LOEWS CORP
Form 424B5
May 11, 2006
Table of Contents

Filed pursuant to Rule 424(B)(5)

Registration No. 333-132334

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 10, 2006

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated March 10, 2006)

15,000,000 Shares

Loews Corporation

Carolina Group Stock

Loews Corporation is offering 15,000,000 shares of Carolina Group stock by this prospectus supplement. Carolina Group stock is a separate class of Loews Corporation common stock designed to track the performance of the Carolina Group, which consists of Loews s ownership interest in its wholly-owned subsidiary, Lorillard, Inc., together with the notional, intergroup debt and certain other liabilities described in the accompanying prospectus. Holders of Carolina Group stock are common stockholders of Loews and subject to all the risks of an equity investment in Loews and all of its businesses, assets and liabilities.

On May 10, 2006, the last reported sale price of Carolina Group stock on the New York Stock Exchange was $52.55.

Investing in Carolina Group stock involves risks. See Risk Factors Risks Relating to an Investment in Our Carolina Group Stock and Risk Factors Risks Relating to Us and Our Subsidiary, Lorillard, Inc. beginning on pages 26 and 38, respectively, of our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated herein by reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Loews, before expenses	$	$

The underwriter expects to deliver the Carolina Group stock against payment in New York, New York on or about May , 2006.

UBS Investment Bank

Prospectus Supplement dated , 2006

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

All references to Loews, we, our, or us in this prospectus supplement or the accompanying prospectus are to Loews Corporation. All references to Lorillard are to Lorillard, Inc. and its subsidiaries.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters. The second part, the prospectus, gives more general information about securities we may offer from time to time, some of which does not apply to the Carolina Group stock we are offering. Generally, when we refer to the prospectus, we are referring to both parts of this document combined. To the extent the description of the Carolina Group stock in this prospectus supplement differs from the description of Carolina Group stock in the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus. We and the underwriter have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. The information which appears in this prospectus supplement, the accompanying prospectus and any document incorporated by reference may only be accurate as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since the date of such information.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any reports or other information that we file with the SEC at the SEC s Public Reference Room located at Station Place, 100 F Street, N.E., Washington D.C. 20549. You may also receive copies of these documents upon payment of a duplicating fee, by writing to the SEC s Public Reference Room. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room in Washington D.C. and other locations. Our SEC filings are also available to the public from commercial documents retrieval services, at our website (www.loews.com) and at the SEC s website (www.sec.gov). Information on our website is not incorporated into this prospectus or our other SEC filings and is not a part of this prospectus or those filings.

The SEC allows us to incorporate by reference the information that we file with them into this prospectus. This means that we can disclose important information to you by referring you to other documents filed separately with the SEC, including our annual, quarterly and current reports. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is modified or superseded by information contained in this prospectus or any other subsequently filed document. The information incorporated by reference is an important part of this prospectus and any accompanying prospectus supplement. All documents filed (but not those that are furnished) by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the initial filing of the registration statement, whether before or after it is declared effective, and prior to the termination of the offering of the securities will be incorporated by reference into this prospectus and will automatically update and supersede the information in this prospectus, any accompanying prospectus supplement and any previously filed document.

The following documents have been filed by us with the SEC (File No. 1-6541) and are incorporated by reference into this prospectus:

1. Annual Report on Form 10-K for the year ended December 31, 2005;

2. Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006;

3. Current Reports on Form 8-K, dated January 11, 2006, January 31, 2006, February 16, 2006 (other than items 2.02 and 9.01, which are furnished and not incorporated herein by reference), March 3, 2006, March 8, 2006, April 4, 2006 and April 11, 2006 ; and

Table of Contents

4. The description of the Carolina Group stock contained in our Registration Statement on Form 8-A filed on January 28, 2002, and any amendment or report filed thereafter for the purposes of updating such information.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated herein by reference (other than exhibits unless such exhibits are specifically incorporated by reference in such documents). Requests for such documents should be directed to Loews Corporation, 667 Madison Avenue, New York, N.Y. 10021-8087, Attention: Corporate Secretary (telephone: (212) 521-2000).

Table of Contents

THE CAROLINA GROUP

Loews has two classes of common stock: Loews common stock and Carolina Group stock. Holders of Loews common stock and of Carolina Group stock are shareholders of Loews Corporation. The Carolina Group stock, commonly called a tracking stock, is designed to reflect the economic performance of a defined group of assets and liabilities of Loews referred to as the Carolina Group.

The assets and liabilities attributed to the Carolina Group are Loews s 100% stock ownership interest in Lorillard, Inc., together with the notional, intergroup debt and certain other liabilities. The Loews Group consists of all of Loews s assets and liabilities other than the approximately 45% economic interest represented by the outstanding Carolina Group stock, and includes as an asset the notional, intergroup debt of the Carolina Group. See Description of Loews Capital Stock Carolina Group Stock in the accompanying prospectus.

Lorillard is engaged through its subsidiaries in the production and sale of cigarettes in the United States, including Puerto Rico and certain U.S. territories. Lorillard became a wholly owned subsidiary of Loews in 1971.

THE OFFERING

Carolina Group stock offered	15,000,000 shares (representing 8.6% of the economic interest in the Carolina Group).
Carolina Group stock to be outstanding after this offering	After this offering there will be 93,286,746 shares of Carolina Group stock outstanding, representing 53.7% of the economic interest in the Carolina Group, and the Loews Group will hold a 46.3% economic interest in the Carolina Group.
Use of proceeds	The net proceeds from this offering, estimated to be approximately $ million (before giving effect to expenses associated with this offering), will be allocated to the Loews Group and used for its general corporate purposes.

S-4

Table of Contents

CERTAIN U.S. FEDERAL TAX CONSEQUENCES

In the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, or Skadden Arps, our counsel, subject to the discussion below, for U.S. federal income tax purposes, the Carolina Group stock will be considered to be stock of Loews. Accordingly, for U.S. federal income tax purposes, the issuance of Carolina Group stock will not be taxable to Loews, holders of Loews common stock or holders of Carolina Group stock.

The foregoing conclusions are not entirely free from doubt, as there are no court decisions or other authorities bearing directly on the classification of instruments with characteristics similar to those of the Carolina Group stock. In addition, the Internal Revenue Service, or IRS, has announced that it will not issue advance rulings on the classification of tracking stocks. Accordingly, while Skadden Arps believes that, under current law, the Carolina Group stock will be treated as stock of Loews, it is possible that the IRS could assert that the Carolina Group stock is property other than stock of Loews. While Skadden Arps believes it is unlikely that the IRS would prevail in such event, no assurance can be given that the views expressed in the preceding paragraph, if contested, would be sustained by a court. The opinion of Skadden Arps is not binding on the IRS or a court. If the Carolina Group stock is considered property other than stock of Loews, Loews would generally recognize taxable gain as a result of selling the Carolina Group stock in an amount equal to the excess of the fair market value of such other property over Loews s tax basis therein. According to the Carolina Group policy statement, the Carolina Group would be responsible for the tax liability attributable thereto. In addition, Loews would likely no longer be able to file a consolidated U.S. federal income tax return that includes the Carolina Group and, therefore, for example, would be unable to offset income generated by the Carolina Group with losses, if any, generated by Loews or other members of the Loews Group.

The foregoing discussion is only a summary of certain U.S. federal income tax considerations relating to the issuance of Carolina Group stock. It is not a complete analysis of all potential tax effects relevant to the issuance of Carolina Group stock. This discussion is based on the Internal Revenue Code of 1986, as amended, Treasury regulations promulgated thereunder and administrative rulings and court decisions as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. Prospective investors should consult their tax advisors concerning the U.S. federal, state, local and foreign income and other tax consequences of the purchase, ownership and disposition of Carolina Group stock.

Table of Contents

UNDERWRITING

UBS Securities LLC is acting as the underwriter of the offering. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, the underwriter has agreed to purchase, and we have agreed to sell to that underwriter, 15,000,000 shares of Carolina Group stock.

The underwriting agreement provides that the obligations of the underwriter to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all the shares if it purchases any of the shares.

The underwriter proposes to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the shares to dealers at the public offering price less a concession not to exceed $ per share.

We and our executive officers and directors have agreed that, for a period of 90 days from the date of this prospectus, we and they will not, without the prior written consent of UBS Securities LLC, dispose of or hedge any shares of Carolina Group stock, any securities convertible into or exchangeable for Carolina Group stock or options to acquire Carolina Group stock, except that we may grant options pursuant to the Carolina Group 2002 Stock Option Plan and issue shares of Carolina Group stock upon the exercise of options. UBS Securities LLC in its discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Carolina Group stock is listed on the New York Stock Exchange under the symbol CG.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriter in connection with this offering.

	Paid by Loews
Per share	$
Total	$

In connection with this offering, UBS Securities LLC may purchase and sell shares of Carolina Group stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Carolina Group stock in excess of the number of shares to be purchased by the underwriter in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the Carolina Group stock in the open market after the distribution has been completed in order to cover short positions. A short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of Carolina Group stock. They may also cause the price of the Carolina Group stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriter may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriter commences any of these transactions, it may discontinue them at any time.

We estimate that our total expenses of this offering will be approximately $350,000.

The underwriter has performed investment banking and advisory services for us and our subsidiaries from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

A prospectus in electronic format may be made available on the websites maintained by the underwriter. The underwriter may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriter on the same basis as other allocations. In addition, shares may be sold by the underwriter to securities dealers who resell shares to online brokerage account holders.

We have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

Table of Contents

Prospectus

LOEWS CORPORATION

Debt Securities

Preferred Stock

Loews Common Stock

Carolina Group Stock

Warrants

Subscription Rights

Stock Purchase Contracts

Stock Purchase Units

Loews Corporation may offer from time to time (i) unsecured senior or subordinated debt securities, (ii) preferred stock, (iii) Loews common stock, (iv) Carolina Group stock, (v) warrants to purchase debt securities, preferred stock, Loews common stock, Carolina Group stock or other securities, (vi) subscription rights to purchase debt securities, preferred stock, Loews common stock, Carolina Group stock or other securities, (vii) stock purchase contracts to purchase shares of our preferred stock, Loews common stock or Carolina Group stock, or (viii) stock purchase units consisting of (a) stock purchase contracts; (b) warrants; and/or (c) debt securities or debt obligations of third parties (including United States treasury securities; other stock purchase contracts or common stock), that would secure the holders obligations to purchase or to sell, as the case may be, preferred stock, Loews common stock or Carolina Group stock under the stock purchase contract.

We will provide the terms of these securities in supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest.

Our Loews common stock is listed on the New York Stock Exchange under the symbol LTR . Our Carolina Group stock is listed on the New York Stock Exchange under the symbol CG . If we decide to seek a listing of any debt securities, preferred stock or warrants offered by this prospectus, the related prospectus supplement will disclose the exchange or market on which the securities will be listed, if any, or where we have made an application for listing, if any.

Our principal office is located at 667 Madison Avenue, New York, N.Y. 10021-8087. Our telephone number is (212) 521-2000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or any accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 10, 2006

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. We will provide the terms of these securities in supplements to this prospectus. The prospectus supplement may also add, update, or change information contained in this prospectus. We urge you to read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information on page 4.

In this prospectus, the words we, us, our, and Loews refer to Loews Corporation, and our board of directors refers to the board of directors o Loews Corporation.

ABOUT LOEWS CORPORATION

General

We are a holding company. Our subsidiaries are engaged in the following lines of business:

- commercial property and casualty insurance (CNA Financial Corporation (CNA), a 91% owned subsidiary);
- production and sale of cigarettes (Lorillard, Inc. (Lorillard), a wholly owned subsidiary);
- operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP, (Boardwalk Pipeline), an 85% owned subsidiary);
- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 54% owned subsidiary);
- operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary); and
- distribution and sale of watches and clocks (Bulova Corporation (Bulova), a wholly owned subsidiary).

CNA. CNA is an insurance holding company whose primary subsidiaries consist of commercial property and casualty insurance companies. CNA s property and casualty insurance operations are conducted by Continental Casualty Company and The Continental Insurance Company and their respective affiliates. CNA accounted for 61.59%, 65.16% and 71.25% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Lorillard. Lorillard is engaged, through its subsidiaries, in the production and sale of cigarettes. Its principal cigarette brand names are Newport, Kent, True, Maverick and Old Gold. Lorillard s largest selling brand is Newport, the second largest selling cigarette brand in the United States and the largest selling brand in the menthol segment of the United States cigarette market in 2005. Newport accounted for approximately 91.6% of Lorillard s sales volume in 2005. Substantially all of Lorillard s sales are in the United States, Puerto Rico and certain U.S. territories. Lorillard s major trademarks outside of the United States were sold in 1977. Lorillard accounted for 22.70%, 22.22% and 19.96% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively. For a description of the relationship among Lorillard, the Loews Group and the Carolina Group, see Carolina Group/Loews Group below, Description of Loews Capital Stock Carolina Group Stock on page 18 and Relationship Between the Loews Group and the Carolina Group on page 27.

Boardwalk Pipeline. Boardwalk Pipeline is a limited partnership engaged in the interstate transportation and storage of natural gas. Boardwalk Pipeline conducts all of its natural gas transportation and storage operations through two subsidiaries: Texas Gas Transmission, LLC (Texas Gas), acquired in May 2003, and Gulf South Pipeline Company, LP (Gulf South), acquired in December 2004. Boardwalk Pipeline owns and operates two interstate natural gas pipeline systems with approximately 13,740 miles of pipeline, directly serving customers in 11 states and indirectly serving customers throughout the northeastern and southeastern United States through numerous interconnections with unaffiliated pipelines. Boardwalk Pipeline accounted for 3.57%, 1.74% and 0.87% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Diamond Offshore. Diamond Offshore is engaged, through its subsidiaries, in the business of owning and operating drilling rigs that are used primarily in the drilling of offshore oil and gas wells on a contract basis for companies engaged in exploration and production of hydrocarbons. Diamond Offshore owns 44 offshore rigs. Diamond Offshore accounted for 8.07%, 5.49% and 4.18% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Loews Hotels. Loews Hotels currently operates 17 hotels, 15 of which are in the United States and two of which are in Canada. Loews Hotels accounted for 2.19%, 2.07% and 1.74% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

Bulova. Bulova is engaged in the distribution and sale of watches, clocks and timepiece parts for consumer use. Its principal watch brands are Bulova, Caravelle, Wittnauer and Accutron. Clocks are principally sold under the Bulova brand name. Bulova accounted for 1.16%, 1.16% and 1.01% of our consolidated total revenue for the years ended December 31, 2005, 2004 and 2003, respectively.

We derive substantially all of our cash flow from our subsidiaries, principally Lorillard and Boardwalk Pipeline. We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our stockholders. The ability of our subsidiaries to make such payments is subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws (including, in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies) and any provisions that may be contained in credit agreements, other financing arrangements or other agreements entered into by such subsidiaries. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and stockholders.

Carolina Group/Loews Group

Loews has two classes of common stock: Loews common stock and Carolina Group stock. Holders of Loews common stock and holders of Carolina Group stock are shareholders of Loews Corporation. The Carolina Group stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of our assets and liabilities referred to as the Carolina Group. The assets and liabilities attributed to the Carolina Group are:

- Loews s 100% stock ownership interest in Lorillard;
- notional intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and subject to optional prepayment, due December 31, 2021 (as of February 15, 2006, approximately $1.5 billion was outstanding);
- any and all liabilities, costs and expenses of Loews and its subsidiaries and Lorillard and the subsidiaries and predecessors of Lorillard, arising out of or related to tobacco or otherwise arising out of the past, present or future business of Lorillard or its subsidiaries or predecessors, or claims arising out of or related to the sale of any businesses previously sold by Lorillard or its subsidiaries or predecessors, in each case, whether grounded in tort, contract, statute or otherwise, whether pending or asserted in the future;
- all net income or net losses arising from the assets and liabilities that are reflected in the Carolina Group and all net proceeds from any disposition of those assets, in each case, after deductions to reflect dividends paid to holders of Carolina Group stock or credited to the Loews Group in respect of its intergroup interest; and

Table of Contents

any acquisitions or investments utilizing assets reflected in the Carolina Group.

As of February 17, 2006, there were approximately 78.2 million shares of Carolina Group stock outstanding, representing an approximately 45.0% interest in the economic performance of the Carolina Group.

The Loews Group consists of all of Loews s assets and liabilities other than the approximately 45.0% economic interest in the Carolina Group represented by the outstanding Carolina Group stock, and includes as an asset the notional intergroup debt of the Carolina Group referred to above. As of February 17, 2006, the Loews Group included an approximately 55.0% interest in the economic performance of the Carolina Group not represented by the outstanding Carolina Group stock.

The creation of the Carolina Group and the issuance of Carolina Group stock does not change Loews s ownership of Lorillard or Lorillard s status as a separate legal entity. The Carolina Group and the Loews Group are notional groups that are intended to reflect the performance of the defined sets of assets and liabilities of each such group as described above. The Carolina Group and the Loews Group are not separate legal entities and the attribution of Loews s assets and liabilities to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities so attributed.

For more information on the Loews Group, the Carolina Group, Loews common stock and Carolina Group stock, see Description of Loews Capital Stock Carolina Group Stock on page 18 and Relationship Between the Loews Group and the Carolina Group on page 27.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information with the SEC. You may read and copy any reports or other information that we file with the SEC at the SEC s Public Reference Room located at Station Place, 100 F Street, N.E., Washington D.C. 20549. You may also receive copies of these documents upon payment of a duplicating fee, by writing to the SEC s Public Reference Room. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room in Washington D.C. and other locations. Our SEC filings are also available to the public from commercial documents retrieval services, at our website (www.loews.com) and at the SEC s website (www.sec.gov). Information on our website is not incorporated into this prospectus or our other SEC filings and is not a part of this prospectus or those filings.

The SEC allows us to incorporate by reference the information that we file with them into this prospectus. This means that we can disclose important information to you by referring you to other documents filed separately with the SEC, including our annual, quarterly and current reports. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is modified or superseded by information contained in this prospectus or any other subsequently filed document. The information incorporated by reference is an important part of this prospectus and any accompanying prospectus supplement. All documents filed (but not those that are furnished) by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the initial filing of the registration statement, whether before or after it is declared effective, and prior to the termination of the offering of the securities will be incorporated by reference into this prospectus and will automatically update and supersede the information in this prospectus, any accompanying prospectus supplement and any previously filed document.

The following documents have been filed by us with the SEC (File No. 1-6541) and are incorporated by reference into this prospectus:

1. Annual Report on Form 10-K for the year ended December 31, 2005;

2. Current Reports on Form 8-K, dated January 11, 2006, January 31, 2006, February 16, 2006 (other than items 2.02 and 9.01, which are furnished and not incorporated herein by reference), March 3, 2006 and March 8, 2006; and

3. The description of the Carolina Group stock contained in our Registration Statement on Form 8-A filed on January 28, 2002, and any amendment or report filed thereafter for the purposes of updating such information.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated herein by reference (other than exhibits unless such exhibits are specifically incorporated by reference in such documents). Requests for such documents should be directed to Loews Corporation, 667 Madison Avenue, New York, N.Y. 10021-8087, Attention: Corporate Secretary (telephone: (212) 521-2000).

No person is authorized to give any information or represent anything not contained in this prospectus, any accompanying prospectus supplement and any applicable pricing supplement. We are only offering the securities in places where sales of those securities are permitted. The information contained in this prospectus, any accompanying prospectus supplement and any applicable pricing supplement, as well as information incorporated by reference, is current only as of the date of that information. Our business, financial condition, results of operations and prospects may have changed since that date.

Table of Contents

USE OF PROCEEDS

Unless otherwise specified in connection with a particular offering of securities, the net proceeds from the sale of the securities offered by this prospectus will be used for general corporate purposes.

Table of Contents

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The table below sets forth our ratio of income from continuing operations to fixed charges for each of the five years in the period ended December 31, 2005, which was computed by dividing pretax income (loss) from continuing operations available for fixed charges (pretax income (loss) from continuing operations before adjustment for minority interests in consolidated subsidiaries and income or loss from equity investees, plus fixed charges, amortization of capitalized interest, and distributed income of equity investees, less capitalized interest) by fixed charges. Fixed charges include (a) interest expense, (b) capitalized interest, (c) amortization of debt issuance costs, (d) interest credited to policyholder account balances, and (e) one-third of rent expense, which we believe represents the interest factor attributable to rent. Since no preferred stock was outstanding during the periods presented, the ratio of income from continuing operations to fixed charges and preferred stock dividends would be the same as the ratios presented here.

	Years Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Ratio of income from continuing operations to fixed charges	5.2x	5.4x	(a)	3.9x	(a)
Ratio of income from continuing operations, excluding interest credited to policyholders, to fixed charges, excluding interest credited to policyholders (b)	5.7x	6.2x	(a)	5.7x	(a)

(a) We incurred a loss for the years ended December 31, 2003 and 2001, and income from continuing operations was insufficient to cover fixed charges by $1,364.7 million and $814.3 million, respectively, in such years.

(b) This second ratio is disclosed for the convenience of fixed income investors and the rating agencies that serve them. Management believes it is more comparable to the ratios disclosed by all issuers of fixed income securities. Interest credited to policyholders was $47.0 million, $64.0 million and $229.0 million, respectively, for the years ended December 31, 2005, 2004 and 2002.

6

Table of Contents

DESCRIPTION OF DEBT SECURITIES

This prospectus describes certain general terms and provisions of the debt securities. The debt securities will constitute either unsecured senior debt or unsecured subordinated debt. We will issue debt securities that will be senior debt under an indenture dated as of March 1, 1986 between us and JPMorgan Chase Bank, N.A. (as successor to The Chase Manhattan Bank, National Association), as trustee, as supplemented by a first supplemental indenture on March 30, 1993 and a second supplemental indenture on February 18, 1997 (as supplemented, the senior indenture). We will issue debt securities that will be subordinated debt under an indenture dated as of December 1, 1985 between us and JPMorgan Chase Bank, N.A. (as successor to Manufacturers Hanover Trust Company), as the trustee, as supplemented by a first supplemental indenture on February 18, 1997, a second supplemental indenture on February 18, 1997 and a third supplemental indenture on September 16, 1997 (as supplemented, the subordinated indenture). This prospectus refers to the senior indenture and the subordinated indenture individually as the indenture and collectively as the indentures. The term trustee refers to the trustee under each indenture, as appropriate.

The indentures are subject to and governed by the Trust Indenture Act of 1939, as amended. The indentures are substantially identical, except for the provisions relating to subordination, which are included only in the subordinated indenture. The following summary of the material provisions of the indentures and the debt securities is not complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the indentures, each of which has been filed as an exhibit to the registration statement of which this prospectus is a part. We urge you to read the indenture that is applicable to you because it, and not the summary below, defines your rights as a holder of debt securities. You can obtain copies of the indentures by following the directions described under the heading Where You Can Find More Information on page 4.

In the summary below, we have included references to section numbers of the indentures so that you can easily locate those provisions. Unless otherwise noted, the referenced section numbers are the same in each indenture. Capitalized terms used in the summary below have the meanings specified in the indentures. The referenced sections of the indentures and the definitions of capitalized terms are incorporated by reference in the following summary.

General

The senior debt securities will rank equally with all of our other unsecured and unsubordinated debt. The subordinated debt securities will be subordinated in right of payment to our Senior Indebtedness. For additional information, see Subordination below. As of December 31, 2005, approximately $1.2 billion aggregate principal amount of Loews s existing debt would have ranked senior to the subordinated debt securities and equally with the senior debt securities. As of December 31, 2005, none of Loews s existing debt would have been subordinated to the senior debt securities and have ranked equally with the subordinated debt securities. The indentures do not limit the amount of debt, either secured or unsecured, which may be issued by us under the indentures or otherwise. The debt securities may be issued in one or more series with the same or various maturities and may be sold at par, a premium or an original issue discount. Debt securities sold at an original issue discount may bear no interest or interest at a rate which is below market rates.

Since Loews is a holding company, the right of Loews, and hence the rights of the creditors and stockholders of Loews, to participate in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise is accordingly subject to prior claims of creditors of the subsidiary, except to the extent that claims of Loews itself as a creditor of the subsidiary may be recognized. As of December 31, 2005, Loews s subsidiaries had approximately $4.0 billion aggregate principal amount of debt outstanding. The indentures do not prohibit us or our subsidiaries from incurring debt or agreeing to limitations on their ability to pay dividends or make other distributions to us.

Table of Contents

The applicable prospectus supplement or pricing supplement, as the case may be, relating to a series of debt securities will describe the terms of such debt securities being offered, including (to the extent such terms are applicable to such debt securities):

- designation, aggregate principal amount, denomination and currency or currency unit;
- date of maturity;
- currency or currency units for which such debt securities may be purchased and in which principal of, premium, if any, and any interest will or may be payable;
- interest rate or rates (or the manner of calculation thereof), if any;
- the times at which any such interest will be payable;
- the place or places where the principal and interest, if any, will be payable;
- any redemption provisions, including, if applicable, the terms of any optional make-whole redemption provisions;
- any sinking fund provisions;
- whether such debt securities will be issuable in registered form or bearer form or both and, if issuable in bearer form, restrictions applicable to the exchange of one form for another and to the offer, sale and delivery of certificates in bearer form;
- whether and under what circumstances we will pay additional amounts on such debt securities held by a person who is not a U.S. person in respect of any tax, assessment or governmental charge withheld or deducted and, if so, whether we will have the option to redeem such debt securities rather than pay such additional amounts;
- whether and under what circumstances we may from time to time, without the consent of holders of debt securities, issue additional debt securities, having the same ranking and the same interest rate, maturity and other terms as the debt securities being offered, except for the issue price and issue date and, in some cases, the first interest payment date, whereby such additional securities will, together with the then outstanding debt securities, constitute a single class of debt securities under the indentures, and will vote together on matters under the senior indenture;
- federal income tax consequences;
- whether and under what circumstances we will issue the debt securities in whole or in part as Global Securities as described below under Global Securities;

applicable conversion or exchange privileges; and

any other specific terms of the offered debt securities, including any terms which may be required by or advisable under United States laws or regulations.

For purposes of this prospectus, U.S. person means a citizen, national or resident of the United States of America, its territories, possessions and all areas subject to its jurisdiction (the United States), a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof or an estate or trust the income of which is subject to United States federal income tax regardless of its source.

Debt securities may be presented for exchange, and registered debt securities may be presented for transfer, in the manner, at the places and subject to the restrictions set forth in the debt securities and as summarized in the applicable prospectus supplement or pricing supplement. Such services will be provided without charge, other than any tax or other governmental charge payable in connection with such exchange or transfer, but subject to the limitations provided in the applicable indenture. Debt securities in bearer form and the coupons, if any, appertaining to such debt securities will be transferable by delivery.

Table of Contents

Optional Make-Whole Redemption of Debt Securities

Unless otherwise specified in connection with any particular offering of debt securities, we may redeem any such debt securities in whole at any time or in part from time to time, at our option, at a make-whole redemption price equal to the greater of:

(1) 100% of the principal amount of the debt securities being redeemed; and

(2) the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the debt securities being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus a spread as indicated in the applicable prospectus supplement or pricing supplement, as calculated by a Reference Treasury Dealer.

In each case, we will pay accrued interest on the principal amount of the debt securities being redeemed to the redemption date.

Comparable Treasury Issue means, with respect to the particular series of debt securities, the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term (Remaining Life) of the debt securities being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such debt securities.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of five Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means one of the Reference Treasury Dealers that we appoint to act as the Independent Investment Banker from time to time.

Reference Treasury Dealer means any entity that is a primary U.S. Government securities dealer in New York City and that is selected by us.

Reference Treasury Dealer Quotations means, for each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by the Reference Treasury Dealer at 5:00 p.m. New York City time on the third business day preceding the redemption date for the debt securities being redeemed.

Treasury Rate means, with respect to any redemption date, the rate per year equal to: (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue; provided, however, that, if no maturity is within three months before or after the Remaining Life of the debt securities to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from those yields on a straight line basis, rounding to the nearest month; or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate shall be calculated on the third business day preceding the redemption date.

Table of Contents

If we elect to redeem less than all of a series of debt securities, then the trustee will select the particular debt securities of that series to be redeemed in a manner it deems appropriate and fair.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the date of redemption to each holder of the series of debt securities to be redeemed. The notice of redemption for a series of debt securities will state, among other things, the amount of debt securities to be redeemed, the redemption date, the redemption price and the place or places that payment will be made upon presentation and surrender of the debt securities to be redeemed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the debt securities of that series or the portions called for redemption.

Subordination

The indebtedness represented by the subordinated debt securities is subordinated in right of payment to existing and future Senior Indebtedness, as described in the subordinated indenture and any accompanying prospectus supplement or pricing supplement (Section 1301 of the subordinated indenture). The term Senior Indebtedness means:

- all indebtedness for money borrowed incurred by us, unless the terms of the instrument or instruments by which such indebtedness is incurred or created expressly provide that such indebtedness is subordinate to the subordinated debt securities or that such indebtedness is not superior in right of payment to the subordinated debt securities;

- any other indebtedness, obligation or liability incurred by us (including any guaranty, endorsement or other contingent obligation of ours in respect of, or to purchase, or otherwise acquire, any obligation of another), direct or indirect, absolute or contingent, or matured or unmatured, which is specifically designated by us as Senior Indebtedness in the instruments evidencing such indebtedness, obligation or liability at the time of its issuance or incurrence; or

- any deferral, renewal or extension of any of the foregoing (Section 101 of the subordinated indenture).

By reason of such subordination, in the event of dissolution, insolvency, bankruptcy or other similar proceedings, upon any distribution of assets, (i) the holders of subordinated debt securities will be required to pay over their share of such distribution in respect of the subordinated debt securities to the holders of Senior Indebtedness until such Senior Indebtedness is paid in full and (ii) creditors of ours who are not holders of Senior Indebtedness may recover less, ratably, than holders of Senior Indebtedness and may recover more, ratably, than holders of subordinated debt securities (Section 1301 of the subordinated indenture).

Conversion and Exchange

The terms, if any, on which debt securities of any series will be convertible into or exchangeable for Loews common stock, Carolina Group stock, our preferred stock, another series of our debt securities, other securities, property or cash, or a combination of any of the foregoing, will be summarized in the applicable prospectus supplement or pricing supplement, as the case may be, relating to such series of debt securities. Such terms may include provisions for conversion or exchange, either on a mandatory basis, at the option of the holder, or at our option, in which the number of shares or amount of Loews common stock, Carolina Group, our preferred stock, another series of our debt securities, other securities, property or cash to be received by the holders of the debt securities would be calculated according to the factors and at such time as summarized in the related prospectus supplement or pricing supplement.

Global Securities

Debt securities of a series may be issued in whole or in part in the form of one or more Global Securities that will be deposited with, or on behalf of, a depository (the Depository) identified in applicable prospectus supplement or pricing supplement, as the case may be, relating to such series. Unless otherwise specified by us,

Table of Contents

the Depository will be The Depository Trust Company, New York, New York. Global Securities may be issued only in fully registered form and may be issued in either temporary or permanent form. Unless and until it is exchanged in whole or in part for the individual debt securities that it represents, a Global Security may not be transferred except as a whole by the Depository for such Global Security to a nominee of such Depository or by a nominee of such Depository to such Depository or another nominee of such Depository or by the Depository or any nominee of such Depository to a successor Depository or any nominee of such successor.

The specific terms of the depository arrangement with respect to a series of debt securities will be summarized in the applicable prospectus supplement or pricing supplement, as the case may be, relating to such series. We anticipate that the following provisions will generally apply to depository arrangements.

Upon the issuance of a Global Security, the Depository for such Global Security or its nominee will credit on its book-entry registration and transfer system the respective principal amounts of the individual debt securities represented by such Global Security to the accounts of persons that have accounts with the Depository (Participants). Such accounts shall be designated by the underwriters, dealers or agents with respect to such debt securities or by us if such debt securities are offered and sold directly by us. Ownership of beneficial interests in a Global Security will be limited to Participants or persons that may hold interests through Participants. Ownership of beneficial interests in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable Depository or its nominee (with respect to interests of Participants) and records of Participants (with respect to interests of persons who hold through Participants). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, pledge or transfer beneficial interests in a Global Security.

So long as the Depository for a Global Security or its nominee is the registered owner of such Global Security, the Depository or such nominee, as the case may be, will be considered the sole owner or holder of the debt securities represented by such Global Security for all purposes under the applicable indenture. Except as provided below, owners of beneficial interests in a Global Security will not be entitled to have any of the individual debt securities of the series represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of any such debt securities of such series in definitive form and will not be considered the owners or holders of such debt securities under the applicable indenture.

Payments of principal of and any premium and any interest on individual debt securities represented by a Global Security registered in the name of a Depository or its nominee will be made to the Depository or its nominee, as the case may be, as the registered owner of the Global Security representing such debt securities. None of Loews, the trustee, any paying agent or the security registrar for such debt securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Security for such debt securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We expect that the Depository for a series of debt securities or its nominee, upon receipt of any payment of principal, premium or interest in respect of a permanent Global Security representing any of such debt securities, immediately will credit Participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security for such debt securities as shown on the records of such Depository or its nominee. We also expect that payments by Participants to owners of beneficial interests in such Global Security held through such Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name. Such payments will be the responsibility of such Participants.

If a Depository for a series of debt securities is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by us within 90 days, we will issue individual debt securities of such series in exchange for the Global Security representing such series of debt securities. In addition, we may, at any time and in our sole discretion, subject to any limitations described in the applicable prospectus supplement or pricing supplement, as the case may be, relating to such series of debt securities, determine not to have any debt securities of such series represented by one or more Global Securities and, in such event, will issue individual debt securities of such series in exchange for the Global Security or Securities representing such series of debt securities. Individual debt securities of such series so issued will be issued in denominations, unless otherwise specified by us, of $1,000 and integral multiples thereof.

