interest income on Non-Agency MBS and other securities that are rated below AA at the time of purchase and Interest-Only Strips that are not classified as derivatives, are recognized based on the effective yield method. The effective yield on these securities is based on the projected cash flows from each security, which is estimated based on our observation of the then current information and events, where applicable, and will include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections based on input and analysis received from external sources, internal models, and our judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Where appropriate, we may include in our cash flow projections the U.S Department of Justice s settlements with major residential mortgage originators, regarding certain lending practices. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on such securities. Actual maturities of the securities are affected by the contractual lives of the underlying collateral, periodic payments of scheduled principal, and prepayments of principal. Therefore, actual maturities of the securities will generally be shorter than stated contractual maturities.

Based on the projected cash flow of such securities purchased at a discount to par value, we may designate a portion of such purchase discount as credit protection against future credit losses and, therefore, not accrete such amount into interest income. The amount designated as credit discount 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 with a credit discount is more favorable than forecasted, a portion of the amount designated as credit discount may be accreted into interest income prospectively.

In addition, an other-than-temporary impairment is deemed to have occurred when there is an adverse change in the expected cash flows (principal or interest) to be received and the fair value of the security is less than its carrying amount. In determining whether an adverse change in cash flows occurred, the present value of the remaining cash flows, as estimated at the initial transaction date (or the last date previously revised), is compared to the present value of the expected cash flows at the current reporting date. The estimated cash flows reflect those a market participant would use and are discounted at a rate equal to the current yield used to accrete interest income. These adjustments are reflected in our Consolidated Statements of Operations.

Securities denominated in a foreign currency contain additional risk in that the amortized cost basis for those securities may not be recovered due to declines in currency exchange rates. We consider the length of time that the security s fair value has declined due to the decline in foreign exchange rates, when assessing other-than temporary impairment.

The determination as to whether an other-than-temporary impairment exists is subject to management estimates based on consideration of both factual information available at the time of assessment as well as our estimates of the future performance and projected amount and timing of cash flows expected to be collected on the security. As a result, the timing and amount of an other-than-temporary impairment constitutes an accounting estimate that may change materially over time.

Finally, certain of our MBS and other securities that are in an unrealized loss position at the end of the reporting period are not considered other-than-temporarily impaired because we have no intent to sell these investments, it is more likely than not that we will not be required to sell the investment before recovery of its amortized cost basis and we are not required to sell the security for regulatory or other reasons.

Residential and Commercial Loans

We record our purchases of residential and commercial loans as the amount paid to the seller plus any fees paid or less any fees received. All other costs incurred in connection with acquiring residential and commercial loans or committing to purchase residential and commercial loans are expensed as incurred. We amortize or accrete any premium or discount over the life of the related loan utilizing the effective interest method, based on the contractual payments terms of the loan. On at least a quarterly basis, we evaluate the collectability of both interest and principal of each loan, if circumstances warrant, to determine whether such loan is impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, we do not record a loss accrual as we have elected the fair value option. However, income recognition is suspended for loans at the earlier of the date at which payments become 90-days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful. When the ultimate collectability of the principal of an impaired loan is in doubt, all payments are applied to principal under the cost recovery method. When the ultimate collectability of the principal of an impaired loan is not in doubt, contractual interest is recorded as interest income when received, under the cash basis method until an accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or legally discharged.

Variable Interest Entities (VIEs)

VIEs are defined as entities that by design either lack sufficient equity for the entity to finance its activities without additional subordinated financial support or are unable to direct the entity s activities or are not exposed to the entity s losses or entitled to its residual returns. We evaluate all of our interests in VIEs for consolidation. When the interests are determined to be variable interests, we assess whether we are deemed the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that has both the power to direct the activities of a VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE s economic performance, we consider all facts and circumstances, including its role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE s economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers is deemed to have the power to direct the activities of a VIE.

To assess whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, we consider all of its economic interests. This assessment requires that we apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE s capital structure; and the reasons why the interests are held by us.

In instances when a VIE is owned by both us and related parties, we consider whether there is a single party in the related party group that meets both the power and losses or benefits criteria on its own as though no related party relationship existed. If one party within the related party group meets both these criteria, such reporting entity is the primary beneficiary of the VIE and no further analysis is needed. If no party within the related party group on its own meets both the power and losses or benefits criteria, but the related party group does as a whole meets these two criteria, the determination of primary beneficiary within the related party group is based upon an analysis of the facts and circumstances with the objective of determining which party is most closely associated with the VIE. Determining the primary beneficiary within the related party group requires significant judgement.