Defeasance

At our option, either (a) we will be Discharged (as defined below) from any and all obligations in respect of any series of debt securities or (b) we will cease to be under any obligation to comply with the restriction on our ability to merge, consolidate or sell assets set forth in the applicable indenture, in either case if we deposit irrevocably with the trustee, in trust, specifically for the benefit of the holders of such series, money or U.S. Government Obligations (as defined below) which through the payment of interest thereon and principal thereof in accordance with their terms will provide money in an amount sufficient (in the written opinion of a nationally recognized firm of independent accountants in the case of U.S. Government Obligations or a combination of money and U.S. Government Obligations) to pay all the principal of (including any sinking fund payments or analogous obligations), and interest on, the debt securities of such series on the dates such payments are due in accordance with the terms of such series of debt securities. To exercise such option, we are required to deliver to the trustee an opinion of nationally recognized tax counsel to the effect that holders of the debt securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and discharge and will be subject to federal income tax in the same amount and in the same manner and at the same times as would have been the case if such deposit and discharge had not occurred.

The term Discharged is defined to mean that we are deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the debt securities of such series and to have satisfied all the obligations under the indenture relating to the debt securities of such series, except for

- the rights of holders of the debt securities of such series to receive, from the trust fund described above, payment of the principal of and the interest on the debt securities of such series when such payments are due,

- our obligations with respect to the debt securities of such series with respect to registration, transfer, exchange, replacement of mutilated, destroyed, lost and stolen certificates, maintenance of a paying office and holding money in trust, and

- the rights, powers, trusts, duties and immunities of the trustee under the applicable indenture.

The term U.S. Government Obligations is defined to mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and also includes a depositary receipt issued by a bank or trust company, as custodian with respect to any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligations evidenced by such depository receipt (Article Fourteen of the senior indenture; Article Fifteen of the subordinated indenture).

Table of Contents

Modification of the Indentures

Modifications and amendments of either indenture may be made by us and the trustee with the consent of the holders of not less than a majority in principal amount of all outstanding debt securities affected by such modification or amendment; provided, however, that no such modification or amendment may, without the consent of the holder of each outstanding debt security affected thereby:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
- reduce the principal amount of or interest on, or any premium payable upon redemption of, any debt security;
- change certain other terms related to waiver of defaults or covenants; or
- reduce the percentage of the principal amount of the outstanding debt security of any series, the consent of whose holders is required to modify or amend the applicable indenture or waive compliance with, or consent to certain defaults under, the provisions of such indenture (Section 902).

Our board of directors does not have the power to waive any of the covenants of either indenture, including those relating to consolidation, merger or sale of assets.

Events of Default, Notice and Waiver

The following will be Events of Default with respect to any particular series of the debt securities:

- default in any payment of interest on such series when due, continued for 30 days;
- default in any payment of principal and premium, if any, of, or sinking fund installment on, such series when due;
- default in the performance, or breach, of any covenant or warranty of ours applicable to such series continued for 60 days after written notice to us by the trustee or the holders of at least 25% in principal amount of such series;
- default resulting in the acceleration of any indebtedness of ours for money borrowed in excess of $100,000,000 under the terms of the instrument under which such indebtedness is or may be outstanding, if such acceleration is not rescinded or annulled within 10 days after notice to us by the trustee or the holders of at least 25% in principal amount of such series; and
- certain events of bankruptcy, insolvency or reorganization (Section 501).

No Event of Default with respect to a particular series of debt securities necessarily constitutes an Event of Default with respect to any other series of debt securities (Section 501).

The trustee will, within 90 days after the occurrence of any default with respect to any series of the debt securities, give to the holders thereof notice of such default known to the trustee, unless such default has been cured or waived (the term default for this purpose means any event which is, or after notice or lapse of time, or both, would become, an Event of Default); provided that, except in the case of a default in the payment of principal of (or premium, if any) or interest on any of such series of debt securities or in the payment of any sinking fund installments, the trustee will be protected in withholding such notice if and so long as it in good faith determines that the withholding of such notice is in the interest of the holders of the debt securities of that series (Section 602).

We will be required to furnish to the trustee each year a statement as to the fulfillment by us of our obligations under the applicable indenture (Section 1004).

Table of Contents

The holders of a majority in principal amount of the outstanding debt securities of any series may, in respect of such series, waive certain defaults and may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee, provided that such direction shall not be in conflict with any rule of law or with the applicable indenture (Sections 512, 513). The trustee has the right to decline to follow any such direction if the trustee in good faith determines that the proceeding so directed would be unjustly prejudicial to the holders of debt securities of such series not joining in any such direction or would involve the trustee in personal liability. Each indenture provides that in case an Event of Default occurs and is continuing with respect to any series of the debt securities, the trustee will be required to exercise any of its rights and powers under such indenture with the degree of care and skill such as a prudent man would exercise in the conduct of his own affairs (Section 601). Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the applicable indenture at the direction of any of the holders of such debt securities unless such holders have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by the trustee in complying with such direction (Section 603).

If an Event of Default occurs and is continuing with respect to the debt securities of any series, the trustee or the holders of at least 25% in principal amount of such series may declare such series due and payable (Section 502).

Each indenture provides that no holder of debt securities of any series may institute any action against us under such indenture (except actions for payment of overdue principal or interest or premium, if any) unless the holders of at least 25% in principal amount of such series have requested the trustee to institute such action and have offered the trustee reasonable indemnity, and the trustee has not instituted such action within 60 days of such request (Section 507).

Consolidation, Merger or Sale of Assets

We may not consolidate with or merge into any other corporation or sell our assets substantially as an entirety, unless:

- the corporation formed by such consolidation or into which we are merged or the corporation which acquires our assets is organized in the United States and expressly assumes the due and punctual payment of the principal of (and premium, if any) and interest on all the debt securities, if any, issued under the applicable indenture and the performance of every covenant of such indenture to be performed by us and

- immediately after giving effect to such transaction, no Event of Default, and no event which after notice or lapse of time or both would become an Event of Default, has happened and is continuing.

Upon any such consolidation, merger or sale, the successor corporation formed by such consolidation, or into which we are merged or to which such sale is made, will succeed to, and be substituted for, us under such indenture (Sections 801, 802).

Other than the covenants described above, or as set forth in any accompanying prospectus supplement or applicable pricing supplement, as the case may be, the indentures and the debt securities do not contain any covenants or other provisions designed to afford holders of the debt securities protection in the event of a takeover, recapitalization or a highly leveraged transaction involving us.

Concerning the Trustee

We and the trustee may from time to time engage in normal and customary banking transactions.

DESCRIPTION OF LOEWS CAPITAL STOCK

The following description of certain terms of our capital stock does not purport to be complete and is qualified in its entirety by reference to our certificate of incorporation, our by-laws and the applicable provisions of the Delaware General Corporation Law. Our certificate of incorporation and our by-laws have been filed as exhibits to the registration statement of which this prospectus is a part. For more information on how you can obtain our certificate of incorporation and by-laws, see Where You Can Find More Information on page 4. We urge you to read our certificate of incorporation and by-laws in their entirety.

General

Our certificate of incorporation provides that we are authorized to issue 1.3 billion shares of capital stock, consisting of 100 million shares of preferred stock, par value $0.10 per share, 600 million shares of Loews common stock, par value $1.00 per share, and 600 million shares of Carolina Group stock, par value $0.01 per share. As of February 17, 2006, we had outstanding approximately 185.9 million shares of Loews common stock, approximately 78.2 million shares of Carolina Group stock and no shares of Loews preferred stock.

Although our board of directors has no intention at the present time of doing so, it could issue common stock, warrants or a series of Loews preferred stock that could, depending on the terms of such securities, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based on its judgment as to the best interests of us and our shareholders. Our board of directors, in so acting, could issue securities having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our shareholders might believe to be in their best interests or in which our shareholders might receive a premium for their stock over the then-current market price of the stock.

Loews Preferred Stock

The following description of certain terms of the preferred stock does not purport to be complete and is qualified in its entirety by reference to our certificate of incorporation, the applicable provisions of the Delaware General Corporation Law and the certificate of designations that relates to the particular series of preferred stock, which will be filed with the SEC at or prior to the time of the sale of the related preferred stock. Certain terms of any series of preferred stock offered by any prospectus supplement will be set forth in the certificate of designations, and summarized in the prospectus supplement, relating to such series of preferred stock. If so indicated in the prospectus supplement, the terms of any such series may differ from the terms set forth below. If there are differences between the prospectus supplement relating to a particular series and this prospectus, the prospectus supplement will control. For more information on how you can obtain our certificate of incorporation and any applicable certificate of designations, see Where You Can Find More Information on page 4. We urge you to read our certificate of incorporation and any applicable certificate of designations in their entirety.

General. The board of directors is authorized to establish and designate series of preferred stock and to fix the number of shares and the relative rights, preferences and limitations of the respective series of preferred stock. The terms of a particular series of preferred stock may differ, among other things, in:

- the designation and number of shares comprising such series;
- the dividends, if any, which shall be payable on the shares of such series and any preferences and other terms and conditions applicable thereto;
- any rights and preferences of the holders of the shares of such series upon the liquidation, dissolution, or winding up of our affairs, or upon any distribution of our assets;
- the full, limited or special voting rights, if any, of the shares of such series, in addition to voting rights provided by law, and the terms and conditions applicable thereto;

- any provision with respect to the conversion of the shares of such series into, or the exchange of such shares for, shares of any other class or classes, or of any other series of any class, of our capital stock and/or any other property or cash, and the terms and conditions applicable to any such conversion or exchange;

- any provision with respect to the redemption, purchase, or retirement of such shares and the terms and conditions applicable thereto;

- any provision with respect to the issuance of additional shares of such series or of any other class or series on a parity with or superior to the shares of such series; and

- any other relative, participating, optional or special powers, preferences, or rights of, and any other qualifications, limitations, or restrictions with respect to, the shares of such series as the board of directors may deem advisable.

Unless otherwise specifically set forth in the certificate of designations, and summarized in the prospectus supplement, relating to a series of preferred stock, all shares of preferred stock will be of equal rank, preference and priority as to dividends; when the stated dividends are not paid in full, the shares of all series of the preferred stock will share ratably in any payment thereof; and upon liquidation, dissolution or winding up, if assets are insufficient to pay in full all preferred stock, then such assets shall be distributed among the holders ratably.

Since we are a holding company, our right, and hence the right of our creditors and shareholders, to participate in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise is necessarily subject to the prior claims of creditors of our subsidiaries, except to the extent that our claims as a creditor of the subsidiary may be recognized.

Dividend Rights. Except as may be set forth in the certificate of designations, and summarized in the prospectus supplement relating to a series of preferred stock, the holders of preferred stock will be entitled to receive, but only when and as declared by our board of directors out of funds legally available for that purpose, cash dividends at the rates and on the dates set forth in the certificate of designations, and summarized in the prospectus supplement relating to a particular series of preferred stock, and no more, payable quarterly. Such rate may be fixed or variable. Each such dividend will be payable to the holders of record as they appear on our stock books on such record dates as will be fixed by our board of directors or a duly authorized committee thereof. Dividends payable on the preferred stock for any period less than a full quarter will be computed on the basis of the actual number of days elapsed over a 360 day year and for a period of a full calendar quarter, will be computed on the basis of a 360 day year consisting of twelve 30 day months. Except as may be set forth in the prospectus supplement relating to a series of preferred stock, such dividends will be payable from, and will be cumulative from, the date of original issue of each share, so that, if in any quarterly dividend period (being the period between such dividend payment dates), dividends at the rate or rates as set forth in the certificate of designations, and summarized in the prospectus supplement, relating to such series of preferred stock have not been declared and paid or set apart for payment on all outstanding shares of preferred stock for such quarterly dividend period and all preceding quarterly dividend periods from and after the first day from which dividends are cumulative, then the aggregate deficiency will be declared and fully paid or set apart for payment, but without interest, before any dividends are declared or paid or set apart for payment on our common stock by us. After payment in full of all dividend arrearages on the preferred stock, dividends on our common stock may be declared and paid out of funds legally available for that purpose as our board of directors may determine.

Redemption. We will have such rights, if any, to redeem shares of preferred stock, and the holders of preferred stock will have such rights, if any, to cause us to redeem shares of preferred stock, as may be set forth in the certificate of designations, and summarized in the prospectus supplement, relating to a series of preferred stock.

Conversion or Exchange. The holders of preferred stock will have such rights, if any, to convert such shares into or to exchange such shares for, shares of any other class or classes, or of any other series of any class, of our capital stock and/or any other property or cash, as may be set forth in the certificate of designations, and summarized in the prospectus supplement, relating to a series of preferred stock.

Voting Rights. The holders of preferred stock will have such voting rights as required by applicable law and as may be set forth in the certificate of designations, and summarized in the prospectus supplement relating to a series of preferred stock.

Liquidation Rights. Upon any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, holders of preferred stock will have such preferences and priorities, if any, with respect to distribution of our assets or the proceeds thereof as may be set forth in the certificate of designations and summarized in the prospectus supplement relating to a series of preferred stock.

Miscellaneous. The transfer agent, dividend disbursing agent and registrar for the preferred stock issued in connection with this prospectus will be as set forth in the certificate of designations and summarized in the prospectus supplement. The holders of preferred stock, including any preferred stock issued in connection with this prospectus, will not have any preemptive rights to purchase or subscribe for any shares of any class or other securities of any type of ours. When issued, the preferred stock will be fully paid and nonassessable. The certificate of designations setting forth the provisions of each series of preferred stock will become effective after the date of this prospectus but on or before issuance of the related series of preferred stock.

Loews Common Stock

The following description of certain rights of the Loews common stock does not purport to be complete and is qualified in its entirety by reference to our certificate of incorporation, our by-laws and the applicable provisions of the Delaware General Corporation Law. We urge you to read the description of the Carolina Group stock in Carolina Group Stock below since the rights of the Loews common stock are impacted by the rights of the Carolina Group stock.

Voting Rights. The holders of Loews common stock are entitled to one vote for each share on all matters voted on by shareholders, including elections of directors, and, except as otherwise required by law or provided in any resolution adopted by our board of directors with respect to any series of our preferred stock, the holders of such Loews common shares and the holders of Carolina Group stock possess all voting power and the election of members of our board of directors will be decided by holders of a plurality of the voting power of the shares of Loews common stock and Carolina Group stock entitled to vote in person or by proxy, voting together, at a meeting for the election of directors. See Carolina Group Stock Voting Rights below for a further description of the voting rights of the Loews common stock.

Dividends and Liquidation Rights. Subject to any preferential rights of any outstanding series of Loews preferred stock created by our board of directors from time to time, the holders of Loews common stock are entitled to such dividends as may be declared from time to time by our board of directors from funds available therefor, and, upon liquidation, holders of shares of Loews common stock, Carolina Group stock and any other class of Loews common shares will share ratably in the funds of ours remaining for distribution to our common shareholders in proportion to the aggregate market capitalization of the outstanding shares of each class of stock, as applicable, to the aggregate market capitalization of all the outstanding shares of Loews common stock, Carolina Group stock and any other class of Loews common shares outstanding, as more fully described below under the headings Carolina Group Stock Dividends and Carolina Group Stock Liquidation Rights.

Miscellaneous. The outstanding shares of Loews common stock are, and any shares of Loews common stock offered hereby upon issuance and payment therefor will be, fully paid and nonassessable. The Loews common stock has no preemptive or conversion rights and there are no redemption or sinking fund provisions applicable thereto.

The Loews common stock is listed on the New York Stock Exchange under the ticker symbol LTR.

The transfer agent and registrar for the Loews common stock is Mellon Investor Services LLC, 85 Challenger Road, Ridgefield Park, NJ 07660 (telephone: (800) 851-9677).

Table of Contents

Carolina Group Stock

The Carolina Group

We designed Carolina Group stock to track the economic performance of the Carolina Group. The assets and liabilities attributed to the Carolina Group are:

- our 100% stock ownership interest in Lorillard;
- notional intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and subject to optional prepayment, due December 31, 2021 (as of February 15, 2006, approximately $1.5 billion was outstanding);
- any and all liabilities, costs and expenses of Loews and its subsidiaries and Lorillard and the subsidiaries and predecessors of Lorillard, arising out of or related to tobacco or otherwise arising out of the past, present or future business of Lorillard or its subsidiaries or predecessors, or claims arising out of or related to the sale of any businesses previously sold by Lorillard or its subsidiaries or predecessors, in each case, whether grounded in tort, contract, statute or otherwise, whether pending or asserted in the future;
- all net income or net losses arising from the assets and liabilities that are reflected in the Carolina Group and all net proceeds from any disposition of those assets, in each case, after deductions to reflect dividends paid to holders of Carolina Group stock or credited to the Loews Group in respect of its intergroup interest; and
- any acquisitions or investments utilizing assets reflected in the Carolina Group.

Our certificate of incorporation defines the Loews Group generally as our assets and liabilities or that of any of our subsidiaries, other than the interest in the economic performance of the Carolina Group represented by the outstanding shares of Carolina Group stock.

The Carolina Group stock has no preemptive or conversion rights.

The Carolina Group stock is listed on the New York Stock Exchange under the ticker symbol CG.

The transfer agent and registrar for the Carolina Group stock is Mellon Investor Services LLC, 85 Challenger Road, Ridgefield Park, NJ 07660 (telephone: (800) 851-9677).

The Carolina Group Allocation Fraction

Our certificate of incorporation defines the Carolina Group Allocation Fraction to represent the interest in the economic performance of the Carolina Group reflected by Carolina Group stock issued to the public. At any time that all of the interest in the economic performance of the Carolina Group is not reflected by the outstanding Carolina Group stock, this fraction will be used, in effect, to allocate to the Loews Group the right to participate, to the extent of its intergroup interest, in any dividend, distribution, liquidation or other payment made to holders of Carolina Group stock. At any time that all of the interest in the economic performance of the Carolina Group is fully reflected by the outstanding Carolina Group stock, this fraction will equal one and, accordingly, the intergroup interest will equal zero.

As of February 17, 2006, the Carolina Group Allocation Fraction was 0.4503.

Subject to the criteria we describe below, this fraction is subject to adjustment from time to time as our board of directors deems appropriate:

to reflect subdivisions (by stock split or otherwise) and combinations (by reverse stock split or otherwise) of Carolina Group stock and stock dividends payable in shares of Carolina Group stock;

Table of Contents

to reflect the fair market value of any allocations by us of cash, property or other assets or liabilities from the Loews Group to the Carolina Group (or vice versa), or of cash or property or other assets or liabilities of the Loews Group to, or for the benefit of, employees of businesses attributed to the Carolina Group in connection with employee benefit plans or arrangements of Loews or any of its subsidiaries (or vice versa);

to reflect the number of shares of our capital stock contributed to, or for the benefit of, employees of businesses attributed to the Carolina Group in connection with benefit plans or arrangements of us or any of our subsidiaries;

to reflect repurchases by us, on behalf of the Loews Group or the Carolina Group, of shares of Carolina Group stock;

to reflect issuances of Carolina Group stock for the account of the Carolina Group or the Loews Group;

to reflect dividends or other distributions to holders of Carolina Group stock, to the extent a pro rata payment is not made to the Loews Group; and

under such other circumstances as our board of directors determines appropriate to reflect the economic substance of any other event or circumstance.

In addition, in determining the percentage interest of holders of Carolina Group stock in any particular dividend or other distribution, we will reduce the economic interest of holders of Carolina Group stock in the Carolina Group to reflect dilution arising from shares of Carolina Group stock reserved for issuance upon conversion, exercise or exchange of other securities that are entitled to participate in such dividend or other distribution.

Any such adjustment must be made in a manner that our board of directors determines to be fair and equitable to holders of Loews common stock and holders of Carolina Group stock. In the event that any asset or other property attributed to the Loews Group is allocated to the Carolina Group, the consideration paid by us to acquire such asset or other property will be presumed to be its fair market value as of its acquisition. Any adjustment to the Carolina Group Allocation Fraction made by our board of directors in accordance with these principles will be at the sole discretion of our board of directors and will be final and binding on all shareholders.

Voting Rights

Except as we describe below, each outstanding share of Carolina Group is entitled to 1/10 of a vote and each outstanding share of Loews common stock is entitled to one vote. The voting rights of Carolina Group stock are subject to adjustments to reflect stock splits, reverse stock splits, stock dividends or certain stock distributions with respect to Loews common stock or Carolina Group stock.

Except as otherwise required by Delaware law or any special voting rights of any class or series of Loews preferred stock or any other class of our common stock, holders of shares of Loews common stock, Carolina Group stock and any other class or series of our capital stock that are entitled to vote will vote as one class with respect to all matters to be voted on by our shareholders. No separate class vote of Carolina Group stock is required, except as required by the Delaware General Corporation Law. When a vote is taken on any matter as to which all of our common shares are voting together as one class, holders of Loews common stock have significantly greater voting power than holders of Carolina Group stock.

Dividends

General. Because we are a holding company, our principal source of funds is dividends we receive from our subsidiaries. The failure of the independent board of directors of Lorillard Tobacco Company or Lorillard to pay dividends could lead to our decreasing or eliminating dividends on Carolina Group stock. Dividends on Carolina Group stock are limited to an available dividend amount equal to the lesser of:

the assets of Loews legally available for dividends; and

Table of Contents

the amount that would legally be available for dividends on Carolina Group stock if the Carolina Group were a separate Delaware corporation.

Dividends on Loews common stock are limited to the amount of funds legally available for all of Loews, less the sum of the available dividend amount for Carolina Group stock. Net losses of either group and dividends or distributions on shares of either class of common stock will reduce the funds of Loews legally available for payment of dividends on Carolina Group stock.

Discrimination among classes of common shares. Our certificate of incorporation does not provide for mandatory dividends. Provided that there are sufficient assets to pay a dividend on a class of stock as described above under General, our board of directors has the sole authority and discretion to declare and pay dividends (or to refrain from declaring or paying dividends), in equal or unequal amounts, on Loews common stock, Carolina Group stock, any other class or series of our capital stock or any two or more of such classes. Subject to not exceeding the applicable available dividend amount, our board of directors has this power regardless of the relative available dividend amounts, prior dividend amounts declared, liquidation rights or any other factor.

Share Distributions

We may declare and pay a distribution consisting of shares of Loews common stock, Carolina Group stock or any other of our securities or securities of any other person to holders of Loews common stock or Carolina Group stock only in accordance with the provisions described below. We refer to this type of distribution as a share distribution.

Distributions on Loews common stock or Carolina Group stock. We may declare and pay a share distribution to holders of Loews common stock or Carolina Group stock consisting of any securities of Loews, any subsidiary of Loews, or any other person. However, securities attributable to a group may be distributed to holders of another group only for consideration. In the case of shares of Carolina Group stock distributed to holders of Loews common stock, such consideration may consist, in whole or in part, of a decrease in the intergroup interest, if any, held by the Loews Group in the Carolina Group.

Discrimination among classes of Loews common shares. Our certificate of incorporation does not provide for mandatory share distributions. Subject to the restrictions described above, our board of directors has the sole authority and discretion to declare and pay share distributions (or to refrain from declaring or paying share distributions), in equal or unequal amounts, on Loews common stock, Carolina Group stock, or any other class or series of our capital stock or any two or more of such classes. Subject to not exceeding the applicable available dividend amounts, our board of directors has this power regardless of the relative available dividend amounts, prior share distributions declared, liquidation rights or any other factor.

Redemption

Redemption in exchange for shares of Loews common stock or cash following a tax event at option of our board of directors. At any time following the occurrence of a tax event, our board of directors, in its sole discretion, may redeem all outstanding shares of Carolina Group stock for (1) shares of Loews common stock or (2) cash. In such event, each share of Carolina Group stock will be redeemed in exchange for (1) that number of shares of Loews common stock, calculated to the nearest 1/10,000, equal to 100% of the ratio of the average market price per share of Carolina Group stock to the average market price per share of Loews common stock or, at the sole discretion of our board of directors, (2) such amount of cash, calculated to the nearest $0.01, equal to 105% of the average market price per share of Carolina Group stock.

Table of Contents

In order to redeem Carolina Group stock on the basis of a tax event, we must obtain an opinion of counsel that, as a result of the enactment of an amendment to or change (or prospective change) in a law or an interpretation of the law that takes place after Carolina Group stock is issued, there is more than an insubstantial risk that, for tax purposes:

- any issuance of Carolina Group stock would be treated as a sale or other taxable disposition by Loews or any of its subsidiaries of any of the assets, operations or relevant subsidiaries underlying Carolina Group stock;
- the existence of Carolina Group stock would subject us, our subsidiaries or our affiliates, or any of our or their respective successors to the imposition of tax or other adverse tax consequences; or
- either Loews common stock or Carolina Group stock would not be treated solely as our common stock.

For purposes of the optional redemption provision described above, the average market price per share of Loews common stock or Carolina Group stock, as the case may be, means the average of the daily closing market value per share for Loews common stock or Carolina Group stock for the 20 consecutive trading days ending on the 5th trading day prior to the date notice of the redemption is mailed to holders of Carolina Group stock.

If we choose to redeem shares of Carolina Group stock for cash, holders of Carolina Group stock generally will be subject to tax in the event the total consideration they receive for their Carolina Group stock exceeds their adjusted basis in the Carolina Group stock.

Redemption in exchange for shares of Loews common stock or cash. At any time until the 90th day after the occurrence of a disposition of all or substantially all of the assets attributed to the Carolina Group, our board of directors, in its sole discretion, may redeem all outstanding shares of Carolina Group stock for (1) shares of Loews common stock or (2) cash. In such event, each share of Carolina Group stock will be redeemed in exchange for (1) that number of shares of Loews common stock, calculated to the nearest 1/10,000, equal to 115% of the ratio of the average market price per share of Carolina Group stock to the average market price per share of Loews common stock or (2) such amount of cash, calculated to the nearest $0.01, equal to 120% of the average market price per share of Carolina Group stock.

For purposes of the optional redemption provision described above, the average market price per share of Loews common stock or Carolina Group stock, as the case may be, means the average of the daily closing market value per share for Loews common stock or Carolina Group stock for the 20 consecutive trading days ending on the 5th trading day prior to the date notice of the redemption is mailed to holders of Carolina Group stock.

If we choose to redeem shares of Carolina Group stock for cash, holders of Carolina Group stock generally will be subject to tax in the event the total consideration they receive for their Carolina Group stock exceeds their adjusted basis in the Carolina Group stock.

Redemption in exchange for stock of qualifying subsidiaries at option of our board of directors. We may, in our sole discretion, at any time, without shareholder approval, redeem all outstanding shares of Carolina Group stock in exchange for shares of common stock of a subsidiary of Loews that satisfies certain requirements under the Internal Revenue Code of 1986, as amended, and that directly or indirectly holds all of the assets and liabilities of the Carolina Group (and no other material assets or liabilities). We refer to a subsidiary that satisfies these requirements as a qualifying subsidiary. This type of redemption must be tax-free to the holders of Carolina Group stock, except with respect to any cash that holders receive in lieu of fractional shares.

In this case, we would exchange the shares of Carolina Group stock for an aggregate number of shares of common stock of the qualifying subsidiary equal to the number of outstanding shares of common stock of the qualifying subsidiary held by us multiplied by the Carolina Group Allocation Fraction.

We may redeem shares of Carolina Group stock for qualifying subsidiary stock only if we have sufficient funds legally available for distribution under Delaware law.

Table of Contents

Redemption in connection with certain significant transactions. In the event of a sale, transfer, assignment or other disposition of all or substantially all of the assets attributed to the Carolina Group, we may take one of the actions set forth below on or prior to the 90th calendar day following the disposition date, which action will be selected in the sole discretion of our board of directors; provided, however, that if (1) we have received any of the net proceeds from the disposition, and (2) we have determined not to retain all such amounts as Loews tobacco contingency reserves, we must take one of the actions set forth below on or prior to the 90th calendar day following the disposition date:

- Redeem each outstanding share of Carolina Group stock in exchange for a number of shares of Loews common stock (calculated to the nearest 1/10,000) equal to 115% of the ratio of the average market price per share of Carolina Group stock to the average market price per share of Loews common stock.

- Subject to limitations, declare and pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a pro rata basis in an aggregate amount equal to the net proceeds of the disposition received by us (less any Loews tobacco contingency reserves) allocable to Carolina Group stock.

- Subject to limitations, if the disposition involves the disposition of all, not merely substantially all, of the assets attributed to the Carolina Group, redeem all outstanding shares of Carolina Group stock in exchange for cash and/or securities (other than Loews common stock) or other property in an aggregate amount equal to the net proceeds of such disposition allocable to Carolina Group stock.

- Subject to limitations, if the disposition involves substantially all (but not all) of the assets attributed to the Carolina Group, redeem a number of outstanding shares of Carolina Group stock in exchange for a redemption price in cash and/or securities (other than Loews common stock) equal to the net proceeds of that disposition allocable to Carolina Group stock. The number of shares of Carolina Group stock to be redeemed would be equal to the lesser of (1) a number determined by dividing the aggregate amount of net proceeds allocated to the redemption of these shares by the average market value of one share of Carolina Group stock during the 20 consecutive trading days ending on the 5th trading day immediately preceding the date of the public announcement that a definitive agreement has been signed for the disposition and (2) the total number of outstanding shares of Carolina Group stock.

- Subject to limitations, redeem some shares of Carolina Group stock in exchange for shares of Loews common stock at the exchange rate described in the first bullet above, and use an amount equal to a portion of the net proceeds of the disposition received by us (less any Loews tobacco contingency reserves) allocable to Carolina Group stock to declare and pay a dividend as described in the second bullet above.

- Subject to limitations, redeem some shares of Carolina Group stock in exchange for shares of Loews common stock at the exchange rate described in the first bullet above, and use an amount equal to a portion of the net proceeds of the disposition allocable to Carolina Group stock to redeem part or all of the remaining shares of Carolina Group stock as described in the third and fourth bullets above.

The value of the consideration paid to holders of Carolina Group stock in the different scenarios described above could vary significantly. Our board of directors would not be required to select the option that would result in the distribution with the highest value to the holders of Carolina Group stock.

It is possible that Lorillard will, in its independent judgment, retain some or all of the net proceeds from the sale of all or substantially all of the assets of the Carolina Group. It is also possible that after we receive some or all of the net proceeds from the sale of substantially all of the assets of the Carolina Group, that we will retain some or all of such net proceeds as Loews tobacco contingency reserves.

If, on the 91st day following the disposition date, we have not redeemed all of the outstanding shares of Carolina Group stock and (1) we have not received 100% of the net proceeds from the disposition, or (2) we have received some or all of the net proceeds from the disposition but have determined to retain Loews tobacco contingency reserves, the following principles will apply. Each time that we receive any distributions from

Table of Contents

Lorillard, we are required to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a pro rata basis in an aggregate amount equal to the amount of the distribution (less any increase in Loews tobacco contingency reserves made in connection with each new distribution from Lorillard) allocable to Carolina Group stock. If, and when, we, in our sole discretion, determine to release some or all of the Loews tobacco contingency reserves, we are required promptly to pay a dividend in cash and/or in securities (other than Loews common stock) or other property to holders of the outstanding shares of Carolina Group stock equally on a pro rata basis in an aggregate amount equal to the released Loews tobacco contingency reserves allocable to Carolina Group stock. In no event will we be required to make dividend payments more frequently than once per fiscal quarter. Any unpaid amounts in any fiscal quarter will be accumulated for payment in the next fiscal quarter. Notwithstanding the foregoing, at any time after:

- Lorillard has distributed to us all previously undistributed portions such that we have received 100% of the net proceeds from the disposition;

- there are no remaining Loews tobacco contingency reserves; and

- the remaining assets of the Carolina Group consist solely of cash and/or cash equivalents, such amount, the final cash amount,

we may redeem all of the outstanding shares of Carolina Group stock for the greater of (x) the portion of the final cash amount allocable to the Carolina Group, divided equally among the outstanding shares of Carolina Group stock, and (y) $.001 per share of Carolina Group stock.

For purposes of these redemption provisions, the average market price per share of Loews common stock or Carolina Group stock, as the case may be, means the average of the daily closing market value per share for such Loews common stock or Carolina Group stock, as applicable, during the 20 consecutive trading days ending on the 5th trading day immediately preceding the date of the public announcement that a definitive agreement has been signed for the disposition.

For purposes of these provisions, substantially all of the assets of the Carolina Group as of any date means a portion of such assets that represents at least 80% of the fair value of the assets attributed to the Carolina Group as of such date.

For purposes of these provisions, the term net proceeds means the proceeds from the sale received after payment or provision for:

- repayment of any notional intergroup debt;

- taxes and transaction costs in connection with the sale;

- any fixed tobacco-related liabilities; and

- any other liabilities or obligations (contingent or otherwise) of the Carolina Group (other than any tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise) which are not fixed tobacco-related liabilities, whether or not any such contingency, cost or liability would be deductible as a cost or expense or would qualify for treatment as a reserve under generally accepted accounting principles), including

  - indemnity or guarantee obligations; and

  - liabilities assumed for future purchase price adjustments.

For purposes of these provisions, the term Loews tobacco contingency reserves means an amount retained by us which our board of directors from time to time determines in good faith should be retained for tobacco-related contingencies or other tobacco-related costs or liabilities of any kind (by way of contract, tort, indemnity, guarantee or otherwise), whether or not any such contingency, cost or liability would be deductible as a cost or

Table of Contents

expense or would qualify for treatment as a reserve under generally accepted accounting principles, in each case, other than fixed tobacco-related liabilities.

For purposes of these provisions, fixed tobacco-related liabilities means noncontingent tobacco-related costs or liabilities in fixed and determinable amounts directly arising from a final and nonappealable award or order of a court of competent jurisdiction or a contractual obligation.

We may pay a dividend or redeem shares of Carolina Group stock only if we have funds for distribution under Delaware law and the amount to be paid to holders is less than or equal to the available distribution amount.

Certain exceptions. The provisions described under Redemption in connection with certain significant transactions will not apply, and we will not be required to redeem any securities or make any dividend or other distribution it would otherwise be required to make, in some circumstances, including the following:

- if the underlying disposition is conditioned upon the affirmative vote of a majority of holders of Carolina Group stock, voting as a separate class;
- if the disposition is in connection with a liquidation of Loews;
- in connection with a spin-off or similar disposition of our entire interest in the Carolina Group to the holders of Carolina Group stock, including a disposition that is made in connection with a redemption as described under Redemption in exchange for shares of Loews common stock or cash following a tax event at option of our board of directors, Redemption in exchange for shares of Loews common stock or cash or Redemption in exchange for stock of qualifying subsidiaries at option of our board of directors; and
- if the disposition is to a person or group of which we are the majority owner and the Carolina Group receives in exchange primarily equity securities of that person or group as consideration and that person or group engages or proposes to engage primarily in one or more businesses similar or complementary to the businesses reflected in the Carolina Group prior to such transaction.

General Procedures

Public announcements; notices. In the case of specified dispositions or a redemption, we will publicly announce or otherwise provide specified information to holders of Carolina Group stock.

Fractional shares. Our board of directors will not have to issue or deliver any fractional shares to any holder of Carolina Group stock upon any redemption, dividend or other distribution described under Redemption. Instead of issuing fractional shares, we will pay cash for the fractional share in an amount equal to the fair market value of the fractional share, without interest.

No adjustments for dividends or other distributions. No adjustments for dividends will be made upon the exchange of any shares of Carolina Group stock; except that, if a redemption date with respect to Carolina Group stock comes after the record date for the payment of a dividend or other distribution to be paid on that stock but before the payment or distribution, the registered holders of those shares at the close of business on such record date will be entitled to receive the dividend or other distribution on the payment date, notwithstanding the redemption of those shares or our default in payment of the dividend or distribution.

Payment of taxes. If any person exchanging a certificate representing shares of Carolina Group stock wants us to issue a certificate in a name other than the registered name on the old certificate, that person must pay any transfer or other taxes required by reason of the issuance of the certificate in another name or establish, to the satisfaction of us or our agent, that the tax has been paid or is not applicable.

Table of Contents

Notices of disposition of all or substantially all of the assets attributed to the Carolina Group. Promptly following the disposition date, we will announce publicly by press release:

- the net proceeds of the disposition;
- the number of shares outstanding of Carolina Group stock on the date of the notice; and
- the Carolina Group Allocation Fraction on the date of the notice.

Not later than the 60th calendar day after the disposition date, we will announce publicly by press release whether we will pay a special dividend, redeem shares of Carolina Group stock for shares of Loews common stock or cash and/or other securities or take some other action permitted under the provisions described above. In addition, in the case of a dividend, we will announce in the press release the record date for determining holders entitled to receive the dividend. Notwithstanding the foregoing, we may take additional time, to the extent determined necessary in the judgment of our board of directors, to assess the appropriate amount of the net proceeds to be held in reserve for contingent liabilities.

We will also mail to each holder of shares of Carolina Group stock any additional notices and other information required by law or our certificate of incorporation.

Liquidation Rights

In the event of a liquidation, dissolution or winding up of us, whether voluntary or involuntary, we will first pay or provide for payment of our debts and other liabilities, including the liquidation preferences of any class or series of Loews preferred stock. Thereafter, holders of shares of Loews common stock, Carolina Group stock and any other class of our common stock will share ratably in the funds of Loews remaining for distribution to our common shareholders in proportion to the aggregate market capitalization of the outstanding shares of each class of stock, as applicable, to the aggregate market capitalization of all the outstanding shares of Loews common stock, Carolina Group stock and any other class of our common stock outstanding. We will calculate the market capitalizations based on the 20 consecutive trading days ending on the 5th trading day immediately prior to the date of the public announcement of the liquidation, dissolution or winding up of us.

Neither of the following, by itself, will constitute a liquidation, dissolution or winding up of us:

- the consolidation or merger of us with or into any other corporation or corporations or the sale, transfer or lease of all or substantially all of the assets of us; or
- any transaction or series of related transactions that results in all of the assets and liabilities reflected in the Carolina Group being held by one or more of our subsidiaries and the distribution of shares of such subsidiary or subsidiaries, and no other material assets or liabilities, to the holders of the outstanding shares of Carolina Group stock.

Determinations by Our Board of Directors

Any determinations made by our board of directors under any provision described in this section Carolina Group Stock will be final and binding on all of our shareholders, except as may otherwise be required by law. We will prepare a statement of any determination by our board of directors respecting the fair market value of any properties, assets or securities, and will file the statement with our Secretary.

Anti-Takeover Considerations

The Delaware General Corporation Law, our certificate of incorporation and our by-laws contain provisions which could serve to discourage or to make more difficult a change in control of us without the support of our board of directors or without meeting various other conditions.

25

Extraordinary Corporate Transactions

Delaware law provides that the holders of a majority of the shares entitled to vote must approve any fundamental corporate transactions such as mergers, sales of all or substantially all of a corporation s assets, dissolutions, etc.

State Takeover Legislation

Section 203 of the Delaware General Corporation Law, in general, prohibits a business combination between a corporation and an interested shareholder within three years of the time such shareholder became an interested shareholder, unless (a) prior to such time, the board of directors of the corporation approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder, (b) upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, exclusive of shares owned by directors who are also officers and by certain employee stock plans or (c) at or subsequent to such time, the business combination is approved by the board of directors and authorized by the affirmative vote at a shareholders meeting of at least 66 2/3 % of the outstanding voting stock which is not owned by the interested shareholder. The restrictions of Section 203 of the Delaware General Corporation Law do not apply to corporations that have elected, in the manner provided therein, not to be subject to Section 203 of the Delaware General Corporation Law or, with certain exceptions, which do not have a class of voting stock that is listed on a national securities exchange or authorized for quotation on the Nasdaq or held of record by more than 2,000 shareholders. We have elected not to be governed by Section 203 of the Delaware General Corporation Law.

Rights of Dissenting Shareholders

Delaware law does not afford appraisal rights in a merger transaction to holders of shares that are either listed on a national securities exchange, quoted on Nasdaq or held of record by more than 2,000 shareholders, provided that such shares will be converted into stock of the surviving corporation or another corporation, which corporation in either case must also be listed on a national securities exchange, quoted on Nasdaq or held of record by more than 2,000 shareholders. In addition, Delaware law denies appraisal rights to shareholders of the surviving corporation in a merger if the surviving corporation s shareholders weren t required to approve the merger.

Shareholder Action

Delaware law provides that, unless otherwise stated in the certificate of incorporation, any action which may be taken at an annual meeting or special meeting of shareholders may be taken without a meeting, if a consent in writing is signed by the holders of the outstanding stock having the minimum number of votes necessary to authorize the action at a meeting of shareholders. Our certificate of incorporation does not provide otherwise and thus permits action by written consent.

Meetings of Shareholders

Our by-laws provide that special meetings of the shareholders may be called at any time by the board of directors or by the chairman of the board, the president or by the secretary or upon the written request of holders of a majority of the shares of our capital stock entitled to vote in an election of directors.

Cumulative Voting

Delaware law permits shareholders to cumulate their votes and either cast them for one candidate or distribute them among two or more candidates in the election of directors only if expressly authorized in a corporation s certificate of incorporation. Our certificate of incorporation does not authorize cumulative voting.

Table of Contents

Removal of Directors

Delaware law provides that, except in the case of a classified board of directors or where cumulative voting applies, a director, or the entire board of directors, of a corporation may be removed, with or without cause, by the affirmative vote of a majority of the shares of the corporation entitled to vote at an election of directors.

Our by-laws provide that any or all of the directors may be removed, with or without cause, by vote of the shareholders.

Vacancies

Delaware law provides that vacancies and newly created directorships resulting from a resignation or any increase in the authorized number of directors elected by all of the shareholders having the right to vote as a single class may be filled by a majority of the directors then in office, unless the governing documents of a corporation provide otherwise.

Our by-laws provide that newly created directorships resulting from an increase in the number of directors and vacancies occurring in the board of directors for any reason, may be filled by vote of a majority of the directors then in office, although less than a quorum, at any meeting of the board of directors or may be elected by a plurality of the votes cast by the holders of shares of capital stock entitled to vote in the election at a special meeting of the shareholders called for that purpose.

No Preemptive Rights

Holders of Loews common stock or Carolina Group stock do not have any preemptive rights to subscribe for any additional shares of capital stock or other obligations convertible into or exercisable for shares of capital stock that Loews may issue in the future.

RELATIONSHIP BETWEEN THE LOEWS GROUP AND THE CAROLINA GROUP

The description of the Carolina Group policy statement below is not complete and is qualified in its entirety by reference to the Carolina Group policy statement. For information about how to obtain this document, see Where You Can Find More Information on page 4. We urge you to read the Carolina Group policy statement in its entirety.

The Carolina Group Policy Statement

In connection with the creation and issuance of Carolina Group stock, we adopted the Carolina Group policy statement, which we have followed and intend to continue to follow. While it has no present intention to do so, our board of directors may amend the Carolina Group policy statement at any time without shareholder consent.

General Policy

Our board of directors has determined that all material matters in which holders of Loews common stock and Carolina Group stock may have divergent interests will be generally resolved in a manner that is in the best interests of us and our common shareholders of all classes after giving consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of our common shares. Under the Carolina Group policy statement, the relationship between the Loews Group and the Carolina Group and the means by which the terms of any material transaction between them will be determined will be governed by a process of fair dealing. In making determinations in connection with the policies set forth in the Carolina Group policy statement, the members of our board of directors will act in a fiduciary capacity and in accordance with legal guidance concerning their obligations under applicable law.

Table of Contents

Relationship Between the Loews Group and the Carolina Group

Lorillard is managed by its independent board of directors and our other subsidiaries are managed by their respective boards of directors.

There are limited financial arrangements between the Loews Group and the Carolina Group, including, for example, with respect to debt, taxes and fees for services provided from one group to the other. Given the dissimilar nature of the businesses underlying each group, we do not expect the intergroup interactions to be numerous or substantial.

The Carolina Group policy statement provides that, except as otherwise provided in the policy statement, all material commercial transactions between the Loews Group and the Carolina Group will be on commercially reasonable terms taken as a whole and will be subject to review by, and approval of, our board of directors.

Each group has access to the support services of the other group. For shared corporate services that arise as a result of being part of a combined entity, including securities filing and financial reporting services, costs relating to these services are:

- allocated, at cost, directly to the group utilizing those services; and
- if not directly allocable to a group, allocated, at cost, between the groups on a fair and reasonable basis as our board of directors determines.

For other support services, the Carolina Group policy statement provides that each group will seek to minimize the aggregate costs incurred by the two groups combined, although each group also will be entitled to negotiate and procure support services on its own either from the other group or from third parties.

The Carolina Group policy statement provides that the Carolina Group will not acquire an intergroup interest in the Loews Group.

Corporate Opportunities

The Carolina Group policy statement provides that our board of directors will allocate any business opportunities and operations, any acquired assets and businesses and any assumed liabilities between the two groups, in whole or in part, as it considers to be in the best interests of us and our shareholders as a whole and as contemplated by the other provisions of the policy statement. If a business opportunity or operation, an acquired asset or business, or an assumed liability would be suitable to be undertaken by or allocated to either group, our board of directors will allocate it using its business judgment or in accordance with procedures that our board of directors adopts from time to time to ensure that decisions will be made in the best interests of us and our shareholders as a whole. Any allocation of this type may involve the consideration of a number of factors that our board of directors determines to be relevant.

Except under the policy statement and any other policies adopted by our board of directors, neither the Carolina Group nor the Loews Group has any duty, responsibility or obligation to provide financial support to the other group, except for the approximately $1.5 billion (as of February 15, 2006) in notional intergroup debt described under About Loews Corporation Carolina Group/Loews Group or otherwise to assist the other group.

Dividend Policy

General. The Carolina Group policy statement provides that, subject to the limitation on dividends set forth in our certificate of incorporation, including any preferential rights of any series of our preferred stock that we may issue in the future, and to the limitations of applicable law, holders of shares of Carolina Group stock will be entitled to receive dividends on that stock when, as and if, our board of directors authorizes and declares

Table of Contents

dividends on that stock. The payment of dividends on Loews common stock and Carolina Group stock will be a business decision that our board of directors makes from time to time based upon our results of operations, financial conditions and capital requirements and other factors that our board of directors considers relevant.

Payment of dividends on Loews common stock and Carolina Group stock may be restricted by loan agreements, indentures and other transactions that we enter into from time to time. In addition, our ability to pay dividends may be limited by our holding company structure. Because we have no operations of our own, our ability to pay dividends is dependent on the cash flows of, and cash distributions from, our subsidiaries. The subsidiaries are separate and independent legal entities and have no obligation, contingent or otherwise, to make funds available to us, whether in the form of loans, dividends or otherwise.

Available Dividend Amount. Dividends on Carolina Group stock are limited to an available dividend amount equal to the lesser of:

- the assets of Loews legally available for dividends; and
- the amount that would legally be available for dividends on Carolina Group stock if the Carolina Group were a separate Delaware corporation.

Dividends on Loews common stock are limited to the amount of legally available funds for all of Loews less the sum of the available dividend amount for Carolina Group stock.

The available dividend amount for the Carolina Group is determined by the consolidated financial statements of Lorillard and its subsidiaries combined with any additional assets and liabilities allocated to the Carolina Group.

Dependence on Lorillard Dividends. For so long as the principal asset attributed to the Carolina Group is the stock of Lorillard, the principal source of cash to pay dividends on Carolina Group stock, including in respect of the Loews Group s intergroup interest, would be dividends paid by Lorillard to us. Although the Loews Group could, in effect, make loans to the Carolina Group in order to fund dividend payments, we have no current intention of causing the Loews Group to do so. Accordingly, our ability and willingness to pay dividends in respect of Carolina Group stock, including in respect of the Loews Group s intergroup interest, will depend primarily upon the payment of dividends by Lorillard to us.

Our certificate of incorporation provides that all dividends paid by Lorillard to us will be allocated to the Carolina Group. Lorillard s principal source of cash is dividends from its wholly owned subsidiary, Lorillard Tobacco Company. The payment of dividends by each of Lorillard and Lorillard Tobacco Company is a business decision of that company s board of directors, subject to the limitations on dividends under applicable law and under any loan agreements, indentures or other transactions that each company enters into from time to time.

We understand that in making their respective business decisions regarding payment of dividends, the boards of directors of Lorillard and Lorillard Tobacco Company plan to take into account the results of operations, financial condition and capital requirements of such entity and such other factors that the respective board of directors considers relevant, including cash needs in respect of payment obligations under the settlement agreements entered into between the major cigarette manufacturers, including Lorillard, and each of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico and certain other U.S. territories, cash needs for the cost of defending tobacco litigation, and cash needs for payment of judgments in or settlements of tobacco litigation.

None of the individuals currently serving as a director of Lorillard or Lorillard Tobacco Company is an officer, director or employee of Loews. As sole shareholder of Lorillard, we have the right to elect and remove directors of Lorillard. Should any person serving as a director of Lorillard be removed, resign or not seek reelection, we expect to nominate individuals who are not officers, directors or employees of Loews to fill such vacancies. We have no present intention to remove any person currently serving as a director of Lorillard.

Table of Contents

On July 14, 2000, the jury in the case of *Engle v. R.J. Reynolds Tobacco Co., et al.* (Circuit Court, Dade County, Florida, filed May 5, 1994) awarded $16.3 billion in punitive damages against Lorillard as part of a $145.0 billion verdict against all of the defendants. During May of 2003, a Florida appellate court reversed the judgment and decertified the class. The Florida Supreme Court heard oral arguments on November 3, 2004. As of the date of this prospectus, a decision on the appeal before the Florida Supreme Court is pending. Under an agreement in which the Engle class agreed not to pursue any collection of, or execution on, the judgment until completion of all appeals, including to the U.S. Supreme Court, Lorillard agreed to maintain a balance sheet net worth (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000) of at least $921.2 million. As of December 31, 2005, Lorillard had a balance sheet net worth of approximately $1.3 billion. Because dividends from Lorillard to us are deducted from the balance sheet net worth of Lorillard, this agreement may affect the payment of dividends by Lorillard to us.

If and when Lorillard pays dividends to us, we intend to apply all of the cash from such distributions in the following order of priority until the notional intergroup debt is repaid:

first, to satisfy or make provision for any intergroup or other obligations of the Carolina Group, other than with respect to the notional intergroup debt;

second, to satisfy accrued interest on the Carolina Group s notional intergroup debt;

third, to pay any regularly declared quarterly dividends on Carolina Group stock and to make proportional distributions to the Loews Group in respect of its intergroup interest in the Carolina Group;

fourth, to maintain up to $150.0 million for general corporate purposes, including for investments, on behalf of the Carolina Group (as of the date of this prospectus, approximately $100.0 million is being maintained in accordance with this provision); and

fifth, to reduce the principal of the Carolina Group s notional intergroup debt.

Amendment and Modification to the Carolina Group Policy Statement

Our board of directors may modify, suspend or rescind the policies set forth in the Carolina Group policy statement, including any resolution implementing the provisions of the policy statement. Our board of directors may also adopt additional or other policies or make exceptions with respect to the application of the policies described in the Carolina Group policy statement in connection with particular facts and circumstances, all as our board of directors may determine, consistent with its fiduciary duties to us and all of our shareholders.

Allocation of Certain Liabilities and Expenses

Carolina Group has been allocated any and all liabilities, costs and expenses of Loews and its subsidiaries and Lorillard and the subsidiaries and predecessors of Lorillard, arising out of or related to tobacco or otherwise arising out of the past, present or future business of Lorillard or its subsidiaries or predecessors, or claims arising out of or related to the sale of any businesses previously sold by Lorillard or its subsidiaries or predecessors, in each case, whether grounded in tort, contract, statute or otherwise, whether pending or asserted in the future.

Accordingly, we and/or Lorillard may make decisions with respect to litigation and settlement strategies designed to obtain dismissal or release of us from tobacco-related litigation or liabilities. Such decisions and strategies could result, for example, in limitations on payment of dividends by Lorillard to us or an increase in Lorillard s exposure in such litigation. In such an event, these decisions and strategies could have a material adverse effect on the value of the Carolina Group stock.

Table of Contents

Relationship with the Loews Group

Reallocation of Assets

We may reallocate assets between the Loews Group and the Carolina Group in exchange for an increase or decrease in the retained intergroup interest held by the Loews Group in the Carolina Group. Any reallocations of assets between the groups that do not result in such an adjustment, other than reallocations made under a contract for the provision of goods or services between the groups, will be accompanied by:

- the reallocation by the transferee group to the transferor group of other assets or consideration;
- the creation of intergroup debt owed by the transferee group to the transferor group; or
- the reduction of intergroup debt owed by the transferor group to the transferee group,

in each case, in an amount having a fair market value, in the judgment of our board of directors, equivalent to the fair market value of the assets reallocated by the transferor group.

Taxes

Loews and Lorillard are currently parties to a tax sharing agreement. The agreement provides that Lorillard will make payments to us, and we will make payments to Lorillard, in respect of the federal tax liability Lorillard would have if it were not a member of the Loews affiliated group. Any payments made pursuant to the tax sharing agreement between us and Lorillard will be credited to the Loews Group or the Carolina Group, as the case may be, for purposes of determining the allocation of responsibility for taxes between the Loews Group and the Carolina Group as described below.

According to the Carolina Group policy statement, the Carolina Group will generally be responsible for the consolidated tax liability, computed on a stand-alone basis, of a hypothetical affiliated group consisting of the Carolina Group, which we refer to as the hypothetical Carolina affiliated group. Such consolidated tax liability will take into account losses, deductions (including interest attributable to the notional intergroup debt) and other tax attributes, such as capital losses or charitable deductions, but only to the extent that such tax attributes could be utilized by the hypothetical Carolina affiliated group on a stand-alone basis.

With respect to each taxable period ending after the date that Carolina Group stock was initially issued, allocation of responsibility for taxes will be made between the Carolina Group and the Loews Group as follows:

- if the hypothetical Carolina affiliated group has consolidated federal taxable income, or consolidated, combined or unitary taxable income for state, local or foreign tax purposes, for the taxable period, then the Carolina Group will credit the Loews Group an amount equal to the tax that would have been payable by the hypothetical Carolina affiliated group had it filed a consolidated federal, or consolidated, combined or unitary state, local or foreign, tax return on a stand-alone basis for such taxable period and all prior taxable periods including periods before the formation of the Carolina Group; and
- if the hypothetical Carolina affiliated group has a consolidated net operating loss, net capital loss, excess tax credit or other tax attribute for federal income tax purposes, or a consolidated, combined or unitary net operating loss, net capital loss, excess tax credit or other tax attribute for state, local or foreign tax purposes, for the taxable period, then the Loews Group will credit the Carolina Group an amount equal to the refund to which the hypothetical Carolina affiliated group would have been entitled had it filed a consolidated federal, or consolidated, combined or unitary state, local or foreign, tax return on a stand-alone basis for such taxable period and all prior taxable periods including periods before the formation of the Carolina Group.

It is possible that the Internal Revenue Service may assert that Carolina Group stock is not stock of Loews, in which case the members of the Loews Group and the Carolina Group may not be members of the same federal income tax affiliated group filing consolidated returns. We believe that it is unlikely that the IRS would prevail on that view, but we can give no assurance in that regard. The Carolina Group would be responsible for any corporate-level taxes resulting from the treatment of Carolina Group stock as not our stock, and any corporate- level taxes on the actual or deemed disposition of the Carolina Group caused by the issuance of Carolina Group stock.

With respect to taxable periods ending on or prior to the date on which Carolina Group stock was initially issued, the Carolina Group will generally be responsible for the taxes attributable to the businesses and entities reflected in the Carolina Group. The responsibility of the Carolina Group for consolidated income taxes attributable to it will generally be considered to have been settled for taxable periods ending on or prior to the date on which Carolina Group stock was initially issued, except that consolidated income taxes resulting from audit adjustments or other tax contests from any prior year will be determined on a stand-alone basis. For example, the Carolina Group will be required to credit the Loews Group in the event that a loss or deduction attributable to the Carolina Group for such a period is disallowed.

Table of Contents

DESCRIPTION OF WARRANTS

We may issue warrants to purchase debt securities, preferred stock, Loews common stock, Carolina Group stock or other securities. We may issue warrants independently or together with other securities. Warrants sold with other securities may be attached to or separate from the other securities. We will issue warrants under one or more warrant agreements between us and a warrant agent that we will name in the prospectus supplement.

The prospectus supplement relating to any warrants we offer will include specific terms relating to the offering. These terms will include some or all of the following:

- the title of the warrants;
- the aggregate number of warrants offered;
- the designation, number and terms of the debt securities, preferred stock, Loews common stock, Carolina Group stock or other securities purchasable upon exercise of the warrants and procedures by which those numbers may be adjusted;
- the exercise price of the warrants;
- the dates or periods during which the warrants are exercisable;
- the designation and terms of any securities with which the warrants are issued;

10.20						
Second Quarter	6.14	4.80	4.80	11.95	9.67	10.15
Third Quarter	6.88	4.75	6.32	10.90	9.48	9.52
Fourth Quarter	6.50	4.81	6.20	9.70	4.66	5.98

On March 18, 2015, the last quoted price of our common stock on the NYSE MKT was $10.16 per share. As of March 18, 2015, there were 156 holders of record, including holders who are nominees for an undetermined number of beneficial owners, of our common stock.

The Board of Directors of the Company authorizes in its discretion the payment of cash dividends on its common stock, subject to an ongoing review of our profitability, liquidity and future operating cash requirements. We and some of our subsidiaries are subject to restrictions under our warehouse borrowings and long-term debt agreements on our ability to pay dividends if there is an event of default or otherwise. Plus, certain debt arrangements require the maintenance of ratios and contain restrictive financial covenants that could limit our ability, and the ability of our subsidiaries, to pay dividends. The Board of Directors did not declare cash dividends on our common stock during the years ended December 31, 2014 and 2013. We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide the information required by this Item.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Refer to Item 1. "Business Forward-Looking Statements" for a complete description of forward-looking statements. Refer to Item 1. "Business" for information on our businesses and operating segments.

Amounts are presented in thousands, except per share data or as otherwise indicated.

Market Conditions

The U.S. economy continued its recovery during 2014. Consumer sentiment rose to its highest level in eight years in December, lifted by healthy job growth, improved income expectations, and a decline in gasoline prices, which has also led to increased consumer spending. Labor market conditions, household and business spending continue their modest improvement. The U.S. economy has recovered all the jobs lost during the recession, adding almost 3.0 million jobs in 2014, while total unemployment fell to 5.6 percent in December 2014. Despite stronger economic data in various regions, wage growth, energy prices, credit market volatility, emerging market and geopolitical concerns continue to weigh on investor sentiment. These conditions in combination with fiscal policy and the impact of recent regulatory changes and the heightened regulatory and government scrutiny of financial institutions will continue to impact our results in 2015 and beyond.

The residential mortgage banking market experienced a challenging year in 2014. Industry loan origination volumes declined by 39% from 2013 levels as refinance activity waned and loan sale margins remained under pressure as industry overcapacity adjusted to lower mortgage demand. Housing markets in the U.S. continue to recover with the strength of recovery varying by market. Housing inventories reached their highest levels in over a year during the second quarter of 2014, which had helped slow price gains in many regions during the third quarter of 2014. However, during the fourth quarter, housing inventories dropped 20% to a seasonally adjusted 4.6 month supply as compared to a 5.5 month supply in the third quarter of 2014, partially fueled by sub-4 percent interest rates. The backlog of properties in foreclosure will also continue to play a role in the housing recovery.

In the U.S., both economic data and corporate earnings were mixed. The Federal Reserve Board announced further reductions in its bond buying stimulus program, which concluded in October. They will continue to evaluate progress toward their objectives of maximum employment and 2% inflation. Additionally, the Federal Reserve Board updated its guidance on short-term interest rates, indicated that it can be patient in beginning to tighten monetary policy. Mortgage and treasury rates were volatile throughout 2014, declined sharply in the fourth quarter, and through mid-February of 2015 were still lower than at the end of 2014.

Recent Developments

In January 2015, we entered into an agreement to acquire the mortgage operations of CashCall, Inc. (CashCall). The acquisition of CashCall's residential mortgage operation includes the complete origination platform including systems and personnel and will operate as a separate division of IMC under the name CashCall Mortgage (CCM). This division will operate as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. With the addition of CCM we will have a scalable retail platform able to expand quickly and efficiently. By using its marketing to generate internal leads, we expect CCM to be able to compete with some of the largest internet lenders across the nation. In addition, we intend to leverage this same

Table of Contents

marketing platform to expand volumes of our new AltQM products while CCM will be able to significantly expand the number of states approved to lend in by being part of IMC.

In 2013, CashCall's mortgage division was ranked by the Mortgage Bankers Association as the 31st largest residential mortgage originator with approximately $6.5 billion in total originations. In the fourth quarter of 2014, CashCall's mortgage division volume was approximately $800 million. As a centralized retail call center, loan applications are received and taken by loan agents directly from consumers and through the internet. As a result of the acquisition of CCM, we expect to add significant retail direct origination volume since CashCall will no longer be a correspondent seller as its mortgage operations will now be part of the Impac Mortgage Corp. platform beginning in 2015.

As a result of the acquisition, we expect to be considered a top ranked nationwide mortgage originator that offers a full spectrum of loan products including agency conventional, non-agency, prime jumbo and non-qualified mortgages. We believe that the call center operations, combined with its telephony, lead management and customized loan origination systems, makes the mortgage operations of CashCall a scalable retail origination platform that is able to close loans faster than competitors in a highly efficient manner.

Impac Mortgage Corp. has been doing business with CashCall, Inc. on a correspondent basis since 2013, and CashCall, Inc's. overall loan performance and delivery has reinforced Impac's decision to complete the acquisition. We expect to leverage the CashCall Mortgage platform and proven multifaceted marketing strategies to increase origination volume of expanded products including the Company's AltQM loan programs and government insured Ginnie Mae programs.

Table of Contents

Selected Financial Results for 2014 and 2013

	For the Three Months Ended			For the Year Ended	
	December 31, 2014	September 30, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenues:					
Gain on sale of loans, net	$ 9,060	$ 9,122	$ 7,908	$ 29,308	$ 57,188
Real estate services fees, net	3,447	3,243	4,855	14,729	19,370
Servicing income, net	813	913	1,311	4,586	4,240
Mark-to-market mortgage servicing rights	(1,576)	(998)	3,505	(5,116)	6,567
Other	20	195	120	1,682	1,004
Total revenues	11,764	12,475	17,699	45,189	88,369
Expenses:					
Personnel expense	9,557	9,062	12,845	37,398	64,769
General, administrative and other	4,300	4,410	5,893	18,637	25,191
Total expenses	13,857	13,472	18,738	56,035	89,960
Other income (expense):					
Net interest income (expense)	797	747	(121)	1,135	(86)
Change in fair value of long-term debt	(3,590)	-	(235)	(4,014)	(687)
Change in fair value of net trust assets	3,222	92	(1,301)	11,063	(3,678)
Total other (expense) income	429	839	(1,657)	8,184	(4,451)
Loss from continuing operations before income taxes	(1,664)	(158)	(2,696)	(2,662)	(6,042)
Income tax (benefit) expense	(100)	307	34	1,305	(1,031)
Net loss from continuing operations	(1,564)	(465)	(2,730)	(3,967)	(5,011)
Loss from discontinued operations, net of tax	(673)	(736)	(986)	(2,355)	(3,037)
Net loss	(2,237)	(1,201)	(3,716)	(6,322)	(8,048)
Net earnings attributable to noncontrolling interest	-	-	-	-	(136)
Net loss attributable to common stockholders	$ (2,237)	$ (1,201)	$ (3,716)	$ (6,322)	$ (8,184)
Diluted loss per share	$ (0.23)	$ (0.13)	$ (0.42)	$ (0.68)	$ (0.94)

Status of Operations

For 2014, we recorded a loss of $6.3 million as compared to a loss of $8.2 million in 2013. The loss in 2014 was primarily associated with a mark-to-market (MTM) loss from mortgage servicing rights (MSRs), an increase in the estimated fair value of long-term debt recorded in the fourth quarter of 2014 and a loss from discontinued operations. A decline in mortgage interest rates during the year resulted in a $5.1 million MTM loss from MSRs. Additionally, due to the ongoing improvement of the Company's financial condition, we updated the estimated fair value of long-term debt recording a $4.0 million expense in 2014. Additionally, with the recent resolution of our legacy repurchase requests from FNMA, we recorded additional provisions of $1.1 million in 2014 up to the expected liability of the settlement and a net $824,000 in previously disclosed legal settlements, net of recoveries. Gain on sale revenues and operating expenses both declined primarily due to a decrease in margins and the sale of our retail mortgage origination branches at the end of 2013.

For the fourth quarter of 2014, we recorded a net loss of $2.2 million as compared to a loss of $1.2 million for the third quarter of 2014 and net loss of $3.7 million for the fourth quarter of 2013. With the exception of the MTM adjustment of the long-term debt, we continued to see a positive quarterly trend of improving results. As a result of the continued improvements in the real estate markets and performance of the residual interests in our long-term mortgage portfolio, we updated the assumptions on the net trust assets (residuals) resulting in an increase in the fair value of $3.2 million. In the fourth quarter of 2014, we received cash flows of $2.3 million from our residual interests as compared to $2.0 million in the third quarter.

In the fourth quarter, lending volume increased to $925.4 million as compared to $747.3 million in the third quarter of 2014 and $276.0 million in the fourth quarter of 2013. The increase was predominantly due to an increase in the correspondent lending channel. The increase was primarily due to the bulk purchases from one correspondent seller, CashCall, Inc. Mortgage lending margins declined associated with a higher concentration of bulk correspondent volume which earns a lower margin but which also has a much lower cost to generate.

Additionally, gain on sale revenues increased slightly in the fourth quarter of 2014 as compared to the third quarter of 2014, while we recorded an increase in the MTM loss from MSR's due to declining interest rates across the year. Furthermore, our product mix shifted to a higher concentration of conventional loans which has a slightly lower margin product than government loans. Furthermore, during the fourth quarter, real estate service revenues increased slightly from the third quarter, despite the anticipated runoff of our long-term mortgage portfolio.

Summary Highlights

- Mortgage lending volumes increased in the fourth quarter of 2014 to $1.1 billion from $923.6 million in the third quarter of 2014 and $516.5 million in the fourth quarter of 2013, primarily due to the bulk purchases from CashCall Inc.

- Mortgage lending revenues remained relatively flat in the fourth quarter of 2014 at $9.2 million as compared to $9.1 million in the third quarter of 2014, but increased as compared to $7.9 million in the fourth quarter of 2013.

- Gain on sale margins decreased in the fourth quarter of 2014 to 83 bps, as compared to 99 bps in the third quarter of 2014, and 153 bps, in the fourth quarter of 2013 primarily associated with the higher concentration of correspondent volume, including bulk purchases of mortgage loans.