In instances when we are required to consolidate a VIE that is determined to be a qualifying collateralized financing entity, under GAAP, we will measure both the financial assets and financial liabilities of the VIE using the fair value of either the VIE s financial assets or financial liabilities, whichever is more observable.

Ongoing assessments of whether an enterprise is the primary beneficiary of a VIE is required.

Derivatives and hedging activities

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes, we utilize derivative financial instruments, including interest rate swaps, interest rate swaptions, mortgage put options, currency forwards, futures contracts, total return swaps, TBAs and Agency and Non-Agency Interest-Only Strips to hedge the interest rate and currency risk associated with our portfolio and related borrowings. We have also entered into credit derivatives such as total return swaps. The total return swap will allow us to receive the total economic return on a referenced asset without actually buying the asset. Derivatives, subject to REIT requirements, are used for hedging purposes rather than speculation. We determine their fair value of our derivative positions and obtain quotations from third parties, including the Chicago Mercantile Exchange or CME, to facilitate the process of determining such fair values. If our hedging activities do not achieve the desired results, reported earnings may be adversely affected.

GAAP requires an entity to recognize all derivatives as either assets or liabilities and to measure those instruments at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives are classified as either hedges of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or hedges of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). If we do not elect hedge accounting for a derivative instrument, which we have not, fair value adjustments are recorded in earnings immediately.

We elected not to apply hedge accounting for our derivative instruments. Accordingly, we record the change in fair value of our derivative instruments, which includes net interest rate swap payments (including accrued amounts) and net currency payments (including accrued amounts) related to interest rate swaps and currency swaps, respectively, in Gain (loss) on derivative instruments, net in our Consolidated Statements of Operations. In our Consolidated Statements of Cash Flows, premiums received and paid on termination of our interest rate swaps, excluding interest rate swaps containing an other-than-insignificant financing element and the unamortized premium of market agreed coupon (MAC) interest rate swaps, are included in cash flows from operating activities. Alternatively, proceeds and payments on settlement of swaptions, mortgage put options, futures contracts and TBAs are included in cash flows from investing activities. Proceeds and payments on settlement of forward contracts are reflected in cash flows from financing activities in our Consolidated Statement of Cash Flows. While payments made at the time of entering MAC interest rate swaps are included in cash flows from investing activities, payments received by us upon entering MAC interest rate swaps are included in either cash flows from investing activities or cash flows financing activities, depending on whether or not the derivative instrument includes an other-than-insignificant financing element. For MAC interest rate swaps containing an other-than-insignificant financing element, all cash flows over the life of the derivative are treated as cash flows from financing activities. Return and recovery of basis activity for MAC interest rate swaps is included in cash flows from investing activities for swaps not containing an other-than-insignificant financing element in our Consolidated Statement of Cash Flows. For Agency and Non-Agency Interest-Only Strips accounted for as derivatives, the purchase, sale and recovery of basis activity is included with MBS and other securities under cash flows from investing activities in our Consolidated Statement of Cash Flows.

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We evaluate the terms and conditions of our holdings of Agency and Non-Agency Interest-Only Strips, interest rate swaptions, currency forwards, futures contracts, total return swaps and TBAs to determine if these instruments have the characteristics of an investment or should be considered a derivative under GAAP. In determining the classification of our holdings of Interest-Only Strips, we evaluate the securities to determine if the nature of the cash flows has been altered from that of the underlying mortgage collateral. Generally, Interest-Only Strips for which the security represents a strip off of a mortgage pass through security will be considered a hybrid instrument classified as a MBS investment on our Consolidated Balance Sheets utilizing the fair value option. Alternatively, those Interest-Only Strips, for which the underlying mortgage collateral has been included into a structured security that alters the cash flows from the underlying mortgage collateral, are accounted for as derivatives at fair value. Accordingly, Agency and Non-Agency Interest-Only Strips, interest rate swaptions, currency forwards, futures contracts, total return swaps and TBAs having the characteristics of derivatives are accounted for at fair value with such changes recognized in Gain (loss) on derivative instruments, net in our Consolidated Statements of Operations, along with any interest earned or paid (including accrued amounts). The carrying value of the Agency and Non-Agency Interest-Only Strips, accounted for as derivatives, is included in Mortgage-backed securities in the Consolidated Balance Sheets. The carrying value of interest rate swaptions, currency forwards, futures contracts, total return swaps and TBAs is included in Derivative assets or Derivative liabilities in the Consolidated Balance Sheets.