- Mortgage servicing income decreased in the fourth quarter of 2014 to $813 thousand from $913 thousand in the third quarter of 2014 and decreased compared to $1.3 million in the fourth quarter of 2013. The decline was due to the sale of servicing completed in the second and third quarters of 2014, which generated $23.0 million in cash.

- Mortgage servicing rights decreased to $24.2 million at December 31, 2014 as compared to $36.0 million at December 31, 2013. The decrease is due to bulk sales of servicing rights totaling $3.3 billion in unpaid principal balance (UPB).

- Real estate services revenue increased to $3.4 million in the fourth quarter of 2014 as compared to $3.2 million in the third quarter of 2014, but decreased as compared to $4.9 million in the fourth quarter of 2013. The decline in revenue is primarily due to the expected decline in the outstanding balance of the long-term mortgage portfolio.

- In our long-term mortgage portfolio, despite the decline in the outstanding balance of the portfolio, the residuals continue to generate better than expected cash flows of $2.3 million in

Table of Contents

the fourth quarter of 2014 and $9.9 million in 2014, as compared to $2.0 million in the third quarter of 2014 and $6.8 million in 2013.

Today, we have three operating segments: Mortgage Lending, Real Estate Services and Long-Term Mortgage Portfolio. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in the Corporate Segment.

Mortgage Lending

During 2014, as a result of bulk sales of servicing rights, the mortgage servicing portfolio decreased to $2.3 billion as of December 31, 2014, but produced net servicing fees of $4.6 million in 2014 as compared to $4.2 million in 2013. The estimated fair value of mortgage servicing rights decreased to $24.4 million at December 31, 2014, as compared to $36.0 million at December 31, 2013.

	For the year ended December 31,		
(in millions)	**2014**	**2013**	**% Change**
Originations	$ 2,848.8	$ 2,548.4	12%
Servicing Portfolio	2,267.1	3,128.6	28%

During 2014, our warehouse borrowing capacity increased from $265.0 million to $415.0 million. At December 31, 2014, we had five warehouse lender relationships. Subsequent to December 31, 2014, our warehouse borrowing capacity increased to $615.0 million.

Furthermore, we use a portion of our warehouse borrowing capacity to provide re-warehouse facilities to our customers, correspondent sellers and other small mortgage banking companies. During 2014, we increased our outstanding commitments to customers to $55.0 million. The average outstanding balance related to such commitments of the re-warehouse facilities increased 50% to $5.4 million in the fourth quarter of 2014 as compared to $3.6 million in the third quarter of 2014. By leveraging our re-warehousing division, we hope to increase the capture rate of our approved correspondent sellers business as well as expand our active customer base to include new customers seeking warehouse lines.

Our loan products primarily include conventional loans for Fannie Mae and Freddie Mac and government loans insured by FHA, VA and USDA.

Originations by Loan Type:

	For the year ended December 31,		
(in millions)	**2014**	**2013**	**% Change**
Government (1)	$ 817.8	$ 731.4	12%
Conventional (2)	1,947.7	1,788.0	9%
Other (3)	83.3	29.0	187%
Total originations	$ 2,848.8	$ 2,548.4	12%
Weighted Average FICO (4)	722	726	
Weighted Average LTV (5)	78.1%	84.1%	
Weighted Average Coupon	4.29%	4.04%	
Average Loan Size	$ 258,161	$ 220,526	

(1) Includes government-insured loans including FHA, VA and USDA

(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac

Table of Contents

(3) Includes $7.0 million of AltQM mortgages originated during 2014

(4) FICO Fair Isaac Company credit score

(5) LTV loan to value measures ratio of loan balance to estimated property value based upon third party appraisal

We expect to continue originating conventional and government-insured loans as we believe that having the ability to sell loans direct to GSEs and issue Ginnie Mae securities gives us a competitive advantage with regard to products, pricing, operational efficiencies and overall recruitment of high quality loan originators.

We continue to attempt to improve the mix of purchase-money transactions as we believe it will create better opportunities to increase our origination market share in a decreasing refinance market. Despite the slight decrease in purchase-money transactions in 2014 we focused on aligning ourselves with customers that were purchase transaction centric in their lead generation strategies and ability to offer a better customer service experience through our sales and operations. Additionally, the decrease in interest rates in the second half of 2014 as well as the acquisition of mortgage loans from CashCall Inc. through our correspondent channel led to a larger increase in refinance volumes.

	For the year ended December 31,			
(in millions)	**2014**	**%**	**2013**	**%**
Originations by Purpose:				
Refinance	$ 1,894.3	66%	$ 1,510.3	59%
Purchase	954.5	34%	1,038.1	41%
Total originations	$ 2,848.8	100%	$ 2,548.4	100%

In 2014, our mortgage lending channel that experienced the largest percentage of growth was our correspondent channel primarily due to the acquisition of mortgages from CashCall Inc. in the second half of 2014.

	For the year ended December 31,			
(in millions)	**2014**	**%**	**2013**	**%**
Originations by Channel:				
Wholesale	$ 598.9	21%	$ 971.2	38%
Correspondent	2,169.6	76%	867.8	34%
Retail	80.3	3%	709.4	28%
Total originations	$ 2,848.8	100%	$ 2,548.4	100%

As previously discussed, in the fourth quarter of 2013, we sold the retail branches and consolidated the lending fulfillment centers in an effort to consolidate costs, streamline our operations and focus on expanding lending volumes in our wholesale, correspondent and centralized retail call center consumer direct channel. With the acquisition of the CashCall mortgage operations in 2015, we expect the retail volume and percentage of total originations to increase while the correspondent volume and percentage declines.

As of December 31, 2014, we have approximately 713 approved wholesale relationships with mortgage brokerage companies and are approved to lend in 43 states. We have approximately 265 approved correspondent relationships with banks, credit unions and mortgage companies and are approved to lend in 48 states.

Table of Contents

Mortgage Servicing

During 2014, the mortgage servicing portfolio decreased to $2.3 billion as compared to $3.1 billion at the end of 2013. We earn servicing fees, net of sub-servicer costs from our mortgage servicing portfolio. The servicing portfolio generated gross servicing fees of $6.7 million, and $6.8 million in 2014 and 2013, respectively.

The following table includes information about our mortgage servicing portfolio:

(in millions)		At December 31, 2014	% 60+ days delinquent		At December 31, 2013	% 60+ days delinquent
Fannie Mae	$	496.1	0.71%	$	1,520.2	0.17%
Freddie Mac		837.8	0.16%		317.2	0.38%
Ginnie Mae		926.5	1.23%		1,203.5	1.28%
Other		6.7	0.00%		-	0.00%
Total owned servicing portfolio	$	2,267.1	0.72%	$	3,040.9	0.63%
Acquired Portfolio (1)	$	-	0.00%		87.7	9.26%
Total servicing portfolio	$	2,267.1	0.72%	$	3,128.6	0.87%
Number of loans		9,889			16,040	
W/A FICO		716			728	
W/A LTV		79.8%			84.9%	
Avg. Portfolio balance (in millions)		2,253.9			2,249.0	
Avg. Loan size (in thousands)		243.5			195.1	

(1) Represents servicing portfolio acquired as part of the 2010 acquisition of AmeriHome, which was sold in 2014.

We also believe that there are other opportunities that exist in today's mortgage and lending markets. Depending on the amount of capital we have available, either internally generated or otherwise, we are considering pursuing opportunities to begin originating small balance multifamily loans, originating, pooling and securitizing jumbo mortgage loans and offering warehouse lines to small banks, credit unions and mortgage banking firms as we did in the past.

In response to the lower origination volumes in the mortgage market and the current compliance landscape, we are exploring opportunities to provide mortgage products and services to meet the needs of our customers and borrowers. We believe there is an underserved mortgage market for a borrower with good credit who does not meet the new guidelines of a Qualified Mortgage (QM). In our opinion, as the demand for a non QM product grows and the investor appetite increases, the market for non QM mortgages will increase. In addition, the origination for home equity lines of credit (HELOC) loans is increasing creating another new product opportunity for lenders like us. We are currently in discussions with parties interested in funding and investing in these types of products and services that could create an opportunity for re-emergence of a liquid private securitization market. Furthermore, with the available warehouse capacity in today's market, we are seeking ways to utilize our re-warehousing business to partner with wholesale brokers and correspondent sellers to expand volumes and better serve customers and the borrowers.

Table of Contents

Real Estate Services

We provide portfolio loss mitigation and real estate services including real estate owned (REO) surveillance and disposition services, default surveillance and loss recovery services, short sale and real estate brokerage services, portfolio monitoring and reporting services. The source of revenue for this segment is primarily from the long-term mortgage portfolio, along with a small number of third party clients as well.

The real estate services segment continues to be profitable and posted net earnings of $8.7 million for the year ended December 31, 2014, as compared to $13.3 million for the same period in 2013. In a continuing effort to leverage our platform beyond mortgage lending, our real estate services segment has expanded by offering its loss mitigation services beyond our own legacy portfolio. We have recently established relationships with third-parties to perform mortgage insurance recovery services. In addition, we are in the final stages of solidifying an arrangement to provide title remediation for a third-party.

Long-Term Mortgage Portfolio

The long-term mortgage portfolio primarily includes the residual interests in securitizations, master servicing rights from the securitizations and long-term debt.

Although we have seen some stabilization and improvement in defaults, the portfolio continues to suffer losses and may continue for the foreseeable future until we see a significant prolonged decline in the number of foreclosure properties in the market.

At December 31, 2014, our residual interest in securitizations (represented by the difference between total trust assets and total trust liabilities) increased to $17.2 million, compared to $10.6 million at December 31, 2013. The increase in residual fair value in 2014 was primarily due to a decrease in losses and loss assumptions, decrease in investor yield assumptions as well as decreased discount rates on certain residual interest vintages.

For additional information regarding the long-term mortgage portfolio refer to *Financial Condition and Results of Operations* below.

Corporate

The corporate segment includes all corporate services groups, public company costs, unused office space for future growth as well as debt expense related to the Convertible Notes and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs are allocated to the operating segments. The costs associated with being a public company, unused space for growth as well as the interest expense related to the Convertible Notes and capital leases is not allocated to our operating segments and remains in this segment.

For additional information regarding the corporate segment refer to *Results of Operations by Business Segment* below.

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining

Table of Contents

which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include the following:

- fair value of financial instruments;
- variable interest entities and transfers of financial assets and liabilities;
- net realizable value of REO;
- repurchase reserve; and
- interest income and interest expense.

Fair Value of Financial Instruments

Financial Accounting Standards Board Accounting Standards Codification FASB ASC 820-10-35 defines fair value, establishes a framework for measuring fair value and outlines a fair value hierarchy based on the inputs to valuation techniques used to measure fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value measurements are categorized into a three-level hierarchy based on the extent to which the measurement relies on observable market inputs in measuring fair value. Level 1, which is the highest priority in the fair value hierarchy, is based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 is based on observable market-based inputs, other than quoted prices, in active markets for similar assets or liabilities. Level 3, which is the lowest priority in the fair value hierarchy, is based on unobservable inputs. Assets and liabilities are classified within this hierarchy in their entirety based on the lowest level of any input that is significant to the fair value measurement.

The use of fair value to measure our financial instruments is fundamental to our financial statements and is a critical accounting estimate because a substantial portion of our assets and liabilities are recorded at estimated fair value. Financial instruments classified as Level 3 are generally based on unobservable inputs, and the process to determine fair value is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions, as well as changes in market conditions and interest rates, could have a material effect on our results of operations or financial condition.

Mortgage loans held-for-sale We elected to carry our mortgage loans held-for-sale originated or acquired from the mortgage lending operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants.

Mortgage servicing rights We elected to carry all of our mortgage servicing rights arising from our mortgage lending operation at fair value. The fair value of mortgage servicing rights is based upon a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations.

Derivative financial instruments We utilize certain derivative instruments in the ordinary course of our business to manage our exposure to changes in interest rates. These derivative instruments include forward sales of MBS and forward loan sale commitments (Hedging Instruments). We also issue IRLCs to borrowers in connection with single family mortgage loan originations. We recognize all derivative instruments at fair value. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date and are recorded in other liabilities in the consolidated balance sheet. The initial and subsequent changes in value of IRLCs and forward sale commitments are a component of gain on sale of loans, net in the consolidated statements of operations.

Long-term debt Long-term debt (consisting of trust preferred securities and junior subordinated notes) is reported at fair value within the long-term mortgage portfolio. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statements of operations as change in fair value of long-term debt. Our estimate of the fair value of the long-term debt requires us to exercise significant judgment as to the timing and amount of the future obligation. Changes in assumptions resulting from changes in the Company's own credit risk profile will affect the estimated fair value of the long-term debt and those changes are recorded as a component of net earnings. A change in assumptions associated with the improvement in the Company's own credit risk profile could result in a significant increase in the estimated fair value of the long-term debt which would result in a significant charge to net earnings.

Variable Interest Entities and Transfers of Financial Assets and Liabilities

Historically, we securitized mortgages in the form of collateralized mortgage obligations (CMO), which were consolidated and accounted for as secured borrowings for financial statement purposes. We also securitized mortgages in the form of real estate mortgage investment conduits (REMICs), which were either consolidated or unconsolidated depending on the design of the securitization structure. CMO and certain REMIC securitizations contained structural terms that resulted in the transferee (securitization trust) to not be a qualifying special purpose entity (QSPE), and therefore we consolidated the variable interest entity (VIE) as it was the primary beneficiary of the sole residual interest in each securitization trust. Generally, this was achieved by including terms in the securitization agreements that gave us the ability to unilaterally cause the securitization trust to return specific mortgages, other than through a clean-up call. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Our estimate of the fair value of our net retained residual interests in unconsolidated securitizations, which are included in investment securities available-for-sale in the consolidated balance sheets, requires us to exercise significant judgment as to the timing and amount of future cash flows from the residual interests. We are exposed to credit risk from the underlying mortgage loans in unconsolidated securitizations to the extent we retain subordinated interests. Changes in expected cash flows resulting from changes in expected net credit losses will impact the value of our subordinated retained interests and those changes are recorded as a component of change in fair value of net trust assets.

In contrast, for securitizations that are structured as secured borrowing, we recognize interest income over the life of the securitized mortgage collateral and interest expense incurred for the securitized mortgage borrowings. We refer to these transactions as consolidated securitizations. The mortgage loans collateralizing the debt securities for these financings are included in securitized mortgage collateral and the debt securities payable to investors in these securitizations are included in securitized mortgage borrowings in our consolidated balance sheet.

Whether a securitization is consolidated or unconsolidated, investors in the securities issued by the securitization trust have no recourse to our non- securitized assets or to us and have no ability to require us to provide additional assets, but rather have recourse only to the assets transferred to the trust. Whereas the accounting differences are significant, the underlying economic impact to us, over time, will be the same regardless of whether the securitization trust is consolidated or unconsolidated.

These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810-10-25, which eliminated the concept of a QSPE and changed the approach to determine a securitization trust's primary beneficiary. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Net Realizable Value (NRV) of REO

The Company considers the NRV of its REO properties in evaluating REO losses. When real estate is acquired in settlement of mortgage loans, or other real estate owned, the mortgage is written-down to a percentage of the property's appraised value, broker's price opinion or list price less estimated selling costs and including mortgage insurance proceeds expected to be received. Subsequent changes in the NRV of the REO is reflected as a write-down of REO and results in additional losses.

Repurchase Reserve

When we sell loans through whole loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

Investors may request us to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. Upon completion of its own investigation regarding the investor claims, we repurchase or provide indemnification on certain loans, as appropriate. We maintain a liability reserve for expected losses on dispositions of loans expected to be repurchased or on which indemnification is expected to be provided. We regularly evaluate the adequacy of this repurchase liability reserve based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiations, and other relevant factors including economic conditions.

We record a provision for losses relating to such representations and warranties as part of each loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults and the probability of reimbursement by the correspondent loan seller. We

Table of Contents

establish a liability at the time loans are sold and continually update our estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demand strategies, and other external conditions that may change over the lives of the underlying loans.

Interest Income and Interest Expense

Interest income on securitized mortgage collateral and interest expense on securitized mortgage borrowings are recorded using the effective interest method for the period based on the previous quarter-end's estimated fair value. Interest expense on long-term debt is recorded using the effective interest method based on estimated future interest rates and cash flows.

Financial Condition and Results of Operations

Financial Condition

As of December 31, 2014 compared to December 31, 2013

The following table shows the condensed consolidated balance sheets for the following periods:

	December 31, 2014	December 31, 2013	Increase (Decrease)	% Change
Cash	$ 10,073	$ 9,969	$ 104	1%
Restricted cash	2,420	1,467	953	65
Mortgage loans held-for-sale	239,391	129,191	110,200	85
Mortgage servicing rights	24,418	35,981	(11,563)	(32)
Securitized mortgage trust assets	5,268,531	5,513,166	(244,635)	(4)
Other assets (2)	33,739	28,551	5,188	18
Total assets	$ 5,578,572	$ 5,718,325	$ (139,753)	(2)%

Warehouse borrowings	$ 226,718	$ 119,634	$ 107,084	90%
Short-term structured debt	6,000	-	6,000	n/a
Convertible notes	20,000	20,000	-	-
Long-term debt ($71,120 par)	22,122	15,871	6,251	39
Repurchase reserve (1)	5,714	9,478	(3,764)	(40)
Securitized mortgage trust liabilities	5,251,307	5,502,585	(251,278)	(5)
Other liabilities (2)	21,755	24,886	(3,131)	(13)
Total liabilities	5,553,616	5,692,454	(138,838)	(2)
Total equity	24,956	25,871	(915)	(4)
Total liabilities and stockholders' equity	$ 5,578,572	$ 5,718,325	$ (139,753)	(2)%

(1) $1.2 million and $5.5 million of the repurchase reserve is included within discontinued operations at December 31, 2014 and 2013, respectively.

(2)

Included within other assets and liabilities are the assets and liabilities of the discontinued operations.

Table of Contents

At December 31, 2014 and 2013, net trust assets and liabilities were as follows:

	December 31, 2014	December 31, 2013	Increase (Decrease)	% Change
Total trust assets	$ 5,268,531	$ 5,513,166	$ (244,635)	(4)%
Total trust liabilities	5,251,307	5,502,585	(251,278)	(5)
Residual interests in securitizations	$ 17,224	$ 10,581	$ 6,643	63%

At December 31, 2014, cash increased to $10.1 million from $10.0 million at December 31, 2013. The primary sources of cash between periods were $28.4 million from the sale of mortgage servicing rights, $15.9 million in fees generated from the mortgage lending operations and real estate services (net of non-cash fair value adjustments), $10.2 million from the sale of AmeriHome and $9.9 million from residual interests in securitizations, $6.0 million from the short-term structured debt agreement and $1.0 million in borrowings on the line of credit. Offsetting the sources of cash were continuing operating expenses totaling $53.3 million (net of non-cash depreciation expense), $5.8 million in interest payments on the Convertible Notes and long-term debt and settlements of repurchase requests associated with loans sold by the discontinued non-conforming mortgage operations of approximately $5.3 million and an increase in restricted cash of $1.0 million.

Mortgage loans held-for-sale increased $110.2 million to $239.4 million at December 31, 2014 as compared to $129.2 million at December 31, 2013. During 2014, we had $2.8 billion in originations and $2.7 billion in loan sales. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Mortgage servicing rights decreased $11.6 million to $24.4 million at December 31, 2014 as compared to $36.0 million at December 31, 2013. The decrease was due to bulk sales of servicing rights totaling $2.6 billion in UPB, the sale of AmeriHome, which had servicing rights totaling $702.1 million in UPB and a mark-to-market reduction in fair value of $6.2 million. Partially offsetting the decrease was servicing retained loan sales of $2.7 billion. At December 31, 2014, we serviced $2.3 billion in UPB for others as compared to $3.1 billion at December 31, 2013.

Warehouse borrowings increased $107.1 million to $226.7 million at December 31, 2014 as compared to $119.6 million at December 31, 2013. The increase was due to an increase in mortgage loans held-for-sale and finance receivables at December 31, 2014. During 2014, we increased our total borrowing capacity to $415.0 million as compared to $265.0 million at December 31, 2013.

In the fourth quarter of 2014, we entered into a $6.0 million short-term structured debt agreement collateralized by the residual interests in securitizations. The agreement bears interest at LIBOR + 5.75% per annum, has a maturity date of June 29, 2015 and we have the right to repay the debt without penalty prior to the maturity. The holder receives monthly principal and interest payments which are equal to the distributions from the residual interest underlying collateral with a minimum payment of $500,000. If the cash flows received from the collateralized residual interests are less than $500,000, we would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder.

Repurchase reserve liability decreased to $5.7 million at December 31, 2014 as compared to $9.5 million at December 31, 2013. During 2014, we paid approximately $5.3 million to settle previous repurchase claims related to our discontinued operations. At December 31, 2014, the repurchase reserve within discontinued operations was $1.2 million as compared to $5.5 million at December 31, 2013. Additionally, we have approximately $4.5 million in repurchase reserves related to the loans sold by the continuing mortgage lending operation since early 2011. We have received a minimal amount of repurchase requests for loans sold by the continuing mortgage lending operation.

Table of Contents

Book value per common share was $(2.04) as of December 31, 2014, as compared to $(2.88) as of December 31, 2013 (inclusive of the remaining $51.8 million of liquidation preference on our preferred stock).

The changes in total assets and liabilities are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	December 31, 2014	December 31, 2013	Increase (Decrease)	% Change
Securitized mortgage collateral	$ 5,249,639	$ 5,494,152	$ (244,513)	(4)%
Other trust assets	18,892	19,014	(122)	(1)
Total trust assets	5,268,531	5,513,166	(244,635)	(4)
Securitized mortgage borrowings	$ 5,245,860	$ 5,492,371	$ (246,511)	(4)%
Other trust liabilities	5,447	10,214	(4,767)	(47)
Total trust liabilities	5,251,307	5,502,585	(251,278)	(5)
Residual interests in securitizations	$ 17,224	$ 10,581	$ 6,643	63%

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted in the table above to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and net derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was $17.2 million at December 31, 2014, compared to $10.6 million at December 31, 2013.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the year ended December 31, 2014, we decreased the investor yield requirements for certain securitized mortgage borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. Additionally, during 2014, we lowered the discount rate on certain residual interest vintages. The decrease in loss and loss assumptions, decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings as well as decreased discount rates resulted in an increase in the value of these trust assets and liabilities resulting in an increase in the value of our residual interests. However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

The estimated fair value of securitized mortgage collateral decreased $244.5 million during 2014, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral, partially offset by an increase in fair value due to a reduction in investor yield requirements. Additionally, other trust assets decreased $122 thousand during 2014, primarily due to decreases in REO from liquidations of

$36.3 million. Partially offsetting the decrease was $33.4 million in REO foreclosures and a $7.6 million increase in the net realizable value (NRV) of REO.

The estimated fair value of securitized mortgage borrowings decreased $246.5 million during 2014, primarily due to principal payments during the period, partially offset by an increase in fair value due to a reduction in investor yield requirements. The $4.8 million reduction in other trust liabilities during 2014 was primarily due to $5.2 million in derivative cash payments from the securitization trusts, and a $599 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

In previous years, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the "transferred assets") into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and servicer, unrelated to us was named for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us, the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO.

In accordance with GAAP, we are required to consolidate all but one of these trusts (as we are not the master servicer on this one trust) on our statement of financial condition and results of operations. For the one trust we did not consolidate, the residual interest is reported as investment securities available-for-sale. For the trusts we do consolidate, the loans are included in the statement of financial condition as "securitized mortgage collateral", the foreclosed loans are included in the statement of financial condition as "real estate owned" and the various bond tranches owned by investors are included in the statement of financial condition as "securitized mortgage borrowings." Any interest rate derivatives remaining in the trusts are included in our statement of financial condition as "derivative assets" or "derivative liabilities," respectively. To the extent there is excess overcollateralization (as defined in the securitization agreements) in these securitization trusts, we receive cash flows from the excess interest collected monthly from the residual interest we own. Because (i) we elected the fair value option on the securitized mortgage collateral, securitized mortgage borrowings, (ii) derivative assets/liabilities are carried at fair value as required by GAAP, and (iii) real estate owned is reflected at net realizable value (NRV), which closely approximates fair market value, the net of the trust assets and trust liabilities represents the estimated fair value of the residual interests we own.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. Forecasted assumptions sometimes referred to as "curves," for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third-party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*, third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.

Table of Contents

We use the valuation model to generate the expected cash flows to be collected from the trust assets and the expected required bondholder distribution (trust liabilities). To the extent that the trusts are over collateralized, we may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings, derivative assets/liabilities, and the residual interests.

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization). During 2014 and 2013, based on improving bond prices and declining yields in the Company's securitization trusts and better than expected residual cash flows as well as conversations with market participants, the Company lowered certain residual discount rates.

The following table presents changes in the trust assets and trust liabilities for the year ended December 31, 2014:

	TRUST ASSETS					TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements			NRV (1)		Level 3 Recurring Fair Value Measurements			
	Investment securities available-for-sale	Securitized mortgage collateral	Derivative assets	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	Net trust assets
Recorded book value at 12/31/2013	**$ 108**	**$ 5,494,152**	**$ -**	**$ 18,906**	**$ 5,513,166**	**$ (5,492,371)**	**$ (10,214)**	**$ (5,502,585)**	**$ 10,581**
Total gains/(losses) included in earnings:									
Interest income	26	59,526	-	-	59,552	-	-	-	59,552
Interest expense	-	-	-	-	-	(237,793)	-	(237,793)	(237,793)
Change in FV of net trust assets, excluding REO	34	364,052	-	-	364,086(2)	(360,005)	(599)	(360,604)(2)	3,482
Gains from REO not at FV but at NRV	-	-	-	7,581	7,581(2)	-	-	-	7,581
Total gains (losses) included in earnings	60	423,578	-	7,581	431,219	(597,798)	(599)	(598,397)	(167,178)
Transfers in and/or out of level 3	-	-	-	-	-	-	-	-	-

Purchases, issuances and settlements	(76)	(668,091)	-	(7,687)	(675,854)	844,309	5,366	849,675	173,821
Recorded book value at 12/31/2014	**$ 92**	**$ 5,249,639**	**$ -**	**$ 18,800**	**$ 5,268,531**	**$ (5,245,860)**	**$ (5,447)**	**$ (5,251,307)**	**$ 17,224**

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(1) Accounted for at net realizable value.

(2) Represents non-interest income-net trust assets in the consolidated statements of operations for the year ended December 31, 2014.

Inclusive of gains from REO, total trust assets above reflect a net gain of $371.7 million as a result of an increase in fair value of securitized mortgage collateral of $364.1 million, gains from REO of $7.6 million and increases from other trust assets of $34 thousand. Net losses on trust liabilities were $360.6 million as a result of $360.0 million in losses from the increase in fair value of securitized mortgage borrowings and losses from derivative liabilities of $599 thousand. As a result, non-interest income net trust assets totaled a gain of $11.1 million for the year ended December 31, 2014.

Table of Contents

The table below reflects the net trust assets as a percentage of total trust assets (residual interests in securitizations):

	December 31,			
		2014		2013
Net trust assets	$	17,224	$	10,581
Total trust assets		5,268,531		5,513,166
Net trust assets as a percentage of total trust assets		0.33%		0.19%

For the year ended December 31, 2014, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to the reduction in loss assumptions as well as the decrease in discount rate assumptions for residual interests as discussed above.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at December 31, 2014 and December 31, 2013:

	Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2014			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2013		
Origination Year	**SF**	**MF**	**Total**	**SF**	**MF**	**Total**
2002-2003 (1)	$ 10,826	$ 1,975	$ 12,801	$ 5,761	$ 2,184	$ 7,945
2004	1,846	1,506	3,352	462	2,099	2,561
2005 (2)	11	209	220	-	75	75
2006 (2)	-	851	851	-	-	-
2007 (2)	-	-	-	-	-	-
Total	**$ 12,683**	**$ 4,541**	**$ 17,224**	**$ 6,223**	**$ 4,358**	**$ 10,581**
Weighted avg. prepayment rate	4.3%	12.4%	4.9%	2.7%	12.6%	3.6%
Weighted avg. discount rate	19.0%	16.2%	18.3%	25.4%	20.2%	23.2%

(1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.

(2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage

Table of Contents

collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at December 31, 2014:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	7%	* (3)	5%	8%
2004	12%	* (3)	5%	4%
2005	15%	3%	5%	4%
2006	22%	5%	7%	5%
2007	26%	2%	7%	4%

(1) Estimated future losses derived by dividing future projected losses by unpaid principal balances at December 31, 2014.

(2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.

(3) Represents less than 1%.

Despite the increase in housing prices from December 2013 through December 2014, housing prices in many parts of the country are still at levels which has significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

Operational and Market Risks

We are exposed to a variety of market risks which include interest rate risk, credit risk, real estate risk, prepayment risk and liquidity risk.

Interest Rate Risk

Interest Rate Risk Mortgage Lending. We are exposed to interest rate risks relating to our ongoing mortgage lending operations. We use derivative instruments to manage some of our interest rate risk. However, we do not attempt to hedge interest rate risk completely.

Interest rate lock commitments and mortgage loans held-for-sale expose us to interest rate risk. The mortgage lending operations currently utilizes forward sold Fannie Mae and Ginnie Mae mortgage-backed securities to help mitigate changes in interest rates relating to its interest rate lock commitments and mortgage loans held-for-sale, however we do not hedge the interest rate risk associated with the mortgage servicing portfolio.

Interest Rate Risk Securitized Trusts, Long-term Debt. Our earnings from the long-term mortgage portfolio depend largely on our interest rate spread, represented by the relationship between the yield on our interest-earning assets (primarily investment securities available-for-sale and securitized mortgage collateral) and the cost of our interest-bearing liabilities (primarily securitized mortgage borrowings and long-term debt). Our interest rate spread is impacted by several factors, including general economic factors, forward interest rates and the credit quality of mortgage loans in the long-term mortgage portfolio.

Table of Contents

The residual interests in our long-term mortgage portfolio are sensitive to changes in interest rates on securitized mortgage collateral and the related securitized mortgage borrowings. Changes in interest rates can significantly affect the cash flows and fair values of the Company's assets and liabilities, as well as our earnings and stockholders' equity.

We use derivative instruments to manage some of our interest rate risk in our long-term mortgage portfolio. However, we do not attempt to hedge interest rate risk completely. To help mitigate some of the exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, we utilize derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). These derivative instruments are recorded at fair value in the consolidated balance sheets. For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair value measurements include our judgment about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account our own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract.

At December 31, 2014, derivative liabilities were $5.4 million and reflect the securitization trust's liability to pay third-party counterparties based on the estimated value to settle the derivative instruments. Cash payments on these derivative instruments are based on notional amounts that are decreasing over time. Excluding the effects of other factors such as portfolio delinquency and loss severities within the securitization trusts, as the notional amount of these derivative instruments decrease over time, payments to counterparties in the current interest rate environment are reduced, thereby potentially increasing cash flows on our residual interests in securitizations. Conversely, increases in interest rates from current levels could potentially reduce overall cash flows on our residual interests in securitizations. Since our consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts.

We are also subject to interest rate risk on our long-term debt (consisting of trust preferred securities and junior subordinated notes). These interest bearing liabilities include adjustable rate periods based on three- month LIBOR (trust preferred securities and junior subordinated notes). We do not currently hedge our exposure to the effect of changing interest rates related to these interest-bearing liabilities. Significant fluctuations in interest rates could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Credit Risk

We provide representations and warranties to purchasers and insurers of the loans sold that typically are in place for the life of the loan. In the event of a breach of these representations and warranties, we may be required to repurchase a mortgage loan or indemnify the purchaser, and any subsequent loss on the mortgage loan may be borne by us unless we have recourse to our correspondent seller.

We maintain a reserve for losses on loans repurchased or indemnified as a result of breaches of representations and warranties on our sold loans. Our estimate is based on our most recent data regarding loan repurchases and indemnity payments, actual losses on repurchased loans, and recovery history, among other factors. Our assumptions are affected by factors both internal and external in nature. Internal factors include, among other things, level of loan sales, the expectation of credit loss on repurchases and indemnifications, our success rate at appealing repurchase demands and our ability to recover any losses from third parties. External factors that may affect our estimate includes, among other things, the overall economic condition in the housing market, the economic condition of borrowers, the political environment at investor agencies and the overall U.S. and world economy. Many of the factors are beyond our control and may lead to judgments that are susceptible to change.

Counterparty Credit Risk. We are exposed to counterparty credit risk in the event of non-performance by counterparties to various agreements. We monitor the credit ratings of our counterparties and currently do not anticipate losses due to counterparty non-performance.

Credit Risk-Securitized Trusts. We manage credit risk by actively managing delinquencies and defaults through our servicers. Starting with the second half of 2007 we have not retained any additional Alt-A mortgages in our long-term mortgage portfolio. Our securitized mortgage collateral primarily consists of Alt-A mortgages which when originated were generally within typical Fannie Mae and Freddie Mac guidelines but had loan characteristics, which may have included higher loan balances, higher loan- to-value ratios or lower documentation requirements (including stated-income loans), that made them non-conforming under those guidelines.

Using historical losses, current portfolio statistics and market conditions and available market data, we have estimated future loan losses on the long- term mortgage portfolio, which are included in the fair value adjustment to our securitized mortgage collateral. While the credit performance for the loans has been clearly far worse than our initial expectations when the loans were originated, the ultimate level of realized losses will largely be influenced by events that will likely unfold over the next several years, including the recovery of the housing market and overall strength of the economy. If market conditions continue to deteriorate in excess of our expectations, we may need to recognize additional fair value reductions to our securitized mortgage collateral, which may also affect the value of the related securitized mortgage borrowings and residual interests.

We monitor our servicers to attempt to ensure that they perform loss mitigation, foreclosure and collection functions according to their servicing practices and each securitization trust's pooling and servicing agreement. We have met with the management of our servicers to assess our borrowers' current ability to pay their mortgages and to make arrangements with selected delinquent borrowers which will result in the best interest of the trust and borrower, in an effort to minimize the number of mortgages which become seriously delinquent. When resolving delinquent mortgages, servicers are required to take timely action. The servicer is required to determine payment collection under various circumstances, which will result in the maximum financial benefit. This is accomplished by either working with the borrower to bring the mortgage current by modifying the loan with terms that will maximize the recovery or by foreclosing and liquidating the property. At a foreclosure sale, the trusts consolidated on our balance sheet generally acquire title to the property.

Real Estate Risk

Residential property values are subject to volatility and may be negatively affected by numerous factors, including, but not limited to, national, regional and local economic conditions such as unemployment and interest rate environment; local real estate conditions including housing inventory and foreclosures; and demographic factors. Decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay our loans, which could cause us to suffer losses.

Prepayment Risk

We historically used prepayment penalties as a method of partially mitigating prepayment risk for those borrowers that have the ability to refinance. The recent economic downturn, lack of available credit and declines in property values have limited borrowers' ability to refinance. These factors have significantly reduced prepayment risk within our long-term mortgage portfolio. With the seasoning of the long-term mortgage portfolio, a significant portion of prepayment penalties terms have expired, thereby further reducing prepayment penalty income.

Prepayment speed is a measurement of how quickly UPB is reduced. Items reducing UPB include normal monthly loan principal payments, loan refinancings, voluntary property sales and involuntary property sales such as foreclosures or short sales. Prepayment speed impacts future servicing fees, fair value of mortgage servicing rights and float income. When prepayment speed increases, our servicing fees decrease faster than projected due to the shortened life of a portfolio. Faster prepayment speeds will cause our mortgage servicing rights fair value to decrease.

Liquidity Risk

We are exposed to liquidity risks relating to our ongoing mortgage lending operations. We primarily fund our mortgage lending originations through warehouse facilities with third-party lenders. We primarily use facilities with national and regional banks. The warehouse facilities are secured by and used to fund single-family residential mortgage loans. In addition, the warehouse lenders require cash to be posted as additional collateral to secure the borrowings. In order to mitigate the liquidity risk associated with warehouse borrowings, we attempt to sell our mortgage loans within 10-15 days from acquisition or origination.

Long-Term Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days late or greater, foreclosures and delinquent bankruptcies were $1.4 billion or 20.3% of the long-term mortgage portfolio as of December 31, 2014, as compared to $1.7 billion or 22.4% as of December 31, 2013.

The following table summarizes the unpaid principal balances of loans in our mortgage portfolio, included in securitized mortgage collateral, mortgage loans held-for-investment and mortgage loans

Table of Contents

held-for-sale for continuing and discontinued operations combined, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

	December 31, 2014	Total Collateral %	December 31, 2013	Total Collateral %
Mortgage loans held-for-sale and investment				
60 - 89 days delinquent	$ -	*	$ -	*
90 or more days delinquent	-	*	-	*
Foreclosures (1)	-	*	-	*
Total 60+ days delinquent mortgage loans held-for-sale and investment (2)	-	*	-	*
Securitized mortgage collateral				
60 - 89 days delinquent	$ 137,913	2.0%	$ 180,002	2.4%
90 or more days delinquent	503,849	7.5%	580,318	7.6%
Foreclosures (1)	443,751	6.5%	605,201	8.0%
Delinquent bankruptcies (3)	281,936	4.2%	340,102	4.5%
Total 60+ days delinquent long-term mortgage portfolio	1,367,449	20.3%	1,705,623	22.4%
Total 60 or more days delinquent	$ 1,367,449	20.3%	$ 1,705,623	22.4%
Total collateral	$ 6,745,411	100%	$ 7,610,999	100%

* Less than 0.1%

(1) Represents properties in the process of foreclosure.

(2) Represents legacy mortgage loans held-for-sale included in discontinued operations in the consolidated balance sheets.

(3) Represents bankruptcies that are 30 days or more delinquent.

The following table summarizes securitized mortgage collateral, mortgage loans held-for-investment, mortgage loans held-for-sale and real estate owned, that were non-performing for continuing and discontinued operations combined as of the dates indicated (excludes 60-89 days delinquent):

	December 31, 2014	Total Collateral %	December 31, 2013	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	$ 1,229,536	18.2%	$ 1,525,621	20.0%
Real estate owned	18,800	0.4%	18,921	0.2%
Total non-performing assets	$ 1,248,336	18.5%	$ 1,544,542	20.3%

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is the Company's policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause

Table of Contents

the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of December 31, 2014, non-performing assets (unpaid principal balance of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 18.5%. At December 31, 2013, non-performing assets to total collateral was 20.3%. Non-performing assets decreased by approximately $296.2 million at December 31, 2014 as compared to December 31, 2013. At December 31, 2014, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was $410.3 million or 7.3% of total assets. At December 31, 2013, the estimated fair value of non-performing assets was $536.8 million or 9.4% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations.

For the year ended December 31, 2014, we recorded an increase in net realizable value of the REO in the amount of $7.6 million compared to an increase of $8.8 million for the comparable 2013 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

The following table presents the balances of the REO for continuing operations:

	December 31,	
	2014	**2013**
REO	$ 20,674	$ 23,601
Impairment (1)	(1,874)	(4,680)
Ending balance	$ 18,800	$ 18,921
REO inside trusts	$ 18,800	$ 18,906
REO outside trusts	-	15
Total	$ 18,800	$ 18,921

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (*e.g.*, original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Table of Contents

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor's performance, market perception, historical losses, and industry statistics. The assessment for losses is based on delinquency trends and prior loss experience and management's judgment and assumptions regarding various matters, including general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

Results of Operations

For the year ended December 31, 2014 compared to the year ended December 31, 2013

	For the year ended December 31,			
	2014	**2013**	**Increase (Decrease)**	**% Change**
Revenues	$ 45,189	$ 88,369	$ (43,180)	(49)%
Expenses	(56,035)	(89,960)	33,925	38
Net interest income (expense)	1,135	(86)	1,221	1,420
Change in fair value of long-term debt	(4,014)	(687)	(3,327)	(484)
Change in fair value of net trust assets, including trust REO gains (losses)	11,063	(3,678)	14,741	401
Income tax (expense) benefit from continuing operations	(1,305)	1,031	(2,336)	(227)
Net loss from continuing operations	(3,967)	(5,011)	1,044	21
Loss from discontinued operations, net	(2,355)	(3,037)	682	22
Net loss	(6,322)	(8,048)	1,726	21
Net earnings attributable to noncontrolling interest (1)	-	(136)	136	100
Net loss attributable to IMH	$ (6,322)	$ (8,184)	$ 1,862	23%
Loss per share available to common stockholders basic and diluted	$ (0.68)	$ (0.94)	$ 0.26	28%
Loss per share available to common stockholders diluted	$ (0.68)	$ (0.94)	$ 0.26	28%

(1) For the year ended December 31, 2013, net earnings attributable to noncontrolling interest represents the portion of the earnings of AmeriHome Mortgage Corporation (a subsidiary of IMC) that we did not wholly-own, before we acquired 100% ownership of AmeriHome in 2013.

Table of Contents

Revenues

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 29,308	$ 57,188	$ (27,880)	(49)%
Real estate services fees, net	14,729	19,370	(4,641)	(24)
Servicing income, net	4,586	4,240	346	8
(Loss) gain on mortgage servicing rights	(5,116)	6,567	(11,683)	(178)
Other revenues	1,682	1,004	678	68
Total revenues	$ 45,189	$ 88,369	$ (43,180)	(49)%

Gain on sale of loans, net. For the year ended December 31, 2014, gain on sale of loans, net was $29.3 million compared to $57.2 million in the comparable 2013 period. The $27.9 million decrease is primarily related to a $48.4 million increase in net direct loan origination expenses and a $28.2 million increase in realized and unrealized losses on derivative financial instruments, partially offset by a $30.8 million increase in premiums received from the sale of mortgage loans, a $9.8 million increase in mark-to-market gains and a $7.6 million increase in premiums from servicing retained loan sales. The overall decrease in gain on sale of loans, net was due to tighter lending spreads and gain on sale margins associated with $2.8 billion and $2.7 billion of loans originated and sold, respectively, during 2014, as compared to $2.5 billion and $2.5 billion of loans originated and sold, respectively, during 2013. Margins fell to 1.03% for during the year ended December 31, 2014 as compared to 2.24% for 2013.

Real estate services fees, net. For the year ended December 31, 2014, real estate services fees, net were $14.7 million compared to $19.4 million in the comparable 2013 period. The $4.6 million decrease was primarily the result of a decrease in transactions related to the decline in loans and the balance of the long-term mortgage portfolio.

Servicing income, net. For the year ended December 31, 2014, servicing income, net was $4.6 million compared to $4.2 million in the comparable 2013 period. The slight increase in servicing income, net was primarily the result of the servicing portfolio increasing to an average balance of $2.3 billion for the year ended December 31, 2014 as compared to an average balance of $2.2 billion for the same period in 2013.

(Loss) gain on mortgage servicing rights. For the year ended December 31, 2014, loss on mortgage servicing rights was $5.1 million compared to gains of $6.6 million in the comparable 2013 period. The loss on mortgage servicing rights was primarily the result of a ($6.2) million change in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to $6.5 million for the same period in 2013. Partially offsetting the change in fair value was a $1.1 million gain on the sale of mortgage servicing rights during 2014, as compared to a $77 thousand gain during the same period in 2013.

Other revenues. For the year ended December 31, 2014, other revenues were $1.7 million compared to $1.0 million in the comparable 2013 period. The increase in other revenue was due to the sale of AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain, partially offset by a $600 thousand reduction in investment income. Additionally, during 2014, there was an $84 thousand increase from the issuance of a warrant in our subsidiary Impac Mortgage Corp to facilitate our ability to offer Non-QM mortgage products.

Table of Contents

Expenses

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Personnel expense	$ 37,398	$ 64,769	$ (27,371)	(42)%
General, administrative and other	10,505	14,805	(4,300)	(29)
Occupancy expense	5,562	6,432	(870)	(14)
Legal and professional expense	2,570	3,954	(1,384)	(35)
Total expenses	$ 56,035	$ 89,960	$ (33,925)	(38)%

Total expenses were $56.0 million for the year ended December 31, 2014, compared to $90.0 million for the comparable period of 2013. Personnel expenses decreased $27.4 million to $37.4 million during 2014 primarily due to a reduction in personnel related costs due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013 as well as a decrease in commission expense due to a shift to correspondent and wholesale lending. The average number of employees declined to 323 during 2014 as compared to 586 during the same period in 2013.

General, administrative and other expenses decreased to $10.5 million for the year ended December 31, 2014, compared to $14.8 million for the same period in 2013. The $4.3 million decrease was primarily related to a decline in marketing, equipment and other expenses attributable to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013.

Occupancy expense decreased to $5.6 million for the year ended December 31, 2014, compared to $6.4 million for the same period in 2013. Occupancy expense decreased due to a reduction in costs associated with the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013.

Legal and professional expense decreased to $2.6 million for the year ended December 31, 2014, compared to $4.0 million for the same period in 2013. The $1.4 million decrease was primarily related to legal costs associated with a non-operational $700 thousand legal settlement expense recorded during the first quarter of 2013.

Other Income (Expense)

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Interest income	$ 295,656	$ 310,391	$ (14,735)	(5)%
Interest expense	(294,521)	(310,477)	15,956	5
Change in fair value of long-term debt	(4,014)	(687)	(3,327)	(484)
Change in fair value of net trust assets, including trust REO gains (losses)	11,063	(3,678)	14,741	401
Total other income (expense)	$ 8,184	$ (4,451)	$ 12,635	284%

Table of Contents

Net Interest Income (Expense)

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, mortgage loans held-for-sale and investment securities available-for-sale, or collectively, "mortgage assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and warehouse borrowings and to a lesser extent, interest expense paid on long-term debt, Convertible Notes, notes payable and line of credit. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, included within continuing operations, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the year ended December 31,					
	2014			2013		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	$ 5,413,104	$ 289,603	5.35%	$ 5,640,115	$ 305,837	5.42%
Mortgage loans held-for-sale	136,651	5,875	4.30%	116,701	4,482	3.84%
Other	13,994	178	1.27%	13,751	72	0.52%
Total interest-earning assets	$ 5,563,749	$ 295,656	5.31%	$ 5,770,567	$ 310,391	5.38%
LIABILITIES						
Securitized mortgage borrowings	$ 5,410,742	$ 283,951	5.25%	$ 5,633,007	$ 300,524	5.34%
Warehouse borrowings	136,789	4,616	3.37%	111,335	4,472	4.02%
Long-term debt	17,386	4,270	24.56%	14,261	4,050	28.40%
Convertible notes	20,000	1,548	7.74%	13,534	1,046	7.73%
Note payable	-	-	0.00%	886	303	34.20%
Other	3,486	136	3.90%	1,446	82	5.67%
Total interest-bearing liabilities	$ 5,588,403	$ 294,521	5.27%	$ 5,774,469	$ 310,477	5.38%
Net Interest Spread (1)		$ 1,135	0.04%		$ (86)	0.00%
Net Interest Margin (2)			0.02%			0.00%

(1) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.

(2) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest income spread increased $1.2 million for the year ended December 31, 2014 primarily attributable to an increase in net interest spread on the long-term mortgage portfolio due to increases in yields between periods on securitized mortgage collateral and securitized mortgage borrowings as well as a decrease in the balance of the long-term mortgage portfolio and an increase in the net interest spread between loans held-for-sale and warehouse borrowings. Partially offsetting the increase in net interest spread was the increase in interest expense associated with the long-term debt and issuance of the Convertible Notes during 2013. As a result, net interest margin increased to 0.02% for the year ended December 31, 2014 from 0.00% for the year ended December 31, 2013.

During the year ended December 31, 2014, the yield on interest-earning assets decreased to 5.31% from 5.38% in the comparable 2013 period. The yield on interest-bearing liabilities decreased to 5.27% for the year ended December 31, 2014 from 5.38% for the comparable 2013 period. In connection with the fair value accounting for investment securities available-for- sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The decrease in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to increased prices on mortgage-backed bonds which resulted in a decrease in yield. Bond prices received from pricing services and other market participants have increased over the past few quarters as investor's demand for mortgage-backed securities has increased. This has resulted in an increase in fair value for both securitized mortgage collateral and securitized mortgage borrowings. These increases in fair value have decreased the effective yields used for purposes of recognizing interest income and interest expense on these instruments.

Change in the fair value of long-term debt

Change in the fair value of long-term debt was a loss of $4.0 million for the year ended December 31, 2014, compared to a loss of $687 thousand for the comparable 2013 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate due to a reduction in market yields on similar instruments and an improvement in our own credit risk profile as well as a decrease in forward LIBOR interest rates during 2014 as compared to 2013. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company's own credit risk and discounted cash flow analyses. Improvements in financial results and financial condition of the Company in the future could result in additional increases in the estimated fair value of the long-term debt.

Change in fair value of net trust assets, including trust REO gains (losses)

	For the year ended December 31, 2014	For the year ended December 31, 2013
Change in fair value of net trust assets, excluding REO	$ 3,482	$ (12,494)
Gains from REO	7,581	8,816
Change in fair value of net trust assets, including trust REO gains (losses)	$ 11,063	$ (3,678)

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $11.1 million for the year ended December 31, 2014, compared to a loss of $3.7 million in the comparable 2013 period. The change in fair value of net trust assets, including REO was primarily due to a $7.6 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Additionally, the change in fair value of net trust assets, including REO was due to $3.5 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased severities in the future and lower interest rates.

For the year ended December 31, 2013, the ($3.7) million change in fair value of net trust assets, including REO was due to $12.5 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates. Partially offsetting the loss was an $8.8 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

Income Taxes

In accordance with FASB ASC 810-10-45-8, we record a deferred charge representing income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statement of operations. The Company recorded a tax expense in 2014 in the amount of $453 thousand related to the deferred charge impairment, which did not result in any tax liability to be paid.

We recorded income tax expense (benefit) of $1.3 million and $(1.0) million for the years ended December 31, 2014 and 2013, respectively. The income tax expense for 2014 is primarily the result of the federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or there are state minimum states, including AMT. The income tax benefit for 2013 is the result of the inclusion of AmeriHome in the IMH federal income tax return due to the Company's increased ownership of AmeriHome during the first quarter of 2013. Additionally, federal alternative minimum tax was expensed during 2013.

We are subject to federal income taxes as a regular (Subchapter C) corporation and file a consolidated U.S. federal income tax return for qualifying subsidiaries.

A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

We have significant NOL carry-forwards from prior years. At December 31, 2014 and 2013, we have recognized a full valuation allowance against these NOL carry- forwards in our consolidated balance sheets. However, as a result of the announced acquisition of the CashCall mortgage operations in the first quarter of 2015, we will reevaluate our ability to generate taxable income to determine our ability to recognize our deferred tax assets and the need for the full valuation allowance which could result in future tax benefits.

Table of Contents

Results of Operations by Business Segment

Mortgage Lending

Condensed Statements of Operations Data

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Gain on sale of loans, net	$ 29,308	$ 57,188	$ (27,880)	(49)%
Servicing income, net	4,586	4,240	346	8
(Loss) gain on mortgage servicing rights	(5,116)	6,567	(11,683)	(178)
Other	1,311	191	1,120	586
Total revenues	30,089	68,186	(38,097)	(56)
Other income	1,353	4	1,349	33,725
Personnel expense	(27,729)	(55,504)	27,775	50
General, administrative and other	(7,582)	(13,787)	6,205	45
Net loss before income taxes	$ (3,869)	$ (1,101)	$ (2,768)	(251)%

For the year ended December 31, 2014, gain on sale of loans, net were $29.3 million or 1.03% compared to $57.2 million or 2.24% in the comparable 2013 period. The $27.9 million decrease is primarily related to a $48.4 million increase in net direct loan origination expenses and a $28.2 million increase in realized and unrealized losses on derivative financial instruments, partially offset by a $30.8 million increase in premiums received from the sale of mortgage loans, a $9.8 million increase in mark-to-market gains on loans held for sale and a $7.6 million increase in premiums from servicing retained loan sales. The decrease in gain on sale of loans, net was due to tighter lending spreads and gain on sale margins associated with $2.8 billion and $2.7 billion of loans originated and sold, respectively, during the year ended December 31, 2014, as compared to $2.5 billion and $2.5 billion of loans originated and sold, respectively, during the same period in 2013.

For the year ended December 31, 2014, servicing income, net was $4.6 million compared to $4.2 million in the comparable 2013 period. The increase in servicing income, net was primarily the result of the servicing portfolio slightly increasing to an average balance of $2.3 billion for the year ended December 31, 2014 as compared to an average balance of $2.2 billion for the same period in 2013. During 2014, we retained servicing rights on $2.7 billion in loan sales as well as sold $2.6 billion of UPB of servicing rights. Additionally, servicing income, net increased due to a reduction in loss mitigation costs primarily associated with the sale of AmeriHome in 2014. Servicing income, net includes certain loss mitigation costs associated with the acquired servicing portfolio from the 2010 acquisition of AmeriHome, which was sold in the first quarter of 2014.

For the year ended December 31, 2014, loss on mortgage servicing rights was $5.1 million compared to a gain of $6.6 million in the comparable 2013 period. For the year ended December 31, 2014, (loss) gain on mortgage servicing rights was primarily the result of a $6.2 million reduction in fair value of mortgage servicing rights due to an increase in prepayment speed assumptions as a result of a decrease in interest rates during the period as compared to a $6.5 million increase for the same period in 2013. Partially offsetting the change in fair value was a $1.1 million gain on the sale of mortgage servicing rights during 2014, as compared to $77 thousand during the same period in 2013.

For the year ended December 31, 2014, other revenues were $1.3 million compared to $191 thousand in the comparable 2013 period. The increase in other revenue was due to the sale of

Table of Contents

AmeriHome during the first quarter of 2014 resulting in a $1.2 million gain. Additionally, other revenue includes a mark-to-market gain of $84 thousand during the year related to the issuance of a warrant, during the third quarter of 2014, in our subsidiary Impac Mortgage Corp to facilitate our ability to offer Non-QM mortgage products.

For the year ended December 31, 2014 other income increased to $1.3 million as compared to $4 thousand for the comparable 2013 period. The $1.3 million increase in other income was primarily due to an increase in the net interest spread between loans held-for-sale and warehouse borrowings. As a result of the decrease in interest rates in 2014 as well as re-negotiated terms on our warehouse lines, the net spread between the interest earned on loans held-for-sale and the interest expense on the warehouse borrowings increased from $10 thousand in 2013 to $1.3 million in 2014.

For the year ended December 31, 2014 personnel expense decreased to $27.7 million as compared to $55.5 million for the comparable 2013 period. The $27.8 million decrease in personnel expense was primarily due to the sale of our retail branch offices and consolidation of our lending fulfillment centers in the fourth quarter of 2013, reducing staffing to a level appropriate for our lending volumes. The average number of mortgage lending employees declined to 200 during 2014 as compared to 468 in 2013. Additionally, the decrease is also related to a reduction in commission expense due to a shift to correspondent and wholesale lending.

For the year ended December 31, 2014, general, administrative and other expense decreased to $7.6 million from $13.8 million in the comparable 2013 period. The $6.2 million decrease in general, administrative and other expense is primarily related to reductions in occupancy, legal and professional fees and other marketing costs primarily attributable to the sale of our retail branches during the fourth quarter of 2013. The reduction in legal and professional fees is primarily due to a non-operational $700 thousand legal settlement expense recorded during the first quarter of 2013.

Real Estate Services

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Real estate services fees, net	$ 14,729	$ 19,370	$ (4,641)	(24)%
Other income (expense)	(5)	19	(24)	(126)
Personnel expense	(5,250)	(5,317)	67	1
General, administrative and other	(802)	(822)	20	2
Net earnings before income taxes	$ 8,672	$ 13,250	$ (4,578)	(35)%

For the year ended December 31, 2014, real estate services fees, net were $14.7 million compared to $19.4 million in the comparable 2013 period. The $4.6 million decrease in real estate services fees, net was the result of a $3.0 million decrease in real estate and recovery fees, $1.5 million decrease in loss mitigation fees and a $160 thousand decrease in real estate services. These reductions are primarily due to the expected decline in the outstanding balance of the long-term mortgage portfolio.

For the year ended December 31, 2014, personnel expense and general, administrative and other expense remained relatively flat as compared to 2013.

Table of Contents

Long-Term Mortgage Portfolio

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Other revenue	$ 371	$ 833	(462)	(55)%
Personnel expense	(342)	(1,014)	672	66
General, administrative and other	(582)	(699)	117	17
Total expenses	(924)	(1,713)	789	46
Net interest income	1,407	994	413	42
Change in fair value of long-term debt	(4,014)	(687)	(3,327)	(484)
Change in fair value of net trust assets, including trust REO losses	11,063	(3,678)	14,741	401
Total other income (expense)	8,456	(3,371)	11,827	351
Net earnings (loss) before income taxes	$ 7,903	$ (4,251)	$ 12,154	286%

For the year ended December 31, 2014, other revenue totaled $371 thousand as compared to $833 thousand for the comparable 2013 period. The $462 thousand decrease is primarily due to a $558 thousand decrease in investment earnings partially offset by an $87 thousand increase in master servicing revenue earned on the long-term mortgage portfolio.

For the year ended December 31, 2014, personnel expense was $342 thousand as compared to $1.0 million for the comparable 2013 period. The $672 thousand decrease in personnel expense was primarily due to a decrease in allocated personnel expenses associated with ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the year ended December 31, 2014, general, administrative and other expense decreased to $582 thousand as compared to $699 thousand for the comparable 2013 period. The $117 thousand decrease in general, administrative and other expense for the year ended December 31, 2014 is related to a decrease in legal and professional fees associated with the long-term mortgage portfolio.

For the year ended December 31, 2014, net interest income totaled $1.4 million as compared to $994 thousand for the comparable 2013 period. The $413 thousand increase was primarily attributable to a $339 thousand increase in net interest spread on the long-term mortgage portfolio due to an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests. Additionally, net interest income increased $303 thousand due to a decrease in interest expense on the note payable due to the repayment of the note in April 2013. Partially offsetting the increase in net interest income was an increase in interest expense on the long-term debt of $220 thousand.

Change in the fair value of long-term debt was a loss of $4.0 million for the year ended December 31, 2014, compared to a loss of $687 thousand for the comparable 2013 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a reduction in market yields on similar instruments and an improvement in our own credit risk profile as well as a decrease in forward LIBOR interest rates during 2014 as compared to 2013.

Table of Contents

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of $11.1 million for the year ended December 31, 2014, compared to a loss of $3.7 million in the comparable 2013 period. The change in fair value of net trust assets, including REO was due primarily to a $7.6 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Additionally, the change in fair value of net trust assets, including REO was due to $3.5 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased severities in the future and lower interest rates.

Corporate

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Interest expense	$ (1,620)	$ (1,104)	(516)	(47)
Other expenses	(13,748)	(12,836)	(912)	(7)
Net loss before income taxes	$ (15,368)	$ (13,940)	$ (1,428)	(10)%

For the year ended December 31, 2014, interest expense totaled $1.6 million as compared to $1.1 million for the comparable 2013 period. Interest expense increased $516 thousand for the year ended December 31, 2014 primarily attributable to a $502 thousand increase in interest expense on the $20.0 million Convertible Notes as they were issued in April 2013. Additionally, interest expense from the line of credit increased $14 thousand during 2014 as compared to 2013.

For the year ended December 31, 2014, expenses increased to $13.7 million as compared to $12.8 million for the comparable 2013 period. The increase was primarily due to non-cash lease impairment charge and a net reduction in allocated corporate expenses. With the further consolidation of the mortgage lending and real estate services operations in the first quarter of 2014, the Company recorded a non-cash lease impairment charge of $548 thousand for the space that we no longer used and expect to sublease in the future. Additionally, the sale of the retail branch network and closure of the lending fulfillment center at the end of 2013 resulted in a reduced allocation of certain fixed corporate costs due to reduced headcount primarily in mortgage lending and the associated reductions in business operations. The combination of the two resulted in a net increase in expenses recorded in the corporate segment.

Discontinued Operations

	For the year ended December 31,			
	2014	2013	Increase (Decrease)	% Change
Provision for repurchases	$ (1,063)	$ (1,312)	$ 249	19%
General, administrative and other	(1,292)	(1,725)	433	25
Net loss after income taxes	$ (2,355)	$ (3,037)	$ 682	22%

Provision for repurchases decreased $249 thousand to a provision of $1.1 million for the year ended December 31, 2014, compared to a provision of $1.3 million for the same period in 2013. The decrease is the result of decreases in estimated repurchase losses during 2014 related to repurchase claims received from Fannie Mae as compared to the same period in 2013. During 2014, we paid approximately $5.3 million to settle previous repurchase claims related to our previously discontinued operations and such amount was charged against the reserve.

For the year ended December 31, 2014, general, administrative and other expense decreased to $1.3 million as compared to $1.7 million for the comparable 2013 period. During 2014, we incurred approximately $1.8 million in legal expenses and $448 thousand in occupancy expense for various matters pertaining to the discontinued non-conforming mortgage operations. Partially offsetting the legal expenses was a $950 thousand recovery from a settlement associated with previous litigation matters.

Liquidity and Capital Resources

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, we believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in our market area as well as operations throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased due to the difficult mortgage environment, credit tightening and an uncertain economy. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

While we continue to pay our obligations as they become due, the ability to continue to meet our current and long-term obligations is dependent upon many factors, particularly our ability to successfully operate our mortgage lending segment, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and success are dependent in large part upon the ability to expand our mortgage lending platform and profitability. In order to support the continued growth of our mortgage lending platform, including the expected increase in volume due to the acquisition of CashCall mortgage operations, we will continue to consider sales of mortgage servicing rights, financing of unencumbered assets and opportunities to raise capital by issuing debt or equity.

Table of Contents

Sources of Liquidity

Cash flows from our mortgage lending operations. We receive loan fees from loan originations. Fee income consists of application and underwriting fees and fees on cancelled loans. These loan fees are offset by the related direct loan origination costs including broker fees related to our wholesale and correspondent channels. In addition, we generally recognize net interest income on loans held for sale from the date of origination through the date of disposition. We sell or securitize substantially all of the loans we originate in the secondary mortgage market, with servicing rights released or retained. Loans are sold on a whole loan basis by entering into sales transactions with third-party investors in which we receive a premium for the loan and related servicing rights, if applicable. The mortgage lending operations sold $2.7 billion of mortgages through whole loan sales and securitizations during 2014. Additionally, the mortgage lending operations enter into interest rate lock commitments (IRLCs) and utilize forward sold Fannie Mae and Ginnie Mae mortgage-backed securities (Hedging Instruments) to hedge interest rate risk. We may be subject to pair-off gains and losses associated with these hedging instruments. Since we rely significantly upon loan sales to generate cash proceeds to repay warehouse borrowings and to create credit availability, any disruption in our ability to complete sales may require us to utilize other sources of financing, which, if available at all, may be on less favorable terms. In addition, delays in the disposition of our mortgage loans increase our risk by exposing us to credit and interest rate risk for this extended period of time.

We receive servicing income net of subservicing cost and other related servicing expenses from our mortgage servicing portfolio. Additionally, we strategically sell MSRs to generate liquidity, keep the amount of capital invested in MSRs at acceptable levels and provide capital needed for further growth. During 2014, our mortgage servicing portfolio declined to $2.3 billion at December 31, 2014, as compared to $3.1 billion at December 31, 2013. This decline was due to servicing sales of $2.6 billion in the first nine months of 2014. Despite the decline in our servicing portfolio during 2014, servicing income, net increased to $4.6 million as compared to $4.3 million in 2013 due to the increase in average balance of our servicing portfolio to $2.3 billion in 2014 compared to $2.2 billion in 2013.

Fees from our mortgage and real estate service business activities. We earn fees from various mortgage and real estate business activities, including mortgage lending, loss mitigation, real estate disposition, monitoring and surveillance services and real estate brokerage. We provide services to investors, servicers and individual borrowers primarily by focusing on loss mitigation and performance of our long-term mortgage portfolio.

Cash flows from our long-term mortgage portfolio (residual interests in securitizations). We receive residual cash flows on mortgages held as securitized mortgage collateral after distributions are made to investors on securitized mortgage borrowings to the extent required credit enhancements are maintained and performance covenants are complied with for credit ratings on the securitized mortgage borrowings. These cash flows represent the difference between principal and interest payments on the underlying mortgages, affected by the following:

- servicing and master servicing fees paid;
- premiums paid to mortgage insurers;
- cash payments / receipts on derivatives;
- interest paid on securitized mortgage borrowings;
- principal payments and prepayments paid on securitized mortgage borrowings;
- overcollateralization requirements;

Table of Contents

actual losses, net of any gains incurred upon disposition of other real estate owned or acquired in settlement of defaulted mortgages;

unpaid interest shortfall;

basis risk shortfall; and

bond write-downs reinstated.

Prior to 2013, certain residuals were pledged as collateral for a note payable, which was repaid in April 2013. Residual cash flows were used to make principal and interest payments (See further details below under *Structured Debt Agreement*.) In December 2014, certain residuals were pledged again as collateral for short-term structured debt. Residual cash flows are being used to make principal and interest payments for such debt payments (See further details below under *Financing Activities*.)

Additionally, we act as the master servicer for mortgages included in our CMO and REMIC securitizations. The master servicing fees we earn are generally 0.03% per annum (3 basis points) on the declining principal balances of these mortgages plus interest income on cash held in custodial accounts until remitted to investors, less any interest shortfall. However, due to the decline in interest rates, the interest income earned on cash held in custodial accounts has declined significantly.

We are negotiating the terms for a new working capital facility to provide liquidity for warehouse haircuts and capitalization of MSRs associated with the growth expected from the acquisition of the mortgage operations of CashCall. Our goal is to complete the negotiation, execute the agreement and have the facility operational in April 2015.

Uses of Liquidity

Acquisition and origination of mortgage loans. During 2014, the mortgage lending operations originated or acquired $2.8 billion of mortgage loans. Capital invested in mortgages is outstanding until we sell the loans, which is one of the reasons we attempt to sell within 10-15 days of acquisition or origination. Initial capital invested in mortgage loans includes premiums paid when mortgages are acquired and originated and our capital investment, or "haircut," required upon financing, which is generally determined by the type of collateral provided and the warehouse facility terms. The mortgage lending operations acquired and originated $2.8 billion of residential mortgages, which were financed with warehouse borrowings at a haircut generally between 2% to 10% of the outstanding principal balance of the mortgage loans. The haircuts are normally recovered from sales proceeds. With the expected future increase in origination volumes we will be required to use additional capital for haircuts and increase our restricted cash balances with our warehouse lenders. At December 31, 2014, we had $1.8 million in restricted cash posted as additional collateral as compared to $1.1 million at December 31, 2013.

Investment in mortgage servicing rights. As part of our business plan, we invest in mortgage servicing rights through the sale of mortgage loans on a servicing retained basis. During 2014, we capitalized $29.4 million in mortgage servicing rights from selling $2.7 billion in loans with servicing retained. Partially offsetting this investment was the sale of $34.7 million in servicing rights ($3.3 billion of mortgage loans) from the servicing portfolio.