We evaluate all of our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. An embedded derivative is separated from the host contact and accounted for separately when all of the guidance criteria are met. Hybrid instruments that are remeasured at fair value through earnings, including the fair value option, are not bifurcated. Derivative instruments, including derivative instruments accounted for as liabilities are recorded at fair value and are re-valued at each reporting date, with changes in the fair value together with interest earned or paid (including accrued amounts) reported in the Gain (loss) on derivative instruments, net in our Consolidated Statements of Operations.

Accounting standards applicable to emerging growth companies

The JOBS Act contains provisions that relax certain requirements for emerging growth companies for which we qualify. For as long as we are an emerging growth company, which may be up to five full fiscal years, unlike other public companies, we will not be required to: (i) comply with any new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies under Section 102(b)(1) of the JOBS Act; (ii) provide an auditor s attestation report on management s assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act; (iii) comply with any new requirements adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor s report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer; or (iv) comply with any new audit rules adopted by the PCAOB after April 5, 2012 unless the SEC determines otherwise. We currently take advantage of some of these exemptions. Our qualification for remaining an emerging growth company under the five full fiscal years expires on December 31, 2017. However, we will no longer qualify for such exemption if our gross revenue for any year equals or exceeds $1.0 billion or more, we issue more than $1.0 billion in non-convertible debt during the three previous years, or if we are deemed to be a large accelerated filer.

As noted above, under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards that have different effective dates for public and private companies until such time as those standards apply to private companies. We currently take advantage of such extended transition period. Since we are not required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies, our financial statements may not be comparable to the consolidated financial statements of companies that comply with public company effective dates. If we were to elect to comply with these public company effective dates, such election would be irrevocable pursuant to Section 107 of the JOBS Act.

Recent accounting pronouncements

Accounting Standards to be Adopted in Future Periods

In May 2014, the Financial Accounting Standards Board issued guidance that changes an entity s recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new guidance requires improved disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In applying the new guidance, an entity may use either a retrospective approach to each prior reporting period of or a retrospective approach with the cumulative effect recognized at the date of initial application. For a public company, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted for a public entity. With certain restrictions, a nonpublic entity may elect to apply the guidance earlier. The new guidance is not expected to have a material impact on our consolidated financial statements.

In August 2014, the Financial Accounting Standards Board issued guidance that will require an entity s management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. According to the new guidance, substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued. The term probable is used consistently with its current use in U.S. GAAP for loss contingencies. Disclosures will be required if conditions give rise to substantial doubt about the entity s ability to continue as a going concern, including whether management s plans that are intended to mitigate those conditions will alleviate the substantial doubt when implemented. The guidance is effective for annual periods ending after December 15, 2016. The effective date is the same for both public companies and all other entities. Early application is permitted. We have not elected to early adopt this guidance. Our first assessment under the new guidance will be completed for the year ending December 31, 2016.

In January 2016, the FASB issued guidance to improve certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for a public company for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The standard is effective for other entities for fiscal years beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. Early adoption by public companies for fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of this guidance are permitted as of the beginning of the fiscal year of adoption, under certain restrictions. The Company should apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The guidance related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist at the date of adoption. We are currently assessing the impact this guidance will have on our consolidated financial statements.

In March 2016, the Financial Accounting Standards Board issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee s shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. For a public company, the standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. For all other entities, the standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. We are currently assessing the impact this guidance will have on our consolidated financial statements.

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Investments

Our Current Investment Portfolio

The following table presents certain information about our investment portfolio at March 31, 2016 (dollars in thousands):