Cash flows from financing facilities and other lending relationships. We primarily fund our mortgage originations through warehouse facilities with third-party lenders which are primarily with national and regional banks. During 2014, the warehouse facilities borrowing capacity amounted to $415.0 million, of which $226.7 million was outstanding at December 31, 2014. The warehouse facilities are secured by and used to fund single-family residential mortgage loans until such loans are sold. The warehouse facilities agreements contain certain covenants which we are required to satisfy. In order to mitigate the liquidity risk associated with warehouse borrowings, we attempt to sell our mortgage loans within 10-15 days from acquisition or origination. In addition to the warehouse facilities, we have borrowing capacity up to $4.0 million on a Line of Credit. There was a $4.0 million outstanding balance on the Line of Credit at December 31, 2014. In December 2014, we entered into a $6.0 million short-term structured debt agreement to finance our residual interests. During 2013, we raised additional capital with the issuance of $20.0 million in Convertible Notes.

Our ability to meet liquidity requirements and the financing needs of our customers is subject to the renewal of our warehouse facilities or obtaining other sources of financing, if required, including additional debt or equity from time to time. Any decision our lenders or investors make to provide available financing to us in the future will depend upon a number of factors, including:

- our compliance with the terms of existing warehouse lines and credit arrangements, including any financial covenants;
- the ability to obtain waivers upon any noncompliance;
- our financial performance;
- industry and market trends in our various businesses;
- the general availability of, and rates applicable to, financing and investments;
- our lenders or investors resources and policies concerning loans and investments; and
- the relative attractiveness of alternative investment or lending opportunities.

Repurchase Reserve. When we sell loans through whole loan sales we are required to make normal and customary representations and warranties about the loans to the purchaser. Our whole loan sale agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale.

Investors have requested us to repurchase loans or to indemnify them against losses on certain loans which the investors believe either do not comply with applicable representations or warranties or defaulted shortly after its purchase. The Company records an estimated reserve for these losses at the time the loan is sold, and adjusts the reserve to reflect the estimated loss. During 2014, we paid approximately $5.3 million to settle previous repurchase claims related to our discontinued operations.

Financing Activities

Structured Debt Agreement (Note Payable). In February 2012, we refinanced the existing debt with the lender and entered into a new $7.5 million structured debt agreement (Note Payable) using eight of our residual interests (net trust assets) as collateral. We received proceeds of $7.0 million, net of the aforementioned payoff of $408 thousand and transaction costs of approximately $50 thousand. In April 2013, we fully satisfied the remaining scheduled payments on the Note Payable and hence, the residuals listed as collateral were released to us.

Short-Term Structured Debt. In December 2014, we entered into a $6.0 million short-term structured debt agreement using eight of our residual interests (net trust assets) as collateral. We received proceeds of $6.0 million and had transaction costs of approximately $60 thousand. The agreement bears interest at LIBOR + 5.75% per annum, has a final repurchase date of June 29, 2015 and we have the right to repurchase the securities without penalty prior to the final repurchase date. The holder receives monthly principal and interest payments which are equal to the distributions from the residual interest underlying collateral with a minimum payment of $500,000. If the cash flows received from the collateralized residual interests are less than $500,000, we would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder.

Convertible Notes. In April 2013, we raised $20.0 million from the issuance of Convertible Notes. The Convertible Notes accrue interest at a rate of 7.5% per annum to be paid quarterly and mature in April 2018. Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of $10.875 per share, subject to adjustment for stock splits and dividends. We have the right to force a conversion if the stock price of IMH common stock reaches $16.3125 for 20 trading days during any period of 30 consecutive trading days.

Working Capital Line of Credit (Line of Credit). In June 2014, we amended the $4.0 million working capital line of credit agreement with a national bank at an interest rate of one-month LIBOR plus 3.50% extending the expiration to June 2015. We make monthly interest payments based on the unpaid balance of the Line of Credit. Under the terms of the agreement we are required to maintain various financial and other covenants. There was a $4.0 million outstanding balance on the working capital line of credit as of December 31, 2014.

Long-term Debt (Trust Preferred Securities and Junior Subordinated Notes). Trust Preferred Securities had an outstanding principal balance of $8.5 million at December 31, 2014 with a stated maturity of July 30, 2035. The Trust Preferred Securities require quarterly distributions initially at a fixed rate of 2.00% per annum through December 2013 with increases of 1.00% per year through 2017. Starting in 2018, the interest rates become variable at 3-month LIBOR plus 3.75% per annum. At December 31, 2014, the interest rate was 3.0%. The Junior Subordinated Notes are redeemable at par at any time after July 30, 2010 and requires quarterly distributions at a variable rate of three-month LIBOR plus 3.75% per annum. At December 31, 2014, the interest rate was 3.99%. The Junior Subordinated Notes had an outstanding principal balance of $62.0 million at December 31, 2014 with a stated maturity of March 2034. We are current on all interest payments. At December 31, 2014, Long-term Debt had an estimated fair value of $22.1 million and is reflected on our consolidated balance sheets as long-term debt.

Operating activities. Net cash provided by operating activities was $30.0 million for 2014 as compared to $174.5 million for 2013 primarily due to the timing of originations and sales of loans held-for-sale between 2014 and 2013. During 2014 and 2013, the primary sources of cash in operating activities were cash received from fees generated by our mortgage and real estate service business activities, cash received from mortgage lending and excess cash flows from our residual interests in securitizations offset by operating expenses.

Investing activities. Net cash provided by investing activities was $701.3 million for 2014 as compared to $787.2 million for 2013. For 2014 and 2013, the primary source of cash from investing activities was provided by principal repayments on our securitized mortgage collateral, proceeds from the liquidation of REO, the sale of mortgage servicing rights and proceeds from the sale of AmeriHome.

Financing activities. Net cash used in financing activities was $731.2 million for 2014 as compared to $964.5 million for 2013. For 2014 and 2013, net cash used in financing activities was primarily for principal repayments on securitized mortgage borrowings, partially offset by net borrowings under warehouse agreements, borrowings under the line of credit and issuance of the short-term structure debt.

Table of Contents

Inflation. The consolidated financial statements and corresponding notes to the consolidated financial statements have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. For the years ended December 31, 2014 and 2013, inflation had no significant impact on our revenues or net income. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater effect on our performance than do the effects of general levels of inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates normally increase during periods of high inflation and decrease during periods of low inflation.

Off Balance Sheet Arrangements

When we sell or broker loans through whole-loan sales, we are required to make normal and customary representations and warranties to the loan originators or purchasers, including guarantees against early payment defaults typically 90 days, and fraudulent misrepresentations by the borrowers. Our agreements generally require us to repurchase loans if we breach a representation or warranty given to the loan purchaser. In addition, we may be required to repurchase loans as a result of borrower fraud or if a payment default occurs on a mortgage loan shortly after its sale. Because the loans are no longer on our balance sheet, the representations and warranties are considered a guarantee. During 2014, we sold $2.7 billion and brokered $2.5 million of loans subject to representations and warranties compared to $2.5 billion and $55.9 million in 2013. At December 31, 2014, we had $4.5 million in repurchase reserve related to the loans sold since early 2011 by the continuing mortgage lending operation as compared to a reserve of $4.0 million as December 31, 2013. Additionally, the repurchase reserve within discontinued operations was $1.2 million at December 31, 2014, as compared to $5.5 million at December 31, 2013. During 2014, we paid $5.3 million to settle repurchase demands on loans previously sold to third parties as compared to $4.0 million to settle or repurchase loans during 2013.

See disclosures in the notes to the consolidated financial statements under "Commitments and Contingencies" for other arrangements that qualify as off balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item 8 is incorporated by reference to Impac Mortgage Holdings, Inc.'s Consolidated Financial Statements and Independent Auditors' Report beginning at page F-1 of this Form 10-K.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, with the participation of its chief executive officer (CEO) and its chief financial officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that, as of that date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Section 13a-15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for reporting purposes in conformity with U.S. generally accepted accounting principles and include those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

As of December 31, 2014, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (COSO). Based on the criteria established by COSO, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the

Table of Contents

design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by improper management override of the controls. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, there is a risk that material misstatements due to error or fraud may occur and will not be detected on a timely basis.

Squar, Milner, Peterson, Miranda & Williamson, LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, a copy of which is included herein.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2014, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Impac Mortgage Holdings, Inc.

We have audited Impac Mortgage Holdings, Inc.'s (the Company) internal control over financial reporting as of December 31, 2014 based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Impac Mortgage Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Impac Mortgage Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Impac Mortgage Holdings, Inc. and subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended, and our report dated March 24, 2015 expressed an unqualified opinion on these financial statements.

/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

Newport Beach, California
March 24, 2015

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 including Equity Compensation Plan Information is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to Impac Mortgage Holdings, Inc.'s definitive proxy statement, to be filed pursuant to Regulation 14A within 120 days after the end of Impac Mortgage Holdings, Inc.'s fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(3) Exhibits

The exhibits listed on the accompanying Exhibit Index are incorporated by reference into this Item 15 of this Annual Report on Form 10-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Irvine, State of California, on the 24th day of March 2015.

IMPAC MORTGAGE HOLDINGS, INC.

by /s/ JOSEPH R. TOMKINSON

Joseph R. Tomkinson
Chairman of the Board
and Chief Executive Officer

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

Signature	Title	Date
/s/ JOSEPH R. TOMKINSON Joseph R. Tomkinson	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 24, 2015
/s/ WILLIAM S. ASHMORE William S. Ashmore	President and Director	March 24, 2015
/s/ TODD R. TAYLOR Todd R. Taylor	Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2015
/s/ JAMES WALSH James Walsh	Director	March 24, 2015
/s/ FRANK P. FILIPPS Frank P. Filipps	Director	March 24, 2015
/s/ STEPHAN R. PEERS Stephan R. Peers	Director	March 24, 2015
/s/ LEIGH J. ABRAMS Leigh J. Abrams	Director	March 24, 2015

Table of Contents

Exhibit Index

Exhibit Number	Description
2.1	Equity Purchase Agreement dated December 3, 2013 among Aris Mortgage Holding Company, LLC, Excel Mortgage Servicing, Inc. and Integrated Real Estate Service Corporation.
3.1	Charter of the Registrant (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on November 8, 1995).
3.1(a)	Certificate of Correction of the Registrant (incorporated by reference to exhibit 3.1(a) of the Registrant's 10-K for the year-ended December 31, 1998).
3.1(b)	Articles of Amendment of the Registrant (incorporated by reference to exhibit 3.1(b) of the Registrant's 10-K for the year-ended December 31, 1998).
3.1(c)	Articles of Amendment for change of name to Charter of the Registrant (incorporated by reference to exhibit number 3.1(a) of the Registrant's Current Report on Form 8-K/A Amendment No. 1, filed February 12, 1998).
3.1(d)	Articles of Amendment, filed with the State Department of Assessments and Taxation of Maryland on July 16, 2002, increasing authorized shares of Common Stock of the Registrant (incorporated by reference to exhibit 10 of the Registrant's Form 8-A/A, Amendment No. 2, filed July 30, 2002).
3.1(e)	Articles of Amendment, filed with the State Department of Assessments and Taxation of Maryland on June 22, 2004, amending and restating Article VII of the Registrant's Charter (incorporated by reference to exhibit 7 of the Registrant's Form 8-A/A, Amendment No. 1, filed June 30, 2004).
3.1(f)	Articles Supplementary designating the Company's 9.375 percent Series B Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, filed with the State Department of Assessments and Taxation of Maryland on May 26, 2004 (incorporated by reference to exhibit 3.8 of the Registrant's Form 8-A/A, Amendment No. 1, filed June 30, 2004).
3.1(g)	Articles Supplementary designating the Company's 9.125 percent Series C Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, par value $0.01 per share, filed with the State Department of Assessments and Taxation of Maryland on November 18, 2004 (incorporated by reference to exhibit 3.10 of the Registrant's Form 8-A filed November 19, 2004).
3.1(h)	Articles of Amendment of the Company, effective as of December 30, 2008, effecting 1-for-10 reverse stock split (incorporated by reference to exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2008).
3.1(i)	Articles of Amendment of the Company, effective as of December 30, 2008, amending par value (incorporated by reference to exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2008).

Table of Contents

Exhibit Number	Description
3.1(j)	Articles of Amendment of Series B Preferred Stock (incorporated by reference to exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2009).
3.1(k)	Articles of Amendment of Series C Preferred Stock (incorporated by reference to exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2009).
3.1(l)	Articles Supplementary of Series A-1 Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 4, 2013).
3.2	Bylaws, as amended and restated (incorporated by reference to the corresponding exhibit number of the Registrant's Quarterly Report on Form 10-Q for the period ending March 31, 1998).
3.2(a)	Amendment to Bylaws (incorporated by reference to exhibit 3.2(a) of the Registrant's Registration Statement on Form S-3 (File No. 333-111517) filed with the Securities and Exchange Commission on December 23, 2003).
3.2(b)	Second Amendment to Bylaws (incorporated by reference to Exhibit 3.2(b) of the Registrant's Form 8-K, filed with the Securities and Exchange Commission on April 1, 2005).
3.2(c)	Third Amendment to Bylaws of the Company (incorporated by reference to Exhibit 3.2(c) of the Registrant's Form 8-K, filed with the Securities and Exchange Commission on March 29, 2006).
3.2(d)	Fourth Amendment to Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on December 20, 2007).
3.2(e)	Fifth Amendment to Bylaws of the Company (incorporated by reference to Exhibit 3.2(e) of the Registrant's Form 8-K, filed with the Securities and Exchange Commission on February 13, 2008).
3.2(f)	Amendment No. 6 to Bylaws of the Company (incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 5, 2008).
4.1	Form of Stock Certificate of the Company (incorporated by reference to the corresponding exhibit number to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7, 1995).
4.2	Indenture between Impac Mortgage Holdings, Inc. and Wilmington Trust Company, as trustee, dated October 18, 2005 (incorporated by reference to Exhibit 4.8 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
4.2(a)	First Supplemental Indenture dated as of July 14, 2009 between Wilmington Trust Company and Impac Mortgage Holdings, Inc. to Indenture dated October 18, 2005 (incorporated by reference to Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009).

Table of Contents

Exhibit Number	Description
4.3	Junior Subordinated Indenture dated May 8, 2009 between Impac Mortgage Holdings, Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, related to Junior Subordinated Note due 2034 in the principal amount of $30,244,000 (incorporated by reference to exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009).
4.4	Junior Subordinated Indenture dated May 8, 2009 between Impac Mortgage Holdings, Inc. and The Bank of New York Mellon Trust Company, National Association, as trustee, related to Junior Subordinated Note due 2034 in the principal amount of $31,756,000 (incorporated by reference to exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009).
4.5	Tax Benefits Preservation Rights Agreement, dated as of September 3, 2013, by and between Impac Mortgage Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 4, 2013).
4.5(a)	First Amendment to Tax Benefits Preservation Rights Agreement, dated as of September 24, 2013, by and between Impac Mortgage Holdings, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2013).
10.1(a)	Form of 2002 Indemnification Agreement between the Registrant and its Directors and Officers (incorporated by reference to exhibit 10.1(a) of the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2004).
10.1(b)	Schedule of each officer and director that is a party to an Indemnification Agreement (incorporated by reference to exhibit 10.2(b) of the Registrant's Annual Report on Form 10-K for the year-ended December 31, 2007).
10.2	Form of Loan Purchase and Administrative Services Agreement between the Registrant and Impac Funding Corporation (incorporated by reference to exhibit 10.9 to the Registrant's Registration Statement on Form S-11, as amended (File No. 33-96670), filed with the Securities and Exchange Commission on September 7,1995).
10.3	Servicing Agreement effective November 11, 1995 between the Registrant and Impac Funding Corporation (incorporated by reference to exhibit 10.14 to the Registrant's Registration Statement on Form S-11, as amended (File No. 333-04011), filed with the Securities and Exchange Commission on May 17, 1996).
10.4	Lease dated March 4, 2005 regarding 19500 Jamboree Road, Newport Beach California (incorporated by reference to exhibit 10.8 of the Registrant's Annual Report on Form 10-K for the year-ended December 31, 2004).
10.5*	Impac Mortgage Holdings, Inc. Omnibus Incentive Plan (as amended) (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2014).
10.5(a)*	Form of Stock Option Agreement for 2010 Omnibus Incentive Plan (incorporated by reference to exhibit 99.6 of the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 10, 2010).

Table of Contents

Exhibit Number	Description
10.5(b)*	Form of Restricted Stock Agreement for 2010 Omnibus Incentive Plan (incorporated by reference to exhibit 99.7 of the Registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on September 10, 2010).
10.5(c)*	Form of Stock Option Agreement for 2001 Stock Option, Deferred Stock and Restricted Stock Plan (incorporated by reference to exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2004).
10.6*	Non-Employee Director Deferred Stock Unit Award Program (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).
10.6(a)*	Form of Notice of Grant Under Non-Employee Director Deferred Stock Unit Award Program (incorporated by reference to Exhibit 10.6(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).
10.7*	Employment Agreement effective as of January 1, 2013 between Impac Mortgage Holdings, Inc. and Joseph Tomkinson (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2013).
10.7(a)*	First amendment to Employment Contract dated as of March 17, 2014 between Joseph Tomkinson and Impac Mortgage Holdings, Inc. (incorporated by reference to Exhibit 10.7(a) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).
10.8*	Employment Agreement effective as of January 1, 2013 between Impac Mortgage Holdings, Inc. and William Ashmore (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2013).
10.9*	Employment Agreement effective as of January 1, 2014 between Impac Mortgage Holdings, Inc. and Todd Taylor (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).
10.9(a)	Amendment dated November 10, 2104 to Employment Agreement with Todd Taylor.
10.10*	Employment Agreement effective as of January 1, 2014 between Impac Mortgage Holdings, Inc and Ron Morrison (incorporated by reference to Exhibit 10.0 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).
10.10(a)	Amendment dated November 10, 2104 to Employment Agreement with Ron Morrison.
10.11	Amended and Restated Declaration of Trust among Impac Mortgage Holdings, Inc., Wilmington Trust Company, as Delaware and Institutional Trustee, and the Administrative Trustees named therein, dated October 18, 2005 (incorporated by reference to Exhibit 10.29 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
10.11(a)	Amendment No. 1 dated as of July 14, 2009 among Wilmington Trust Company, Impac Mortgage Holdings, Inc. and holders of Capital Securities to Amended and Restated Declaration of Trust dated October 18, 2005 (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009).

Table of Contents

Exhibit Number	Description
10.12	Exchange Agreement dated May 8, 2009 between Impac Mortgage Holdings, Inc., Taberna Preferred Funding I, Ltd., and Taberna Preferred Funding II, Ltd. (incorporated by reference to exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2009).
10.13	Credit Agreement executed May 13, 2014 and First Amendment with Promissory Note dated June 1, 2014 with Wells Fargo Bank (incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10 Q for the period ended June 30, 2014).
10.14	Note Purchase Agreement dated as of April 29, 2013 by and among Impac Mortgage Holdings, Inc. and the Purchasers (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2013).
10.14(a)	Form of Convertible Promissory Note Due 2018 (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2013).
10.15	Registration Rights Agreement dated as of April 29, 2013 by and among Impac Mortgage Holdings, Inc. and the Purchasers (incorporated by reference to Exhibit 10.3 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 30, 2013).
21.1	Subsidiaries of the Registrant (incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).
23.1	Consent of Squar, Milner, Peterson, Miranda & Williamson, LLP.
31.1	Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Stockholders' Equity, (4) the Condensed Consolidated Statements of Cash Flows, and (5) Notes to Consolidated Financial Statements, tagged as blocks of text.

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* Denotes a management or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 601 of Regulation S-K

** This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

NOTE: Filings on Form 10-K, 10-Q and 8-K are under SEC File No. 001-14100.

CONSOLIDATED FINANCIAL STATEMENTS
INDEX

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Impac Mortgage Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Impac Mortgage Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Impac Mortgage Holdings, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 24, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

Newport Beach, California
March 24, 2015

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

		December 31, 2014		December 31, 2013
ASSETS				
Cash and cash equivalents	$	10,073	$	9,969
Restricted cash		2,420		1,467
Mortgage loans held-for-sale		239,391		129,191
Mortgage servicing rights		24,418		35,981
Securitized mortgage trust assets		5,268,531		5,513,166
Assets of discontinued operations		100		2,277
Other assets		33,639		26,274
Total assets	$	5,578,572	$	5,718,325
LIABILITIES				
Warehouse borrowings	$	226,718	$	119,634
Short-term structured debt		6,000		-
Convertible notes		20,000		20,000
Long-term debt		22,122		15,871
Securitized mortgage trust liabilities		5,251,307		5,502,585
Liabilities of discontinued operations		3,146		12,883
Other liabilities		24,323		21,481
Total liabilities		5,553,616		5,692,454
Commitments and contingencies				
STOCKHOLDERS' EQUITY				
Series A-1 junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued or outstanding		-		-
Series B 9.375% redeemable preferred stock, $0.01 par value; liquidation value $16,640; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively		7		7
Series C 9.125% redeemable preferred stock, $0.01 par value; liquidation value $35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively		14		14
Common stock, $0.01 par value; 200,000,000 shares authorized; 9,588,532 and 8,988,910 shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively		96		90
Additional paid-in capital		1,089,574		1,084,173
Net accumulated deficit:		-		-
Cumulative dividends declared		(822,520)		(822,520)
Retained deficit		(242,215)		(235,893)
Net accumulated deficit		(1,064,735)		(1,058,413)
Total stockholders' equity		24,956		25,871
Total liabilities and stockholders' equity	$	5,578,572	$	5,718,325

See accompanying notes to consolidated financial statements.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the year ended December 31, 2014	2013
Revenues:		
Gain on sale of loans, net	$ 29,308	$ 57,188
Real estate services fees, net	14,729	19,370
Servicing income, net	4,586	4,240
(Loss) gain on mortgage servicing rights	(5,116)	6,567
Other	1,682	1,004
Total revenues	45,189	88,369
Expenses:		
Personnel expense	37,398	64,769
General, administrative and other	10,505	14,805
Occupancy expense	5,562	6,432
Legal and professional expense	2,570	3,954
Total expenses	56,035	89,960
Other income (expense):		
Interest income	295,656	310,391
Interest expense	(294,521)	(310,477)
Change in fair value of long-term debt	(4,014)	(687)
Change in fair value of net trust assets, including trust REO gains (losses)	11,063	(3,678)
Total other income (expense)	8,184	(4,451)
Loss from continuing operations before income taxes	(2,662)	(6,042)
Income tax expense (benefit) from continuing operations	1,305	(1,031)
Net loss from continuing operations	(3,967)	(5,011)
Loss from discontinued operations, net of tax	(2,355)	(3,037)
Net loss	(6,322)	(8,048)
Net earnings attributable to noncontrolling interest		(136)
Net loss attributable to common stockholders	$ (6,322)	$ (8,184)
Loss per common share basic and diluted:		
Loss from continuing operations attributable to IMH	$ (0.43)	$ (0.59)
Loss from discontinued operations	(0.25)	(0.35)
Net loss per share available to common stockholders	$ (0.68)	$ (0.94)

See accompanying notes to consolidated financial statements

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Retained Deficit	Total IMH Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 31, 2012	2,070,678	$ 21	8,474,017	$ 85	$ 1,079,083	$ (822,520)	$ (227,709)	$ 28,960	$ 883	$ 29,843
										-
Proceeds and tax benefit from exercise of stock options	-	-	121,576	1	174	-	-	175	-	175
Stock based compensation	-	-	-	-	1,971	-	-	1,971	-	1,971
Settlement from noncontrolling interest	-	-	108,375	1	188	-	-	189	(1,019)	(830)
Legal settlements	-	-	284,942	3	2,757	-	-	2,760	-	2,760
Net (loss) earnings	-	-	-	-	-	-	(8,184)	(8,184)	136	(8,048)
Balance, December 31, 2013	2,070,678	21	8,988,910	90	1,084,173	(822,520)	(235,893)	25,871	-	25,871
Proceeds and tax benefit from exercise of stock options	-	-	14,622	-	38	-	-	38	-	38
Stock based compensation	-	-	-	-	1,921	-	-	1,921	-	1,921
Legal settlements	-	-	585,000	6	3,442	-		3,448	-	3,448
Net loss	-	-	-	-	-	-	(6,322)	(6,322)	-	(6,322)
Balance, December 31, 2014	2,070,678	$ 21	9,588,532	$ 96	$ 1,089,574	$ (822,520)	$ (242,215)	$ 24,956	$ -	$ 24,956

See accompanying notes to consolidated financial statements

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the year ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,322)	$ (8,048)
Gain on sale of MSRs	(1,112)	(77)
Change in fair value of mortgage servicing rights	6,229	(6,490)
Gain on sale of AmeriHome	(1,208)	
Impairment of deferred charge	453	
Gain on sale of loans	(23,668)	(61,743)
Change in fair value of mortgage loans held-for-sale	(6,857)	2,895
Change in fair value of derivatives lending, net	27	1,797
Provision for repurchases	1,190	1,750
Origination of mortgage loans held-for-sale	(2,845,494)	(2,493,884)
Sale and principal reduction on mortgage loans held-for-sale	2,736,431	2,520,551
Gains from REO	(7,581)	(8,816)
Change in fair value of net trust assets, excluding REO	(8,658)	6,250
Change in fair value of long-term debt	4,014	687
Accretion of interest income and expense	180,478	215,653
Change in REO impairment reserve	4,776	4,906
Amortization of debt issuance costs and discount on note payable	48	30
Stock-based compensation	1,921	1,971
Net change in restricted cash	(953)	1,763
Net cash used in operating activities of discontinued operations	(7,560)	(8,194)
Net change in other assets and liabilities	3,827	3,468
Net cash provided by operating activities	29,981	174,469
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	634,714	739,154
Proceeds from the sale of mortgage servicing rights	28,388	3,065
Finance receivable advances to customers	(76,317)	
Repayments of finance receivables	67,959	
Net change in mortgages held-for-investment	7	(55)
Purchase of equipment	(18)	(362)
Net principal change on investment securities available-for-sale	76	72
Acquisition of noncontrolling interest		(350)
Proceeds from the sale of real estate owned	36,288	45,703
Proceeds from the sale of AmeriHome	10,200	
Net cash provided by investing activities	701,297	787,227

CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of warehouse borrowings		(2,611,066)		(2,364,679)
Borrowings under warehouse agreement		2,718,150		2,376,709
Repayment of line of credit		(28,250)		(13,500)
Borrowings under line of credit		29,250		16,500
Repayment of securitized mortgage borrowings		(844,499)		(995,200)
Issuance of Convertible Notes				20,000
Issuance of short-term structured debt		6,000		
Principal payments on notes payable				(3,451)
Principal payments on capital lease		(736)		(769)
Capitalized debt issuance costs		(60)		(267)
Proceeds from exercise of stock options		37		175
Net cash used in financing activities		(731,174)		(964,482)
Net change in cash and cash equivalents		104		(2,786)
Cash and cash equivalents at beginning of year		9,969		12,755
Cash and cash equivalents at end of period continuing operations		10,073		9,969
Cash and cash equivalents at end of period discontinued operations				
Cash and cash equivalents at end of period	$	10,073	$	9,969

F-6

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -(continued)

(in thousands)

	For the year ended December 31,	
	2014	**2013**
SUPPLEMENTARY INFORMATION (Continuing and Discontinued Operations):		
Interest paid, net	$ 56,595	$ 65,525
Taxes paid, net of refunds	725	209
NON-CASH TRANSACTIONS (Continuing and Discontinued Operations):		
Transfer of securitized mortgage collateral to real estate owned	$ 33,377	$ 38,224
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	29,388	21,776
Common stock issued upon legal settlement	3,448	2,760
Acquisition of equipment purchased through capital leases	573	1,171
Common stock issued for acquisition of noncontrolling interest		1,100
Increase in ownership of AmeriHome		911

See accompanying notes to consolidated financial statements

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 1. Summary of Business and Financial Statement Presentation including Significant Accounting Policies

Business Summary

Impac Mortgage Holdings, Inc. (the Company, IMH or Parent) is a Maryland corporation incorporated in August 1995 and has the following wholly-owned subsidiaries: Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets) and Impac Funding Corporation (IFC).

The Company's continuing operations include the mortgage lending operations and real estate services conducted by IRES and IMC and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets) conducted by IMH. The discontinued operations include the former non-conforming mortgage and retail operations conducted by IFC and subsidiaries.

The information set forth in these notes is presented on a continuing operations basis, unless otherwise stated.

Financial Statement Presentation

Basis of Presentation

The balance sheets, results of operations and cash flows have been presented in the accompanying consolidated financial statements as of December 31, 2014 and 2013 and for each of the years in the two-year period ended December 31, 2014 and include the financial results of IMH, IRES, IMC and IMH Assets within continuing operations and IFC within discontinued operations.

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current year presentation.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of IMH and other entities in which the Company has a controlling financial interest. The usual condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as variable interest entities (VIEs), through arrangements that do not involve voting interests.

The VIE framework requires a variable interest holder (counterparty to a VIE) to consolidate the VIE if that party has the power to direct activities of the VIE that most significantly impact the entity's economic performance, will absorb a majority of the expected losses of the VIE, receive a majority of the residual returns of the VIE, or both, and directs the significant activities of the entity. This party is considered the primary beneficiary of the entity. The determination of whether the Company meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transactions (such as investments, liquidity commitments, derivatives and fee arrangements) with the entity.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Noncontrolling Interests in Consolidated Subsidiaries

The Company follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10-65-1, *Noncontrolling Interests in Consolidated Financial Statements* which requires a noncontrolling interest in a subsidiary to be reported as equity in the consolidated financial statements with sufficient disclosure provided to identify and distinguish between the interests of the parent and the interest of the noncontrolling owners. The Company previously reported the portion of AmeriHome Mortgage Corporation (AmeriHome) (a subsidiary of IRES) not owned by the Company as noncontrolling interests. During the third quarter of 2013, the Company and the noncontrolling interest holder entered into an agreement to transfer the remaining 20% ownership of AmeriHome to the Company. Effective July 1, 2013, the Company owned 100% of AmeriHome, which was subsequently sold in March 2014 (See Note 13 *Acquisition/Disposition of Noncontrolling Interest*).

Use of Estimates and Assumptions

The accompanying consolidated financial statements of IMH and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Significant Accounting Policies

Fair Value Option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. The Company has elected the fair value option on investment securities available-for-sale, securitized mortgage collateral, mortgage servicing rights, mortgage loans held-for-sale, securitized mortgage borrowings and long-term debt. Elections were made to mitigate income statement volatility caused by differences in the measurement basis of elected instruments (for example, securitized mortgage collateral was previously accounted for at cost adjusted for net deferred origination costs and allowance for loan losses for credit losses inherent in the portfolio, where securitized mortgage borrowings was previously accounted for at amortized cost net of deferred financing costs).

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash and highly liquid investments with maturities of three months or less at the date of acquisition. The carrying amount of cash and cash equivalents approximates fair value.

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. At December 31, 2014 and 2013, restricted cash totaled $2.4 million and $1.5 million, respectively. The restricted cash is the result of the terms of the Company's warehouse borrowings. In accordance with the terms of the Master Repurchase Agreements related to the warehouse borrowings,

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

the Company is required to maintain cash balances with the lender as additional collateral for the borrowings (See Note 5. *Warehouse Borrowings*).

Mortgage Loans Held-for-Sale

During 2009, the Company established a residential mortgage lending operation after discontinuing its former residential and commercial lending operations in 2007 (see Note 21. *Discontinued Operations*). Mortgage loans held-for-sale (LHFS) originated under the new lending operation are accounted for using the fair value option, with changes in fair value recorded in gain on sale of loans, net in the accompanying consolidated statements of operations. In accordance with FASB ASC 825, *Financial Instruments*, loan origination fees and expenses are recognized in earnings as incurred and not deferred.

Revenue derived from the Company's mortgage lending activities includes loan fees collected at the time of origination and gain or loss from the sale of LHFS. Loan fees consist of fee income earned on all loan originations, including loans closed and held for sale. Loan fees are recognized as earned and consist of amounts collected for application and underwriting fees, fees on cancelled loans and discount points. The related direct loan origination costs are recognized when incurred and consists of broker fees and commissions. Gain or loss from the sale and mark-to-market of LHFS includes both realized and unrealized gains and losses and are included in gain on sale of loans, net in the accompanying consolidated statements of operations. The valuation of LHFS approximates a whole-loan price, which includes the value of the related mortgage servicing rights.

The Company principally sells its LHFS to government sponsored entities, and to a lesser extent, investors. The Company evaluates its loan sales for sales treatment. To the extent the transfer of loans qualifies as a sale, the Company derecognizes the loans and records a realized gain or loss on the sale date. In the event the Company determines that the transfer of loans does not qualify as a sale, the transfer would be treated as a secured borrowing. Interest on loans is recorded as income when earned and deemed collectible. LHFS are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible.

Mortgage Servicing Rights

The Company accounts for mortgage loan sales in accordance with ASC 860, *Transfers and Servicing*. Upon sale of mortgage loans on a service-retained basis, the loans held for sale are removed from the balance sheet, mortgage servicing rights (MSRs) are recorded as an asset for servicing rights retained. The Company elected to measure MSRs at fair value as prescribed by FASB ASC 860-50-35, and as such, servicing assets or liabilities are valued using discounted cash flow modeling techniques using assumptions regarding future net servicing cash flow, including prepayment rates, discount rates, servicing cost and other factors. Changes in estimated fair value are reported in the accompanying consolidated statements of operations within (loss) gain on mortgage servicing rights.

When the Company sells mortgage servicing rights, the Company records a gain or loss on such sale based on the selling price of the mortgage servicing rights less the carrying value and transaction

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

costs. Gains and losses are reported in the accompanying consolidated statements of operations within (loss) gain on mortgage servicing rights.

Finance Receivables

Finance receivables represent transactions with the Company's customers involved in residential real estate lending. As a warehouse lender, the Company's warehouse lending operations are a secured creditor of the mortgage bankers and brokers to which the Company extends credit and is subject to the risks inherent in that status, including the risk of borrower fraud, default and bankruptcy. Any claim of the Company's warehouse lending operations as a secured lender in a bankruptcy proceeding may be subject to adjustment and delay. Finance receivables from customers represent repurchase facilities with mortgage bankers that are primarily collateralized by mortgages on single-family residential real estate. Terms of the repurchase facilities, including the maximum facility amount and interest rate, are determined based upon the financial strength, historical performance and other qualifications of the borrower. The warehouse facilities to customers have maturities that range from on-demand to one year. Finance receivables are stated at the principal balance outstanding and are included in other assets on the accompanying consolidated balance sheets. Interest income is recorded on the accrual basis.

Investment Securities Available-for-Sale

Investment securities classified as available-for-sale are reported at fair value within the long-term mortgage portfolio. Unrealized gains and losses are recognized in earnings as changes in fair value of net trust assets. Gains and losses realized on the sale of investment securities available-for-sale and declines in value considered to be other-than-temporary are based on the specific identification method and reported in current earnings.

Interest income from investment securities available-for-sale is recognized based on current market yields. Investment securities available-for-sale may be subject to credit, interest rate and/or prepayment risk.

Securitized Mortgage Collateral

The Company's long-term mortgage portfolio primarily includes adjustable rate and, to a lesser extent, fixed rate non-conforming mortgages and commercial mortgages that were acquired and originated by our mortgage and commercial operations prior to 2008.

Non-conforming mortgages may not have certain documentation or verifications that are required by government sponsored entities and, therefore, in making our credit decisions, we were more reliant upon the borrower's credit score and the adequacy of the underlying collateral.

Historically, the Company securitized mortgages in the form of collateralized mortgage obligations (CMO) or real estate mortgage investment conduits (REMICs). These securitizations are evaluated for consolidation based on the provisions of FASB ASC 810-10-25. Amounts consolidated are included in trust assets and liabilities as securitized mortgage collateral, real estate owned, derivative assets, securitized mortgage borrowings and derivative liabilities in the accompanying consolidated balance sheets.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The Company accounts for securitized mortgage collateral at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company's estimated cash flow models, which incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company's assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors.

Interest income on securitized mortgage collateral is recorded quarterly using the effective yield for the period based on the previous quarter-end's estimated fair value. Securitized mortgage collateral is generally not placed on nonaccrual status as the servicer advances the interest payments to the trust regardless of the delinquency status of the underlying mortgage loan, until it becomes apparent to the servicer that the advance is not collectible.

Real Estate Owned

Real estate owned (REO) on the balance sheet, are primarily assets within the securitized trusts but are recorded as a separate asset for accounting and reporting purposes and are within the long-term mortgage portfolio. REO, which consists of residential real estate acquired in satisfaction of loans, is carried at net realizable value, which includes the estimated fair value of the residential real estate less estimated selling and holding costs. Adjustments to the loan carrying value required at the time of foreclosure affect the carrying amount of REO. Subsequent write-downs in the net realizable value of REO are included in losses from REO in the consolidated statements of operations.

Securitized Mortgage Borrowings

The Company records securitized mortgage borrowings in the accompanying consolidated balance sheets for the consolidated CMO and REMIC securitized trusts within the long-term mortgage portfolio. The debt from each issuance of a securitized mortgage borrowing is payable from the principal and interest payments on the underlying mortgages collateralizing such debt, as well as the proceeds from liquidations of REO. If the principal and interest payments are insufficient to repay the debt, the shortfall is allocated first to the residual interest holders (generally owned by the Company) then, if necessary, to the certificate holders (e.g. third party investors in the securitized mortgage borrowings) in accordance with the specific terms of the various respective indentures. Securitized mortgage borrowings typically are structured as one- month LIBOR "floaters" and fixed rate securities with interest payable to certificate holders monthly. The maturity of each class of securitized mortgage borrowing is directly affected by the amount of net interest spread, overcollateralization and the rate of principal prepayments and defaults on the related securitized mortgage collateral. The actual maturity of any class of a securitized mortgage borrowing can occur later than the stated maturities of the underlying mortgages.

When the Company issued securitized mortgage borrowings, the Company generally sought an investment grade rating for the Company's securitized mortgages by nationally recognized rating agencies. To secure such ratings, it was often necessary to incorporate certain structural features that provide for credit enhancement. This generally included the pledge of collateral in excess of the principal amount of the securities to be issued, a bond guaranty insurance policy for some or all of the issued

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

securities, or additional forms of mortgage insurance. The Company's total loss exposure is limited to the Company's initial net economic investment in each trust, which is referred to as a residual interest.

The Company accounts for securitized mortgage borrowings at fair value, with changes in fair value during the period reflected in earnings. Fair value measurements are based on the Company's estimated cash flow models, which incorporate assumptions, inputs of other market participants and quoted prices for the underlying bonds. The Company's assumptions include its expectations of inputs that other market participants would use. These assumptions include judgments about the underlying collateral, prepayment speeds, credit losses, investor yield requirements, forward interest rates and certain other factors. Interest expense on securitized mortgage borrowings are recorded quarterly using the effective yield for the period based on the previous quarter-end's estimated fair value.

Derivative Instruments

In accordance with FASB ASC 815-10 *Derivatives and Hedging Overview*, the Company records all derivative instruments at fair value. The Company has accounted for all its derivatives as non-designated hedge instruments or free-standing derivatives.

Interest Rate Swaps, Caps and Floors

The Company's interest rate risk management objective was to limit the exposure to the variability in future cash flows attributable to the variability of one-month LIBOR, which is the underlying index of adjustable rate securitized mortgage borrowings. The Company's interest rate risk management policies were formulated with the intent to offset the potential adverse effects of changing interest rates on securitized mortgage borrowings.

To mitigate exposure to the effect of changing interest rates on cash flows on securitized mortgage borrowings, the Company purchased derivative instruments primarily in the form of interest rate swap agreements (swaps) and, to a lesser extent, interest rate cap agreements (caps) and interest rate floor agreements (floors). The Company has $5.4 million in derivative liabilities outstanding as of December 31, 2014, all of which are in the securitized trusts and included in trust liabilities in the consolidated balance sheets.

The fair value of the Company's swaps, caps, floors and other derivative instruments is generally based on market prices provided by dealers and market makers, or estimates of future cash flows from these financial instruments.

Lending derivatives

The mortgage lending operation enters into interest rate lock commitments (IRLCs) with consumers to originate mortgage loans at a specified interest rate. These IRLCs are accounted for as derivative instruments. The fair values of IRLCs utilize current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (Pull-through Rate). The fair value of IRLCs is subject to change primarily due to changes in interest rates and the estimated Pull-through Rate. The Company reports IRLCs within other assets and other liabilities at fair value with changes in fair value being recorded in the accompanying statements of operations within gain on sale of loans, net.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The Company hedges the changes in fair value associated with changes in interest rates related to IRLCs and uncommitted mortgage loans held for sale by using forward sold commitments including Fannie Mae and Ginnie Mae mortgage-backed securities known as to-be-announced mortgage-backed securities (TBA MBS or Hedging Instruments). The Hedging Instruments are typically entered into at the time the IRLC is made and are accounted for as derivative instruments. The fair value of Hedging Instruments is subject to change primarily due to changes in interest rates. The Company reports Hedging Instruments within other assets and other liabilities at fair value with changes in fair value being recorded in the accompanying statements of operations within gain on sale of loans, net.

The fair value of IRLCs and Hedging Instruments are represented as derivative assets, lending and derivative liabilities, lending in Note 14. *Fair Value of Financial Instruments.*

Long-term Debt

Long-term debt (consisting of trust preferred securities and junior subordinated notes) is reported at fair value. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. Unrealized gains and losses are recognized in earnings in the accompanying consolidated statements of operations within change in fair value of long-term debt.

The Company does not consolidate trust preferred entities (which are sometimes hereinafter referred to as capital trusts) since the Company does not have a significant variable interest in the trust. Instead, the Company records its investment in the trust preferred entities (included in other assets in the accompanying consolidated balance sheets) and accounts for such under the equity method of accounting and reflects a liability for the issuance of the notes to the trust preferred entities.

Repurchase Reserve

The Company sells mortgage loans to the secondary market, including U.S. government sponsored entities and issues mortgage-backed securities through Ginnie Mae and Fannie Mae. When the Company sells or issues securities, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the investor or insurer for any loss. Also, the Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan. The Company's loss may be reduced by any recourse it has to correspondent lenders that, in turn, had sold such mortgage loans to the Company and breached similar or other representations and warranties. In such event, the Company has the right to seek a recovery of related repurchase losses from that correspondent lender.

The Company records a provision for losses relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults including any loss on sale or liquidation of the

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

repurchased loan and the probability of reimbursement by the correspondent loan seller. The Company establishes a liability at the time loans are sold and continually updates its estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. The level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans.

Revenue Recognition for Fees from Services

The Company follows SAB No. 104 *Revenue Recognition in Financial Statements*, which provides guidance on the application of GAAP to selected revenue recognition issues.

The Company's real estate services segment provides various real estate related services and loss mitigation services including (i) managing distressed mortgage portfolios and foreclosed real estate assets, (ii) the disposition of such assets, (iii) surveillance services for residential and multifamily mortgage portfolios, (iv) loan modification services and (v) the master servicing on various residential mortgage and multifamily loan pools for loans in the long-term portfolio of IMH, and to a lesser extent, non-affiliated entities. The revenues from these services are recognized in income in the period when services are rendered and collectability is reasonably certain.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718 *Compensation Stock Compensation*. Accordingly, the Company measures the cost of stock-based awards using the grant-date fair value of the award and recognizes that cost over the requisite service period.

The fair value of each stock option granted under the Company's stock-based compensation plan is estimated on the date of grant using the Black-Scholes- Merton option-pricing model and assumptions noted in Note 19. *Share Based Payments and Employee Benefit Plans*. The risk-free interest rate is based on the U.S. Treasury rate with a term equal to the expected term of the option grants on the date of grant.

FASB ASC 718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense is recorded net of estimated forfeitures for the years ended December 31, 2014 and 2013, such that the expense was recorded only for those stock-based awards that were expected to vest during such periods. Refer to Note 19. *Share Based Payments and Employee Benefit Plans*.

Income Taxes

In accordance with ASC 740, the Company records income tax expense as well as deferred tax assets and liabilities. Current income tax expense approximates taxes to be paid or refunded for the current period and includes income tax expense related to uncertain tax positions and amortization/impairment of deferred charge, explained below. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not." Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement.

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return on qualifying subsidiaries. The Company files income tax returns in the U.S. for federal and various states.

In prior periods when the Company was taxed as a real estate investment trust (REIT), it recorded a deferred charge to eliminate the expense recognition of income taxes paid on inter-Company profits that result from the sale of mortgage loans from the taxable REIT subsidiaries to IMH. The deferred charge is included in other assets in the consolidated balance sheets and is amortized and, or impaired as a component of income tax expense in the consolidated statements of operations over the estimated life of the mortgages retained in the securitized mortgage collateral.

Earnings per Common Share

Basic earnings per common share is computed on the basis of the weighted average number of shares outstanding for the year divided into earnings for the year. Diluted earnings per common share is computed on the basis of the weighted average number of shares and dilutive common equivalent shares outstanding for the year divided by earnings for the year, unless anti-dilutive. Refer to Note 15. *Reconciliation of Earnings Per Share*.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, *Reporting Discontinued Operations and Disclosures of Components of an Entity*, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. The Company will be required to adopt this ASU beginning with the quarter ending March 31, 2015. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, (ASU 2014-12). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. ASU 2014-12 becomes effective for annual and interim periods beginning after December 15, 2015 with early adoption permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*. A collateralized financing entity (CFE) is a variable interest entity with nominal or no equity that holds

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

financial assets and issues beneficial interests in those financial assets. The ASU is intended to address diversity in practice in accounting for the measurement difference between financial assets and financial liabilities of CFEs. The ASU is effective for annual periods and interim periods with those annual periods beginning after December 15, 2015. A reporting entity may apply the ASU using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Classification of Certain Government Guaranteed Mortgage Loans upon Foreclosure*. This update requires creditors to reclassify loans that are within the scope of the ASU to "other receivables" upon foreclosure, rather than reclassifying them to other real estate owned. The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor. The new guidance is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*, which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and provide related disclosures. The ASU is effective for annual and interim reporting periods beginning January 1, 2017. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In November 2014, the FASB issued ASU No. 2014-17, *Pushdown Accounting*, which provides an acquired entity with the option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. ASU 2014-17 was effective for the Company beginning November 18, 2014 and did not have a material impact on the Company's financial statements.

Note 2. Mortgage Loans Held-for-Sale

A summary of the unpaid principal balance of mortgage loans held-for-sale by type is presented below:

	December 31, 2014	December 31, 2013
Government (1)	$ 156,385	$ 81,292
Conventional (2)	72,553	44,303
Fair value adjustment	10,453	3,596
Total mortgage loans held-for-sale	$ 239,391	$ 129,191

(1) Includes all government-insured loans including FHA, VA and USDA.

(2) Includes loans eligible for sale to Fannie Mae and Freddie Mac.

The Company does not have any delinquent or nonaccrual mortgage loans held-for-sale as of December 31, 2014.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Gain on LHFS (included in gain on sale of loans, net in the consolidated statements of operations) is comprised of the following for the years ended December 31, 2014 and 2013:

	December 31,	
	2014	**2013**
Gain on sale of mortgage loans	$ 100,219	$ 69,422
Premium from servicing retained loan sales	29,388	21,776
Unrealized losses from derivative financial instruments	(27)	(1,797)
Realized (losses) gains from derivative financial instruments	(15,397)	14,589
Mark to market gain (loss) on LHFS	6,857	(2,895)
Direct origination expenses, net	(90,542)	(42,157)
Provision for repurchases	(1,190)	(1,750)
Total gain on sale of loans, net	$ 29,308	$ 57,188

Note 3. Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net positive cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the unpaid principal balances (UPB) of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges, nonsufficient fund fees and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments. Changes in the fair value of MSRs at December 31, 2014 and 2013 were as follows:

	December 31,	
	2014	**2013**
Balance at beginning of period	$ 35,981	$ 10,703
Additions from servicing retained loan sales	29,388	21,776
Reductions from bulk sales	(27,276)	(2,988)
Reduction from sale of AmeriHome	(7,446)	
Changes in fair value (1)	(6,229)	6,490
Fair value of MSRs at end of period	$ 24,418	$ 35,981

(1) Changes in fair value are included within (loss) gain on mortgage servicing rights in the consolidated statements of operations.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

At December 31, 2014, the mortgage servicing portfolio is comprised of the following:

	Outstanding Principal Balance	
	2014	**2013**
Government insured	$ 926,502	$ 1,203,478
Conventional	1,340,584	1,837,475
2010 Acquisition of AmeriHome (1)		87,693
Total loans serviced	$ 2,267,086	$ 3,128,646

(1) Represents servicing portfolio acquired in the 2010 acquisition of AmeriHome and includes government and conventional loans originated by AmeriHome prior to the Company's acquisition.

The table below illustrates hypothetical changes in the fair value of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value.

Mortgage Servicing Rights Sensitivity Analysis	**December 31, 2014**
Fair value of MSRs	$ 24,418
Prepayment Speed:	
Decrease in fair value from 100 basis point (bp) adverse change	(894)
Decrease in fair value from 200 bp adverse change	(2,393)
Discount Rate:	
Decrease in fair value from 100 bp adverse change	(900)
Decrease in fair value from 200 bp adverse change	(1,738)

Sensitivities are hypothetical changes in fair value and cannot be extrapolated because the relationship of changes in assumptions to changes in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption, whereas a change in one factor may result in changes to another. Accordingly, no assurance can be given that actual results would be consistent with the results of these estimates. As a result, actual future changes in MSR values may differ significantly from those displayed above.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 4. Other Assets

Other Assets

Other assets consisted of the following:

	December 31, 2014	December 31, 2013
Deferred charge (See Note 14)	$ 11,521	$ 11,974
Finance receivables	8,358	-
Accounts receivable, net	5,701	4,012
Derivatives assets lending (See Note 11)	2,918	2,115
Premises and equipment, net	1,889	2,526
Prepaid expenses	1,769	3,024
Servicing advances, net	556	1,343
Other	927	1,280
Total other assets	$ 33,639	$ 26,274

Finance Receivables

The Company uses a portion of the excess warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors. As of December 31, 2014, the warehouse lending operations had warehouse lines to non-affiliated customers totaling $55 million and an outstanding balance of $8.4 million in finance receivables and none as of December 31, 2013. The finance receivables are secured by residential mortgage loans as well as personal guarantees. There are no delinquent balances as of December 31, 2014.

Premises and Equipment, net

Premises and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on premises and equipment is recorded using the straight-line method over the estimated useful lives of individual assets, typically three to twenty years. Premises and equipment and accumulated depreciation were as follows as of the dates indicated:

	December 31, 2014	December 31, 2013
Premises and equipment	$ 15,101	$ 14,805
Less: Accumulated depreciation	(13,212)	(12,279)
Total premises and equipment, net	$ 1,889	$ 2,526

Servicing Advances

The Company is required to advance certain amounts to meet its contractual loan servicing requirements. The Company advances principal, interest, property taxes and insurance for borrowers

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

that have insufficient escrow accounts, plus any other costs to preserve the property. Also, the Company will advance funds to maintain, repair and market foreclosed real estate properties. The Company is entitled to recover advances from the borrowers for reinstated and performing loans or from proceeds of liquidated properties. Servicer advances totaled $556 thousand and $1.3 million at December 31, 2014 and 2013, respectively.

Note 5. Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund, and are secured by, residential mortgage loans that are held for sale. In accordance with the terms of the Master Repurchase Agreements, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings which are included in restricted cash in the accompanying consolidated balance sheets.

The following table presents certain information on warehouse borrowings for the periods indicated:

	Maximum Borrowing Capacity	Balance Outstanding at December 31, 2014	2013	Allowable Advance Rates (%)	Rate Range (1)	Maturity Date
Short-term borrowings:						
Repurchase agreement 1 (2)	$ 100,000	$ 64,907	$ 50,794	90-98	1M L +3.4 - 6.5%	June 19, 2015
Repurchase agreement 2	40,000	30,523	19,493	75-98	Prime + 0.0-5.50%	May 28, 2015
Repurchase agreement 3 (3)	50,000	24,012	15,592	80-98	1M L +3.0 - 4.0%	September 22, 2015
Repurchase agreement 4 (4)	125,000	107,276	33,755	95	BR +2.5-4.0%	September 16, 2015
Repurchase agreement 5 (5)	100,000	-	-	99	L +2.9-5.4%	December 31, 2015
Total short-term borrowings	$ 415,000	$ 226,718	$ 119,634			

(1) 1 ML represents One-month LIBOR. BR represents the lender defined base rate.

(2) In January 2015, the maximum borrowing capacity increased to $125 million.

(3) In January 2015, the maximum borrowing capacity increased to $75 million.

(4)

As part of the agreement, the Company has a $40 million sublimit for re-warehousing with $8.4 million outstanding at December 31, 2014. In February 2015, the maximum borrowing capacity increased to $225 million.

(5)

In February 2015, the maximum borrowing capacity increased to $150 million.

The following table presents certain information on warehouse borrowings for the periods indicated:

	For the year ended December 31,	
	2014	**2013**
Maximum outstanding balance during the year	$ 226,718	$ 197,455
Average balance outstanding for the year	136,789	111,335
Underlying collateral (mortgage loans)	237,340	124,688
Weighted average rate for period	3.37%	4.02%

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 6. Convertible Notes

In April 2013, the Company entered into a Note Purchase Agreement with the purchasers named therein (Noteholders), whereby the Company issued $20.0 million in original aggregate principal amount of Convertible Promissory Notes Due 2018 (Convertible Notes). The Convertible Notes mature on or before April 30, 2018 and accrue interest at a rate of 7.5% per annum, paid quarterly.

Noteholders may convert all or a portion of the outstanding principal amount of the Convertible Notes into shares of the Company's Common Stock (Conversion Shares) at a rate of $10.875 per share, subject to adjustment for stock splits and dividends (the Conversion Price). The Company has the right to convert the entire outstanding principal of the Convertible Notes into Conversion Shares at the Conversion Price if the market price per share of the Common Stock, as measured by the average volume-weighted closing stock price per share of the Common Stock on the NYSE MKT (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of Common Stock are listed), reaches the level of $16.31, for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date. Upon conversion of the Convertible Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the Convertible Notes are immediately due and payable. Furthermore, if the conversion of the Convertible Notes by the Company occurs prior to the third anniversary of the Closing Date, then the entire amount of interest under the Convertible Notes through the third anniversary is immediately due and payable. To the extent the Company pays any cash dividends on its shares of common stock prior to conversion of the Convertible Notes, upon conversion of the Convertible Notes, the Noteholders will also receive such dividends on an as-converted basis of the Convertible Notes less the amount of interest paid by the Company prior to such dividend.

Unless an event of default has occurred and is continuing, each purchaser of the Convertible Notes agrees, for the three years after the Closing Date, to vote all Conversion Shares for each of the Company's nominees for election to the Company's board of directors and not to nominate any other candidate for election to the board of directors at any time within such three year period.

In conjunction with the issuance of the Convertible Notes, the Company incurred $0.3 million in debt issuance costs related to legal fees. The Company accounts for direct costs related to the issuance of debt in accordance with ASC Topic 470, Debt. The deferred debt issuance costs are amortized to interest expense over the term of the Note Purchase Agreement using the effective interest method.

Note 7. Short-Term Structured Debt

In December 2014, the Company entered into a $6.0 million short-term structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company received proceeds of $6.0 million and had transaction costs of approximately $60 thousand. The agreement bears interest at LIBOR + 5.75% per annum, has a final repurchase date of June 29, 2015 and the Company has the right to repurchase the securities without penalty prior to the final repurchase date.

The holder receives monthly principal and interest payments which are equal to the distributions from the residual interest underlying collateral with a minimum payment of $500,000. If the cash flows received from the collateralized residual interests are less than $500,000, the Company would be required to pay the difference to avoid the transfer of the residual interests and the rights to the associated future cash flows to the note holder.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 8. Long-term Debt

Trust Preferred Securities

During 2005, the Company formed four wholly-owned trust subsidiaries (Trusts) for the purpose of issuing an aggregate of $99.2 million of trust preferred securities (the Trust Preferred Securities). All proceeds from the sale of the Trust Preferred Securities and the common securities issued by the Trusts were originally invested in $96.3 million of junior subordinated debentures (subordinated debentures), which became the sole assets of the Trusts. The Trusts pay dividends on the Trust Preferred Securities at the same rate as paid by the Company on the debentures held by the Trusts.

During 2008 and 2009, the Company purchased and cancelled $36.5 million in outstanding Trust Preferred Securities for $5.5 million. Additionally, during 2009, the Company exchanged an aggregate of $51.3 million in outstanding Trust Preferred Securities for $62.0 million in Junior Subordinated Notes (Notes). As a result of these transactions, $8.5 million in Trust Preferred Securities remain outstanding.

The Company carries its Trust Preferred Securities at estimated fair value as more fully described in Note 14. *Fair Value of Financial Instruments*. The following table shows the remaining principal balance and fair value of Trust Preferred Securities issued as of December 31, 2014 and 2013:

	December 31,	
	2014	2013
Trust preferred securities (1)	$ 8,500	$ 8,500
Common securities	263	263
Fair value adjustment	(6,087)	(6,459)
Total	$ 2,676	$ 2,304

(1) Stated maturity of July 30, 2035 and redeemable at par at any time. The interest rate is a variable rate of three-month LIBOR plus 3.75% per annum. At December 31, 2014, the interest rate was 3.99%.

If an event of default occurs (such as a payment default that is outstanding for 30 days, a default in performance, a breach of any covenant or representation, bankruptcy or insolvency of the Company or liquidation or dissolution of the Trust), either the trustee of the Notes or the holders of at least 25% of the aggregate principal amount of the outstanding Notes may declare the principal amount of, and all accrued interest on, all the Notes to be due and payable immediately, or if the holders of the Notes fail to make such declaration, the holders of at least 25% in aggregate liquidation amount of the Trust Preferred Securities outstanding shall have a right to make such declaration.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Junior Subordinated Notes

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 14. *Fair Value of Financial Instruments*. The following table shows the remaining principal balance and fair value of junior subordinated notes issued as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Junior subordinated notes (1)	$ 62,000	$ 62,000
Fair value adjustment	(42,554)	(48,433)
Total	$ 19,446	$ 13,567

(1) Stated maturity of March 2034; requires quarterly distributions initially at a fixed rate of 2.00% per annum through March 2014 with increases of 1.00% per year in 2014 through 2017. Starting in 2018, the interest rates become variable at 3-month LIBOR plus 3.75% per annum. At December 31, 2014, the interest rate was 3.0%.

Note 9. Line of Credit Agreement

As of December 31, 2014 and 2013, the Company had a working capital line of credit agreement with a national bank that bears interest at a variable rate of one-month LIBOR plus 3.50%. The line of credit is unsecured and expires June 2015. Under the terms of the agreement the Company and its subsidiaries are required to maintain various financial and other covenants. The working capital line of credit is included in other liabilities in the accompanying consolidated balance sheets. At December 31, 2014, and 2013, the outstanding balance under the line of credit was $4.0 million and $3.0 million, respectively. At December 31, 2014, the Company was in compliance with all covenants.

The following table presents certain information on the line of credit for the periods indicated:

	For the year ended December 31, 2014	For the year ended December 31, 2013
Maximum outstanding balance during the year	$ 4,000	$ 3,000
Average balance outstanding for the year	1,599	597
Weighted average rate for period	3.88%	3.85%

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 10. Securitized Mortgage Trusts

Securitized Mortgage Trust Assets

Securitized mortgage trust assets, which are recorded at fair market value (FMV), are comprised of the following at December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Investment securities available-for-sale	$ 92	$ 108
Securitized mortgage collateral	5,249,639	5,494,152
Real estate owned	18,800	18,906
Total securitized mortgage trust assets	$ 5,268,531	$ 5,513,166

Securitized Mortgage Collateral

Securitized mortgage collateral consisted of the following:

	December 31, 2014	December 31, 2013
Mortgages secured by residential real estate	$ 5,919,552	$ 6,581,235
Mortgages secured by commercial real estate	647,737	810,500
Fair value adjustment	(1,317,650)	(1,897,583)
Total securitized mortgage collateral	$ 5,249,639	$ 5,494,152

As of December 31, 2014, the Company was also a master servicer of mortgages for others of approximately $1.0 billion that were primarily collateralizing REMIC securitizations, compared to $1.1 billion at December 31, 2013. Related fiduciary funds are held in trust for investors in non-interest bearing accounts and therefore not included in the Company's consolidated balance sheets. The Company may also be required to advance funds or cause loan servicers to advance funds to cover principal and interest payments not received from borrowers depending on the status of their mortgages.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Real Estate Owned (REO)

The Company's REO consisted of the following:

	December 31,	
	2014	2013
REO	$ 20,674	$ 23,601
Impairment (1)	(1,874)	(4,680)
Ending balance	$ 18,800	$ 18,921
REO inside trusts	$ 18,800	$ 18,906
REO outside trusts	-	15
Total	$ 18,800	$ 18,921

(1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

Securitized Mortgage Trust Liabilities

Securitized mortgage trust liabilities, which are recorded at FMV, are comprised of the following at December 31, 2014 and 2013:

	December 31,	
	2014	2013
Securitized mortgage borrowings	$ 5,245,860	$ 5,492,371
Derivative liabilities	5,447	10,214
Total securitized mortgage trust liabilities	$ 5,251,307	$ 5,502,585

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Securitized Mortgage Borrowings

Selected information on securitized mortgage borrowings for the periods indicated consisted of the following (dollars in millions):

		Securitized mortgage borrowings outstanding as of December 31,		Range of Interest Rates (1)		
Year of Issuance	Original Issuance Amount	2014	2013	Fixed Interest Rates	Interest Rate Margins over One-Month LIBOR (2)	Interest Rate Margins after Contractual Call Date (3)
2002	$ 3,876.1	$ 12.2	$ 14.5	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	96.7	116.8	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	899.8	1,035.1	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	13,387.7	2,730.0	2,999.4	-	0.24 - 2.90	0.48 - 4.35
2006	5,971.4	3,072.3	3,321.2	6.25	0.10 - 2.75	0.20 - 4.13
2007	3,860.5	1,887.0	2,055.4	-	0.06 - 2.00	0.12 - 3.00
Subtotal securitized mortgage borrowings (4)		8,698.0	9,542.4			
Fair value adjustment		(3,452.1)	(4,050.0)			
Total securitized mortgage borrowings		$ 5,245.9	$ 5,492.4			

(1) Some rates have been modified subsequent to original issuance.

(2) One-month LIBOR was 0.15% as of December 31, 2014.

(3) Interest rate margins are generally adjusted when the unpaid principal balance is reduced to less than 10-20% of the original issuance amount, or if certain other triggers are met.

(4) Unpaid principal balance

As of December 31, 2014, expected principal reductions of the securitized mortgage borrowings, which is based on contractual principal payments and expected prepayment and loss assumptions for securitized mortgage collateral, was as follows (dollars in millions):

Payments Due by Period

	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Securitized mortgage borrowings (1)	$ 8,698.0	$ 752.4	$ 1,188.0	$ 865.5	$ 5,892.1

(1) Unpaid principal balance

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Derivative Liabilities

As of December 31, 2014, the net derivative liability included in the securitization trusts was $5.4 million, as compared to $10.2 million at December 31, 2013. As of December 31, 2014, the notional balance of derivative assets and liabilities, securitized trusts was $96.4 million. The derivative values are based on the net present value of cash receipts or payments expected to be received or paid by the bankruptcy remote trusts. The fair value of the derivatives fluctuates with changes in the future expectation of cash receipts or payments based on notional balances and estimated LIBOR rates.

On September 15, 2008, Lehman Brothers Holdings Inc. (LBHI) filed a petition for protection under Chapter 11 of the U.S. Bankruptcy Code. As of that date, LBHI, through affiliated companies, was an interest rate swap counterparty to several of the Company's CMO and REMIC securitizations. During the third quarter of 2013, the terminated LBHI swaps were settled with the bankruptcy court and the trustees for the securitization trusts. CMB 2004-4, CMB 2004-5 and CMB 2004-10 were settled and the corresponding fair values of the net derivative liabilities were removed from the consolidated balance sheet at September 30, 2013. At December 31, 2014 and 2013, there was no estimated fair value of derivatives with LBHI. As the related securitization trusts are non-recourse to the Company, the Company is not required to replace or otherwise settle any derivative positions affected by counterparty default within the consolidated trusts. Accordingly, the settlement of the net derivative liabilities did not result in any gain or loss for the Company.

Change in fair value of net trust assets, including trust real estate owned (REO) gains (losses)

Changes in fair value of net trust assets, including trust REO gains (losses) are comprised of the following for the years ended December 31, 2014 and 2013:

	For the year ended December 31,	
	2014	**2013**
Change in fair value of net trust assets, excluding REO	$ 3,482	$ (12,494)
Gains from REO	7,581	8,816
Change in fair value of net trust assets, including trust REO gains (losses)	$ 11,063	$ (3,678)

Note 11. Derivative Instruments

Derivative Assets and Liabilities, Lending

The mortgage lending operation enters into IRLCs with prospective borrowers to originate mortgage loans at a specified interest rate and Hedging Instruments to hedge the fair value changes associated with changes in interest rates relating to its mortgage loan origination operations. The fair value of IRLCs and Hedging Instruments are included in other assets and other liabilities, respectively, in the consolidated balance sheets. As of December 31, 2014, the estimated fair value of IRLCs and Hedging Instruments associated with mortgage lending totaled $3.0 million and $930 thousand, respectively.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table includes information for the derivative assets and liabilities lending for the periods presented:

		Notional Amount At December 31,		Total Gains (Losses) (1) For the Year Ended December 31,	
		2014	**2013**	**2014**	**2013**
Derivative	IRLC's	$ 299,507	$ 137,254	$ 1,982	$ (3,057)
Derivative	TBA MBS	397,373	182,809	(17,406)	15,849

(1) Amounts included in gain on sale of loans, net within the accompanying consolidated statements of operations.

Other Derivatives

Upon entering an arrangement to facilitate the Company's ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued in 2014. The warrant can only be exercised if the Company chooses not to continue with the agreement to facilitate Non-QM mortgage products and has a 60 day expiration window after the termination of the agreement. The exercise price of the warrant is an agreed upon multiple times the book value of the subsidiary Impac Mortgage Corp. at the time of exercise plus up to an additional 0.2 times the book value at the exercise date based off of the net income of Impac Mortgage Corp. for the following 12 months. Additionally, if upon exercise of the warrant, the Company does not receive regulatory approval for the sale of the 9.9% as a result of actions of the Company, the Company will have to pay the holder of the warrant a redemption price, equal to the value of the warrant, in cash within 30 days. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors. As of December 31, 2014, the estimated fair value of the warrant was $84 thousand.

As part of the acquisition of AmeriHome, the purchase agreement included a call and put option. The call option allowed the Company to purchase an additional 39% of AmeriHome anytime between January 1, 2011 and December 31, 2013. Insofar that the Company does not exercise the call option, the Company wrote a put option to the founder of AmeriHome that provided the founder with the right to require the Company to acquire the remaining 49% of AmeriHome. (See Note 13 *Acquisition/Disposition of Noncontrolling Interest*).