	Principal Balance	Unamortized Premium (Discount)	Discount Designated as Credit Reserve and OTTI	Amortized Cost	Unrealized Gain (Loss)	Fair Value	Net Weighted Average Coupon (1)
Agency RMBS							
20-Year mortgage							
Coupon Rate:							
3.50%	141,528	7,537		149,065	1,139	150,204	3.5%
4.00%	409,710	22,349		432,059	10,310	442,369	4.0%
	551,238	29,886		581,124	11,449	592,573	3.9%
30-Year mortgage							
Coupon Rate:							
3.50%	232,281	12,282		244,563	(562)	244,001	3.5%
4.00%	276,345	23,522		299,867	(587)	299,280	4.0%
4.50%	356,729	25,489		382,218	12,808	395,026	4.5%
5.00%	56,544	6,893		63,437	726	64,163	5.0%
5.50%	2,674	402		3,076	(77)	2,999	5.5%
6.00%	2,564	290		2,854	113	2,967	6.0%
	927,137	68,878		996,015	12,421	1,008,436	4.1%
Agency RMBS IOs and IIOs(2)	N/A	N/A		32,264	407	32,671	2.8%
Agency RMBS IOs and IIOs accounted for as derivatives (2)(3)	N/A	N/A	N/A	N/A	N/A	35,165	3.5%
	N/A	N/A		32,264	407	67,836	3.2%
Agency CMBS	17,478			17,478	(747)	16,731	5.1%
Agency CMBS Interest-Only Strips(2)	N/A	N/A	N/A	1,486	166	1,652	4.6%
Agency CMBS IOs and IIOs accounted for as derivatives (2)(3)	N/A	N/A	N/A	N/A	N/A	9,848	0.7%
	17,478			18,964	(581)	28,231	1.5%
Non-Agency RMBS	482,117	(26,376)	(106,562)	349,179	5,120	354,299	3.8%
Non-Agency RMBS IOs and IIOs(2)	N/A	N/A	N/A	63,580	20,961	84,541	5.9%
Non-Agency RMBS IOs and IIOs accounted for as derivatives (2)(3)	N/A	N/A	N/A	N/A	N/A	3,982	4.9%
	482,117	(26,376)	(106,562)	412,759	26,081	442,822	4.6%
Non-Agency CMBS, including Non U.S.	520,842	(73,237)	(9,585)	438,020	(32,499)	405,521	5.0%
Other securities(4)	30,897	(876)	(1,943)	50,031	(2,032)	47,999	6.4%
Residential Whole-Loans	195,425	1,654		197,079	4,188	201,267	4.8%
Securitized commercial loan	25,000			25,000	(1,325)	23,675	9.0%

Total	$ 2,750,134	$ (71)	$ (118,090)	2,751,256	$ 18,109	2,818,360	4.0%

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(1) Net weighted average coupon as of March 31, 2016 is presented net of servicing and other fees.

(2) IOs and IIOs have no principal balances and bear interest based on a notional balance. The notional balance is used solely to determine interest distributions on interest-only class of securities. At March 31, 2016, the notional balance for Agency RMBS IOs and IIOs, Agency RMBS IOs and IIOs accounted for as derivatives, Non-Agency RMBS IOs and IIOs, Non-Agency RMBS IOs and IIOs accounted for as derivatives, Agency CMBS IOs and IIOs, and Agency CMBS IOs and IIOs accounted for as derivatives was $337.4 million, $342.9 million, $309.0 million, $24.2 million, $42.6 million and $235.7 million, respectively.

(3) Interest on these securities is reported as a component of Gain (loss) on derivative instruments, net.

(4) Other securities include residual interests in asset-backed securities which have no principal balance and an amortized cost of approximately $22.0 million.

The following table summarizes our MBS and other securities at fair value according to their estimated weighted average life classifications as of March 31, 2016 (dollars in thousands):

Weighted Average Life	**Fair Value**	**Net Weighted Average Coupon(1)**
Less than or equal to three years	$ 67,656	5.1%
Greater than three years and less than or equal to five years	693,558	3.8%
Greater than five years and less than or equal to 10 years	1,558,748	3.7%
Greater than 10 years	273,456	4.7%
Total	$ 2,593,418	4.0%

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(1) Net weighted average coupon as of March 31, 2016 is presented net of servicing and other fees.

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Our Agency Portfolio

The following table summarizes certain characteristics of our Agency portfolio by issuer and investment category as of March 31, 2016 (dollars in thousands):

	Principal Balance	Amortized Cost	Fair Value	Net Weighted Average Coupon (1)
Agency RMBS 20-Year and 30-Year				
Fannie Mae	$ 1,071,446	$ 1,147,033	$ 1,164,193	4.1%
Freddie Mac	406,929	430,106	436,816	3.9
Total Agency RMBS 20-Year and 30-Year	1,478,375	1,577,139	1,601,009	4.0
Agency RMBS IOs and IIOs**(2)**				
Fannie Mae	N/A	9,472	10,183	3.1
Freddie Mac	N/A	16,079	15,729	2.6
Ginnie Mae	N/A	6,713	6,759	3.1
Total Agency RMBS IOs and IIOs**(2)**	N/A	32,264	32,671	2.8
Agency RMBS IOs and IIOs accounted for as derivatives**(2)**				
Fannie Mae	N/A	N/A	14,640	2.9
Freddie Mac	N/A	N/A	3,697	3.5
Ginnie Mae	N/A	N/A	16,828	4.1
Total Agency RMBS IOs and IIOs accounted for as derivatives **(2)**	N/A	N/A	35,165	3.5
Total: Agency RMBS	1,478,375	1,609,403	1,668,845	3.8
Agency CMBS				
Freddie Mac	17,478	17,478	16,731	3.9
Agency CMBS IOs and IIOs**(2)**				
Fannie Mae	N/A	1,486	1,652	3.9
Agency CMBS IOs and IIOs accounted for as derivatives**(2)**				
Ginnie Mae	N/A	N/A	9,848	0.7
Total: Agency CMBS	17,478	18,964	28,231	1.5
Total	$ 1,495,853	$ 1,628,367	$ 1,697,076	3.5%

(1) Net weighted average coupon as of March 31, 2016 is presented net of servicing and other fees.

(2) IOs and IIOs have no principal balances and bear interest based on a notional balance. The notional balance is used solely to determine interest distributions on the interest-only class of securities.

The following table details the constant prepayment rates for our Agency portfolio as of March 31, 2016, based on our Manager s estimates which are based on third party models, as adjusted by our Manager, and are updated quarterly on a prospective basis:

Constant Prepayment Rates	**Low**	**High**
Agency RMBS		
20-Year mortgage	8.00%	21.77%
30-Year mortgage	6.91%	28.49%
Agency RMBS IOs and IIOs	10.30%	27.37%
Agency RMBS IOs and IIOs accounted for as derivatives	6.06%	28.53%
Agency CMBS and Agency CMBS IOs and IIOs(1)	N/A	N/A
Agency CMBS IOs accounted for as derivatives(1)	N/A	N/A

(1) CMBS generally include prepayment restrictions; therefore, there are no Constant Prepayment Rates available.

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Our Non-Agency Portfolio

The following table presents the fair value and weighted average purchase price for each of our Non-agency RMBS categories, including IOs accounted for as derivatives, together with certain of their respective underlying loan collateral attributes and current performance metrics as of March 31, 2016 (fair value dollars in thousands):

		Weighted Average					
Category	Fair Value	Purchase Price	Life (Years)	Original LTV	Original FICO	60+ Day Delinquent	6-Month CPR
Prime	$ 67,532	$ 70.17	11.4	64.2%	721	15.8%	12.8%
Alt-A	318,652	77.35	11.7	68.6%	702	20.7%	11.7%
Subprime	56,638	61.37	12.3	71.0%	627	22.4%	8.2%
Total	$ 442,822	$ 74.21	11.7	68.2%	696	20.1%	11.4%

The following table presents certain characteristics of our Non-Agency CMBS portfolio as of March 31, 2016 (dollars in thousands):

				Weighted Average	
Type	Vintage	Principal Balance	Fair Value	Life (Years)	Original LTV
Conduit:					
	2006-2009	$ 279,518	$ 246,187	3.9	74.7%
	2010-2015	177,245	105,681	8.8	64.0%
		456,763	351,868	5.3	71.5%
Single Asset:					
	2010-2015	64,079	53,653	6.5	69.8%
Total		$ 520,842	$ 405,521	5.5	71.3%

The following table summarizes the credit ratings of our Non-agency RMBS, Non-agency CMBS and other securities based on fair value as of March 31, 2016:

Non-Agency RMBS Credit Rating (1)	Percentage	Non-Agency CMBS Credit Rating(1)	Percentage	Other Securities Credit Rating(1)	Percentage
BBB	0.2%	BBB	%	BBB	%
BBB-	%	BBB-	0.9%	BBB-	%
BB	%	BB	6.0%	BB	%
BB-	%	BB-	5.2%	BB-	%
B+	%	B+	2.1%	B+	%
B	%	B	14.4%	B	%
B-	2.6%	B-	10.2%	B-	%
Below B	80.2%	Below B	42.0%	Below B	19.4%
Not Rated	17.0%	Not Rated	19.2%	Not Rated	80.6%
Total	100.0%	Total	100.0%	Total	100.0%

(1) For securities for which one or two ratings are obtained, the lower rating is used. For securities for which three ratings are obtained, the middle rating is used. Ratings are obtained either from S&P or other rating agencies, stated in terms of the S&P equivalent.

The following table details information for our Non-Agency and other securities portfolio as of March 31, 2016, based on our Manager s estimates which are based on third party models, as adjusted by our Manager, and are updated quarterly on a prospective basis:

	Cumulative Default		Cumulative Severity		Cumulative 5-Year CRR (1)	
	Low	**High**	**Low**	**High**	**Low**	**High**
Non-Agency RMBS	3.50%	44.90%	20.00%	84.83%	2.77%	13.32%
Non-Agency RMBS IOs and IIOs	6.50%	40.60%	20.00%	67.63%	5.44%	10.87%
Non-Agency RMBS IOS and IIOs accounted for as derivatives	3.50%	9.96%	20.00%	52.31%	6.50%	12.64%
Non-Agency CMBS	N/A	N/A	N/A			