These options were considered derivative instruments and recorded at fair value using a multinomial option pricing model. The estimated fair value was based on a model incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. The fair value of the options was included in other assets and other liabilities, in the consolidated balance sheets. As of December 31, 2014 and 2013, the estimated fair value of the call and put options were zero, in connection with the sale of AmeriHome in 2014.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 12. Redeemable Preferred Stock

At December 31, 2014, the Company has outstanding $51.8 million liquidation preference of Series B and Series C Preferred Stock. The holders of each series of Preferred Stock, which are non-voting and redeemable at the option of the Company, retain the right to a $25.00 per share liquidation preference in the event of a liquidation of the Company and the right to receive dividends on the Preferred Stock if any such dividends are declared.

Note 13. Acquisition/Disposition of Noncontrolling Interest

In 2010, IMC formerly known as Excel Mortgage Servicing, Inc., a wholly-owned subsidiary of IRES, completed the acquisition of 51% of AmeriHome whereby the Company made a $1.1 million cash payment to AmeriHome and entered into a note payable for $720,000. As part of the transaction, the Company was granted an option to purchase an additional 39% of AmeriHome beginning January 1, 2011 for 1.5 times 39% of the lesser of $5 million or Issuer's Book Value (IBV) of AmeriHome plus $550,000 in cash (see call/put option in Note 14. *Fair Value of Financial Instruments*). This option had a three-year term. In addition, the founder of AmeriHome had a put option to sell his remaining 49% ownership beginning January 1, 2014 to the Company for the lesser of $5 million or IBV (see call/put option in Note 14. *Fair Value of Financial Instruments*).

In June 2012 and January 2013, the Company and the noncontrolling interest holder entered into an agreement to transfer an additional 27.5% and 1.5% ownership, respectively, of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement.

In July 2013, the Company and the noncontrolling interest holder entered into an agreement to transfer the remaining 20% ownership of AmeriHome to the Company in exchange for $350 thousand in cash and $1.1 million in IMH common stock. Effective July 1, 2013, the Company owned 100% of AmeriHome.

In March 2014, the Company sold AmeriHome for $10.2 million in cash, recording a gain of approximately $1.2 million, net of a deferred tax adjustment within other revenues in the consolidated statements of operations. In conjunction with the transaction, as required by Fannie Mae, the Company used $3.0 million of the proceeds to reduce the legacy repurchase liability with Fannie Mae.

Note 14. Fair Value of Financial Instruments

The use of fair value to measure the Company's financial instruments is fundamental to its consolidated financial statements and is a critical accounting estimate because a substantial portion of its assets and liabilities are recorded at estimated fair value.

FASB ASC 825 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. The following table presents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	December 31, 2014				December 31, 2013			
	Carrying Amount	Estimated Fair Value Level 1	Level 2	Level 3	Carrying Amount	Estimated Fair Value Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 10,073	$ 10,073	$ -	$ -	$ 9,969	$ 9,969	$ -	$ -
Restricted cash	2,420	2,420	-	-	1,467	1,467	-	-
Mortgage loans held-for-sale	239,391	-	239,391	-	129,191	-	129,191	-
Finance receivables	8,358	-	8,358	-	-	-	-	-
Mortgage servicing rights	24,418	-	-	24,418	35,981	-	-	35,981
Derivative assets, lending, net	2,884	-	-	2,884	1,992	-	1,079	913
Investment securities available-for-sale	92	-	-	92	108	-	-	108
Securitized mortgage collateral	5,249,639	-	-	5,249,639	5,494,152	-	-	5,494,152
Warrant	84	-	-	84	-	-	-	-
Liabilities								
Warehouse borrowings	$ 226,718	$ -	$ 226,718	$ -	$ 119,634	$ -	$ 119,634	$ -
Short-term structured debt	6,000	-	-	6,000	-	-	-	-
Line of credit	4,000	-	4,000	-	3,000	-	3,000	-
Convertible notes	20,000	-	-	20,000	20,000	-	-	20,000
Long-term debt	22,122	-	-	22,122	15,871	-	-	15,871
Securitized mortgage borrowings	5,245,860	-	-	5,245,860	5,492,371	-	-	5,492,371
Derivative liabilities, securitized trusts	5,447	-	-	5,447	10,214	-	-	10,214
Derivative liabilities, lending, net	930	-	930	-	-	-	-	-

The fair value amounts above have been estimated by management using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates of fair value in both inactive and orderly markets. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

For securitized mortgage collateral and securitized mortgage borrowings, the underlying Alt-A residential and commercial loans and mortgage-backed securities market have experienced significant declines in market activity, along with a lack of orderly transactions. The Company's methodology to estimate fair value of these assets and liabilities include the use of internal pricing techniques such as the net present value of future expected cash flows (with observable market participant assumptions, where available) discounted at a rate of return based on the Company's estimates of market participant requirements. The significant assumptions utilized in these internal pricing techniques, which are based on the characteristics of the underlying collateral, include estimated credit losses, estimated prepayment speeds and appropriate discount rates.

Refer to *Recurring Fair Value Measurements* below for a description of the valuation methods used to determine the fair value of investment securities available-for-sale, securitized mortgage collateral and borrowings, derivative assets and liabilities, long-term debt, mortgage servicing rights, loans held-for-sale, and call and put options.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The carrying amount of cash and cash equivalents and restricted cash approximates fair value.

Warehouse borrowings carrying amounts approximates fair value due to the short-term nature of the liabilities and do not present unanticipated interest rate or credit concerns.

Line of credit carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

Short-term structured debt has a maturity of less than one year. The short-term structured debt is recorded at amortized cost, net of any discounts. The carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

Convertible notes are recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

Fair Value Hierarchy

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, mortgage servicing rights, call and put options, securitized mortgage collateral and borrowings, derivative assets and liabilities (trust and IRLCs), and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities were approximately 96% and 99% and 98% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at December 31, 2014 and 2013.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Recurring Fair Value Measurements

The Company assesses its financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between Level 1 and Level 2 classified instruments during the year ended December 31, 2014.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at December 31, 2014 and December 31, 2013, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	December 31, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	$ -	$ -	$ 92	$ -	$ -	$ 108
Mortgage loans held-for-sale	-	239,391	-	-	129,191	-
Derivative assets, lending, net (1)	-	-	2,884	-	1,079	913
Mortgage servicing rights	-	-	24,418	-	-	35,981
Warrant (2)	-	-	84	-	-	-
Securitized mortgage collateral	-	-	5,249,639	-	-	5,494,152
Total assets at fair value	$ -	$ 239,391	$ 5,277,117	$ -	$ 130,270	$ 5,531,154
Liabilities						
Securitized mortgage borrowings	$ -	$ -	$ 5,245,860	$ -	$ -	$ 5,492,371
Derivative liabilities, securitized trusts (3)	-	-	5,447	-	-	10,214
Long-term debt	-	-	22,122	-	-	15,871
Derivative liabilities, lending, net (4)	-	930	-	-	-	-
Total liabilities at fair value	$ -	$ 930	$ 5,273,429	$ -	$ -	$ 5,518,456

(1) At December 31, 2014, derivative assets, lending, net included $3.0 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2013, derivative assets, lending, net included $913 thousand in IRLCs and $1.1 million in Hedging Instruments, respectively.

(2) Included in other assets in the accompanying consolidated balance sheets.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

(3)
At December 31, 2014 and 2013, derivative liabilities, net securitized trusts, are included within trust liabilities in the accompanying consolidated balance sheets.

(4)
At December 31, 2014, derivative liabilities, lending included $930 thousand in Hedging Instruments.

The following tables present reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and December 31, 2013:

Level 3 Recurring Fair Value Measurements
For the year ended December 31, 2014

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Warrant
Fair value, December 31, 2013	$ 108	$ 5,494,152	$ (5,492,371)	$ (10,214)	$ 35,981	$ 913	$ (15,871)	$ -
Total gains (losses) included in earnings:								
Interest income (1)	26	59,526	-	-	-	-	-	-
Interest expense (1)	-	-	(237,793)	-	-	-	(2,237)	-
Change in fair value	34	364,052	(360,005)	(599)	(6,229)	1,982	(4,014)	(80)
Total gains (losses) included in earnings	60	423,578	(597,798)	(599)	(6,229)	1,982	(6,251)	(80)
Transfers in and/or out of Level 3	-	-	-	-	-	-	-	-
Purchases, issuances and settlements								
Purchases	-	-	-	-	-	-	-	-
Issuances	-	-	-	-	29,388	-	-	164
Settlements	(76)	(668,091)	844,309	5,366	(34,722)	(11)	-	-
Fair value, December 31, 2014	$ 92	$ 5,249,639	$ (5,245,860)	$ (5,447)	$ 24,418	$ 2,884	$ (22,122)	$ 84
Unrealized gains (losses) still held (2)	$ 91	$ (1,317,650)	$ 3,452,064	$ (5,063)	$ 24,418	$ 2,884	$ 48,641	$ 84

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $5.7 million for the year ended December 31, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

(2)
Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at December 31, 2014.

Level 3 Recurring Fair Value Measurements
For the year ended December 31, 2013

	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Call option	Put option	Long-term debt
Fair value, December 31, 2012	$ 110	$ 5,787,884	$ (5,777,456)	$ (17,163)	$ 10,703	$ 3,970	$ 368	$ (1)	$ (12,731)
Total gains (losses) included in earnings:									
Interest income (1)	34	31,562	-	-	-	-	-	-	-
Interest expense (1)	-	-	(244,796)	-	-	-	-	-	(2,453)
Change in fair value	36	452,084	(465,189)	574	6,490	(3,057)	111	1	(687)
Total (losses) gains included in earnings	70	483,646	(709,985)	574	6,490	(3,057)	111	1	(3,140)
Transfers in and/or out of Level 3	-	-	-	-	-		-	-	-
Purchases, issuances and settlements									
Purchases	-	-	-	-	-	-	-	-	-
Issuances	-	-	-	-	21,776	-	-	-	-
Settlements	(72)	(777,378)	995,070	6,375	(2,988)	-	(479)	-	-
Fair value, December 31, 2013	$ 108	$ 5,494,152	$ (5,492,371)	$ (10,214)	$ 35,981	$ 913	$ -	$ -	$ (15,871)
Unrealized gains (losses) still held (2)	$ 72	$ (1,897,583)	$ 4,050,051	$ (9,640)	$ 35,981	$ 913	$ -	$ -	$ 54,892

(1)
Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. Net interest income, including cash received and paid, was $5.3 million for the year ended December 31, 2013. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

(2)
Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at December 31, 2013.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis at December 31, 2014.

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Investment securities available-for-sale,	$ 92	DCF	Discount rates	3.4 - 25.0%	5.2%
Securitized mortgage collateral, and	5,249,639		Prepayment rates	1.1 - 35.1%	5.5%
Securitized mortgage borrowings	(5,245,860)		Default rates	0.7 - 11.8%	2.9%
			Loss severities	1.5 - 62.0%	39.0%
Other assets and liabilities					
Mortgage servicing rights	$ 24,418	DCF	Discount rate	10.5 - 11.5%	9.6%
			Prepayment rates	2.3 - 50.8%	11.3%
Derivative liabilities, net, securitized trusts	(5,447)	DCF	1M forward LIBOR	0.2 - 3.5%	N/A
Derivative assets IRLCs, net	2,884	Market pricing	Pull-through rate	46.0 - 99.0%	87.5%
Long-term debt	(22,122)	DCF	Discount rate	19.2%	19.2%
Lease liability	(1,578)	DCF	Discount rate	12.0%	12.0%

DCF = Discounted Cash Flow
1M = 1 Month

For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The effect of changes in prepayment speeds would have differing effects depending on the seniority or other characteristics of the instrument. For other assets and liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. A significant increase or decrease in pull-through rate assumptions would result in a significant increase or decrease in the fair value of IRLCs. The Company believes that the imprecision of an estimate could be significant.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following tables present the changes in recurring fair value measurements included in net earnings for the years ended December 31, 2014 and 2013:

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Loss
For the ended December 31, 2014
Change in Fair Value of

	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	$ 26	$ -	$ 34	$ -	$ -	$ -	$ 60
Securitized mortgage collateral	59,526	-	364,052	-	-	-	423,578
Securitized mortgage borrowings	-	(237,793)	(360,005)	-	-	-	(597,798)
Derivative liabilities, net, securitized trusts	-	-	(599) (2)	-	-	-	(599)
Long-term debt	-	(2,237)	-	(4,014)	-	-	(6,251)
Mortgage servicing rights (3)	-	-	-	-	(6,229)	-	(6,229)
Warrant	-	-	-	-	(80)	-	(80)
Mortgage loans held-for-sale	-	-	-	-	-	6,857	6,857
Derivative assets IRLCs	-	-	-	-	-	1,982	1,982
Derivative liabilities Hedging Instruments	-	-	-	-	-	(2,009)	(2,009)
Total	**$ 59,552**	**$ (240,030)**	**$ 3,482** (4)	**$ (4,014)**	**$ (6,309)**	**$ 6,830**	**$ (180,489)**

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

(2) Included in this amount is $4.6 million in changes in the fair value of derivative instruments, offset by $5.2 million in cash payments from the securitization trusts for the year ended December 31, 2014.

(3) Included in (loss) gain on mortgage servicing rights in the consolidated statements of operations.

(4)

For the year ended December 31, 2014, change in the fair value of trust assets, excluding REO was $3.5 million. Excluded from the $(8.7) million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

of cash flows is $5.2 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

Recurring Fair Value Measurements
Changes in Fair Value Included in Net Loss
For the ended December 31, 2013

			Change in Fair Value of				
	Interest Income (1)	**Interest Expense (1)**	**Net Trust Assets**	**Long-term Debt**	**Other Revenue**	**Gain on sale of loans, net**	**Total**
Investment securities available-for-sale	$ 34	$ -	$ 36	$ -	$ -	$ -	$ 70
Securitized mortgage collateral	31,562	-	452,084	-	-	-	483,646
Securitized mortgage borrowings	-	(244,796)	(465,189)	-	-	-	(709,985)
Derivative liabilities, net, securitized trusts	-	-	574 (2)	-	-	-	574
Long-term debt	-	(2,453)	-	(687)	-	-	(3,140)
Mortgage servicing rights (3)	-	-	-	-	6,490	-	6,490
Call option	-	-	-	-	111	-	111
Put option	-	-	-	-	1	-	1
Mortgage loans held-for-sale	-	-	-	-	-	(2,895)	(2,895)
Derivative assets IRLCs	-	-	-	-	-	(3,057)	(3,057)
Derivative liabilities Hedging Instruments	-	-	-	-	-	1,260	1,260
Total	**$ 31,596**	**$ (247,249)**	**$ (12,495) (4)**	**$ (687)**	**$ 6,602**	**$ (4,692)**	**$ (226,925)**

(1)
Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.

(2)
Included in this amount is $6.8 million in changes in the fair value of derivative instruments, offset by $6.2 million in cash payments from the securitization trusts for the year ended December 31, 2013.

(3)

Included in (loss) gain on mortgage servicing rights in the consolidated statements of operations.

(4)

For the year ended December 31, 2013, change in the fair value of trust assets, excluding REO was $12.5 million. Excluded from the $6.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is $6.2 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

Investment securities available-for-sale Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company's expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the lack of observable market data as of December 31, 2014 and 2013 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions. Investment securities available-for-sale are classified as a Level 3 measurement at December 31, 2014.

Mortgage servicing rights The Company elected to carry its entire mortgage servicing rights arising from its mortgage loan origination operation at fair value. The fair value of mortgage servicing

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

rights is based upon a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at December 31, 2014.

Mortgage loans held-for-sale The Company elected to carry its mortgage loans held-for-sale originated or acquired from its mortgage lending operation at fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at December 31, 2014.

Call/Put option As part of the initial acquisition of AmeriHome, the purchase agreement included a call option to purchase an additional 39% of AmeriHome and a put option which allows the noncontrolling interest holder to sell his then remaining 49% of AmeriHome to the Company in the event the Company does not exercise the call option. In June 2012 and January 2013, the Company and the noncontrolling interest holder entered into agreements to transfer an additional 27.5% and 1.5% ownership, respectively, of AmeriHome to the Company in exchange for the settlement of balances owed from the noncontrolling interest holder related to the Company for capital contributions made by the Company to AmeriHome and indemnification provisions included in the purchase agreement. In July 2013, the Company acquired the remaining 20% ownership of AmeriHome from the noncontrolling interest holder for $350 thousand in cash and $1.1 million in IMH common stock. As of December 31, 2013, the Company owned 100% of AmeriHome. The estimated fair values of the call and put options were based on models incorporating various assumptions including expected future book value of AmeriHome, the probability of the option being exercised, volatility, expected term and certain other factors. AmeriHome was sold in March 2014. See Note 13.-Acquisition/Disposition of Noncontrolling Interest.

Securitized mortgage collateral The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows, with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of December 31, 2014, securitized mortgage collateral had an unpaid principal balance of $6.6 billion, compared to an estimated fair value on the Company's balance sheet of $5.2 billion. The aggregate unpaid principal balance exceeds the fair value by $1.4 billion at December 31, 2014. As of December 31, 2014, the unpaid principal balance of loans 90 days or more past due was $1.1 billion compared to an estimated fair value of $0.4 billion. The aggregate unpaid principal balances of loans 90 days or more past due exceed the fair value by $0.7 billion at December 31, 2014. Securitized mortgage collateral is considered a Level 3 measurement at December 31, 2014.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Securitized mortgage borrowings The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of December 31, 2014, securitized mortgage borrowings had an outstanding principal balance of $6.5 billion, net of $2.2 billion in bond losses, compared to an estimated fair value of $5.2 billion. The aggregate outstanding principal balance exceeds the fair value by $1.3 billion at December 31, 2014. Securitized mortgage borrowings are considered a Level 3 measurement at December 31, 2014.

Long-term debt The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of December 31, 2014, long-term debt had an unpaid principal balance of $70.5 million compared to an estimated fair value of $22.1 million. The aggregate unpaid principal balance exceeds the fair value by $48.4 million at December 31, 2014. The long-term debt is considered a Level 3 measurement at December 31, 2014.

Derivative assets and liabilities, Securitized trusts For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company's judgments about future cash flows, forward interest rates and certain other factors, including counterparty risk. Additionally, these values also take into account the Company's own credit standing, to the extent applicable; thus, the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of December 31, 2014, the notional balance of derivative assets and liabilities, securitized trusts was $96.4 million. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company's residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at December 31, 2014.

Derivative assets and liabilities, Lending The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. The derivatives include IRLCs with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. The derivatives also include hedging instruments (typically TBA MBS) used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date of the loan sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at December 31, 2014.

The fair value of the Hedging Instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the Hedging Instruments are classified as a Level 2 measurement at December 31, 2014.

Warrant Upon entering an arrangement to facilitate the Company's ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued. The warrant can only be exercised if the Company chooses not to continue with the agreement to facilitate Non-QM mortgage products and has a 60 day expiration window after the termination of the agreement. The exercise price of the warrant is an agreed upon multiple times the book value of the subsidiary Impac Mortgage Corp. at the time of exercise plus up to an additional 0.2 times the book value at the exercise date based off of the net income of Impac Mortgage Corp. for the following 12 months. Additionally, if upon exercise of the warrant, the Company does not receive regulatory approval for the sale of the 9.9% as a result of actions of the Company, the Company will have to pay the holder of the warrant a redemption price, equal to the value of the warrant, in cash within 30 days. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors. The warrant is considered a Level 3 measurement at December 31, 2014.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at December 31, 2014 and 2013, respectively:

	Nonrecurring Fair Value Measurements December 31, 2014			Total Gains (Losses) (3) For the Year Ended December 31, 2014
	Level 1	Level 2	Level 3	
REO (1)	$ -	$ 3,030	$ -	$ 7,581
Lease liability (2)	-	-	(1,578)	(681)
Deferred charge (4)	-	-	11,521	(453)

(1) Balance represents REO at December 31, 2014 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the year ended December 31, 2014, the $7.6 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

(2) For the year ended December 31, 2014, the Company recorded $681 thousand in losses resulting from changes in lease liabilities as a result of changes in the Company's expected minimum future lease payments, net.

(3) Total losses reflect losses from all nonrecurring measurements during the period.

(4) Amounts are included in continuing operations. For the year ended December 31, 2014, the Company recorded $453 thousand in income tax expense resulting from impairment write-downs based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

	Non-recurring Fair Value Measurements December 31, 2013			Total Gains (Losses) (3) For the Year Ended December 31, 2013
	Level 1	Level 2	Level 3	
REO (1)	$ -	$ 3,109	$ -	$ 8,760
Lease liability (2)	-	-	(1,623)	(202)

(1) Balance represents REO at December 31, 2013 which has been impaired subsequent to foreclosure. Amounts are included in continuing operations. For the year ended December 31, 2013, the $8.8 million gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.

(2) For the year ended December 31, 2013, the Company recorded $202 thousand in losses resulting from changes in lease liabilities as a result of changes in the Company's expected minimum future lease payments, net.

(3) Total losses reflect losses from all nonrecurring measurements during the period.

Real estate owned REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at December 31, 2014.

Lease liability In connection with the discontinuation of our non-conforming mortgage, retail mortgage, warehouse lending and commercial operations, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at December 31, 2014.

Deferred charge Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is recognized as a component of income tax expense. For the year ended December 31, 2014, the Company recorded $453 thousand in income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. There was no impairment of the deferred charge in 2013. Deferred charge is considered a Level 3 measurement at December 31, 2014.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 15. Reconciliation of Earnings Per Share

The following table presents the computation of basic and diluted earnings per common share, including the dilutive effect of stock options and cumulative redeemable preferred stock outstanding for the periods indicated:

	For the year ended December 31,	
	2014	**2013**
Numerator for basic loss per share:		
Loss from continuing operations	$ (3,967)	$ (5,011)
Net earnings attributable to noncontrolling interest	-	(136)
Loss from continuing operations attributable to IMH	(3,967)	(5,147)
Loss from discontinued operations	(2,355)	(3,037)
Net loss attributable to IMH common stockholders	$ (6,322)	$ (8,184)
Numerator for diluted loss per share:		
Loss from continuing operations attributable to IMH	$ (3,967)	$ (5,147)
Interest expense attributable to convertible notes	-	-
Loss from continuing operations attributable to IMH plus interest expense attributable to convertible notes	(3,967)	(5,147)
Loss from discontinued operations	(2,355)	(3,037)
Net loss attributable to IMH common stockholders plus interest expense attributable to convertible notes	$ (6,322)	$ (8,184)
Denominator for basic loss per share (1):		
Basic weighted average common shares outstanding during the year	9,344	8,749
Denominator for diluted loss per share (1):		
Basic weighted average common shares outstanding during the year	9,344	8,749
Net effect of dilutive convertible notes	-	-
Net effect of dilutive stock options and DSU's	-	-
Diluted weighted average common shares	9,344	8,749
Loss per common share basic and diluted:		
Loss from continuing operations attributable to IMH	$ (0.43)	$ (0.59)
Loss from discontinued operations	$ (0.25)	(0.35)

Net loss per share available to common stockholders	$ (0.68)	$ (0.94)

(1) Share amounts presented in thousands.

The anti-dilutive stock options outstanding for the years ending December 31, 2014 and 2013 were 2.9 million and 2.6 million shares, respectively. Included in the anti-dilutive shares for 2014 are 1.8 million shares attributable to the Convertible Notes.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 16. Income Taxes

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return.

Income taxes for the years ended December 31, 2014 and 2013 were as follows:

	For the year ended December 31,			
		2014		2013
Current income taxes:				
Federal	$	940	$	21
State		365		144
Total current income tax expense		1,305		165
Deferred income taxes:				
Federal		-		(1,038)
State		-		(158)
Total deferred income tax benefit		-		(1,196)
Total income tax expense (benefit)	$	1,305	$	(1,031)

The Company recorded income tax expense (benefit) of $1.3 million and ($1.0) million for the years ended December 31, 2014 and 2013, respectively. The current income tax expense of $1.3 million for 2014 is primarily the result of the federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statement of operations. The income tax benefit for 2013 is the result of the inclusion of AmeriHome in the IMH federal income tax return due to the Company's increased ownership of AmeriHome during the first quarter of 2013. Additionally, federal alternative minimum tax was expensed during 2013.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Deferred tax assets are comprised of the following temporary differences between the financial statement carrying value and the tax basis of assets:

	For the year ended December 31, 2014	2013
Deferred tax assets:		
Fair value (1)	$ 128,265	$ 74,682
Federal and state net operating losses (2)	196,954	208,158
Derivatives	1,388	2,980
Real estate owned	750	1,892
Depreciation and amortization	620	878
Compensation and other accruals	6,919	3,053
Repurchase reserve	2,287	3,832
Total gross deferred tax assets (3)	337,183	295,475
Deferred tax liabilities:		
REMIC transactions (4)	(164,170)	(123,650)
Mortgage servicing rights	(9,773)	(14,359)
Total gross deferred tax liabilities	(173,943)	(138,009)
Valuation allowance	(163,240)	(157,466)
Total net deferred tax assets	$ -	$ -

(1) Includes the change in fair value of net trust assets, long-term debt, LHFS, interest accretion and loan losses.

(2) Federal and state NOL's related to the discontinued operations totaled $121.6 million and $119.5 million at December 31, 2014 and 2013, respectively.

(3) At December 31, 2014 and 2013, discontinued operations had gross deferred tax assets of $121.8 million and $118.5 million, respectively, which had a full valuation allowance.

(4) Includes (i) REMIC transactions tax versus book difference.

The following is a reconciliation of income taxes to the expected statutory federal corporate income tax rates for the years ended December 31, 2014 and 2013:

	For the year ended December 31, 2014	2013
Expected income tax (benefit) expense	$ (1,756)	$ (3,177)
State tax, net of federal benefit	(248)	(343)
Change in valuation allowance	2,735	2,441
Deferred charge	453	-
Other	121	48

Total income tax expense (benefit)	$	1,305	$	(1,031)

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

As of December 31, 2014, the Company had estimated federal and California net operating loss (NOL) carryforwards of approximately $495.9 million and $427.3 million, respectively. Federal and state net operating loss carryforwards begin to expire in 2027 and 2018, respectively.

The Company files numerous tax returns in various jurisdictions. While the Company is subject to examination by various taxing authorities, the Company believes there are no unresolved issues or claims likely to be material to its financial position. A subsidiary of the Company had been examined by the IRS for tax years 2006 and 2008. The Company classifies interest and penalties on taxes as provision for income taxes. As of December 31, 2014 and 2013, the Company has no material uncertain tax positions. The Company has federal AMT credits in the amount of $507 thousand as of December 31, 2014.

The Company recognizes tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. A windfall tax benefit occurs when the actual tax benefit realized upon an employee's disposition of a share-based award exceeds the deferred tax asset, if any, associated with the award. At December 31, 2014 and 2013, deferred tax assets do not include $3.8 million of excess tax benefits from stock-based compensation.

Note 17. Segment Reporting

The Company has three primary reporting segments within continuing operations which include mortgage lending, real estate services and long-term mortgage portfolio. Unallocated corporate and other administrative costs, including the costs associated with being a public company, are presented in Corporate.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table presents selected balance sheet data by reporting segment as of the dates indicated:

Balance Sheet Items as of December 31, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Discontinued Operations	Consolidated
Cash and cash equivalents	$ 9,434	$ 400	$ -	$ 239	$ -	$ 10,073
Restricted cash	2,420	-	-	-	-	2,420
Mortgage loans held-for-sale	239,391	-	-	-	-	239,391
Mortgage servicing rights	24,418	-	-	-	-	24,418
Trust assets	-	-	5,268,531	-	-	5,268,531
Other assets (1)	16,166	2,272	11,743	3,458	100	33,739
Total assets	291,829	2,672	5,280,274	3,697	100	5,578,572
Total liabilities	253,278	1,458	5,273,815	21,919	3,146	5,553,616

Balance Sheet Items as of December 31, 2013:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Discontinued Operations	Consolidated
Cash and cash equivalents	$ 9,451	$ (74)	$ -	$ 592	$ -	$ 9,969
Restricted cash	1,467	-	-	-	-	1,467
Mortgage loans held-for-sale	129,191	-	-	-	-	129,191
Mortgage servicing rights	35,981	-	-	-	-	35,981
Trust assets	-	-	5,513,166	-	-	5,513,166
Other assets (1)	(671)	8,122	56	18,767	2,277	28,551
Total assets	175,419	8,048	5,513,222	19,359	2,277	5,718,325
Total liabilities	141,857	1,305	5,502,765	33,644	12,883	5,692,454

(1) Amounts represent reclassifications of balances within the discontinued operations segment to reflect balances within continuing operations as presented in the accompanying consolidated balance sheets.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table presents selected statement of operations information by reporting segment for the years ended December 31, 2014 and 2013:

Statement of Operations Items for the year ended December 31, 2014:	**Mortgage Lending**	**Real Estate Services**	**Long-term Portfolio**	**Corporate and other**	**Consolidated**
Gain on sale of loans, net	$ 29,308	$ -	$ -	$ -	$ 29,308
Servicing income, net	4,586	-	-	-	4,586
Real estate services fees, net	-	14,729	-	-	14,729
(Loss) on mortgage servicing rights	(5,116)	-	-	-	(5,116)
Other revenue	1,311	-	371	-	1,682
Other income (expense)	1,353	(5)	8,456	(1,620)	8,184
Total expense	(35,311)	(6,052)	(924)	(13,748)	(56,035)
(Loss) earnings from continuing operations before income taxes	$ (3,869)	$ 8,672	$ 7,903	$ (15,368)	(2,662)
Income tax benefit from continuing operations					1,305
Loss from continuing operations					(3,967)
Loss from discontinued operations, net of tax					(2,355)
Net loss					(6,322)
Net earnings attributable to noncontrolling interest					-
Net loss attributable to common stockholders					$ (6,322)

Statement of Operations Items for the year ended December 31, 2013:	**Mortgage Lending**	**Real Estate Services**	**Long-term Portfolio**	**Corporate and other**	**Consolidated**
Gain on sale of loans, net	$ 57,188	$ -	$ -	$ -	$ 57,188
Servicing income, net	4,240	-	-	-	4,240
Real estate services fees, net	-	19,370	-	-	19,370
Gain on mortgage servicing rights	6,567	-	-	-	6,567
Other revenue	191	-	833	(20)	1,004
Other income (expense)	4	19	(3,371)	(1,103)	(4,451)
Total expense	(69,291)	(6,139)	(1,713)	(12,817)	(89,960)
(Loss) earnings from continuing operations before income taxes	$ (1,101)	$ 13,250	$ (4,251)	$ (13,940)	(6,042)
Income tax benefit from continuing operations					(1,031)

Loss from continuing operations		(5,011)
Loss from discontinued operations, net of tax		(3,037)
Net loss		(8,048)
Net earnings attributable to noncontrolling interest		(136)
Net loss attributable to common stockholders	$	(8,184)

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 18. Commitments and Contingencies (Continuing and Discontinued Operations)

Legal Proceedings

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure. At December 31, 2014, the Company has a $130 thousand accrued liability recorded for such estimated loss exposure.

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The legal matters summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

On or about April 20, 2011, an action was filed entitled Federal Home Loan Bank of Boston v. Ally Financial Inc., et al, naming IMH Assets Corp, IFC, the Company, and ISAC as defendants. The complaint alleges misrepresentations in the materials used to market mortgage-backed securities that the plaintiff purchased. The complaint seeks damages and attorney's fees in an amount to be established at time of trial. The case was removed to the United States District Court for the District of Massachusetts and on September 30, 2013, the Court granted the Company's motion to dismiss claims against it arising under the Massachusetts Uniform Securities Act. The case remains pending as to other claims against the Company.

On December 7, 2011, a purported class action was filed in the Circuit Court of Baltimore City entitled Timm, v. Impac Mortgage Holdings, Inc, et al. alleging on behalf of holders of the Company's 9.375% Series B Cumulative Redeemable Preferred Stock (Preferred B) and 9.125% Series C Cumulative Redeemable Preferred Stock (Preferred C) who did not tender their stock in connection with the Company's 2009 completion of its Offer to Purchase and Consent Solicitation that the Company

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

failed to achieve the required consent of the Preferred B and C holders, the consents to amend the Preferred stock were not effective because they were given on unissued stock (after redemption), the Company tied the tender offer with a consent requirement that constituted an improper "vote buying" scheme, and that the tender offer was a breach of a fiduciary duty. The action seeks the payment of two quarterly dividends for the Preferred B and C holders, the unwinding of the consents and reinstatement of the cumulative dividend on the Preferred B and C stock, and the election of two directors by the Preferred B and C holders. The action also seeks punitive damages and legal expenses. The court, on January 28, 2013, dismissed all individual director and officer defendants from the case and further dismissed the Second, Third and Fifth causes of action. The remaining causes of action against the Company allege the Preferred B holders did not approve amendments to its Articles Supplementary and the holders thereof seek to recover two quarters of dividends and to elect two members to the Board of Directors of the Company. On November 27, 2013, the court denied the plaintiff's motion to reconsider the court's January 28, 2013 order. The Company and Plaintiffs have filed a motion for summary judgment on the remaining claims and motions are currently pending.

On April 30, 2012, a purported class action was filed entitled Marentes v. Impac Mortgage Holdings, Inc., alleging that certain loan modification activities of the Company constitute an unfair business practice, false advertising and marketing, and that the fees charged are improper. The complaint seeks unspecified damages, restitution, injunctive relief, attorney's fees and prejudgment interest. On August 22, 2012, the plaintiff filed an amended complaint adding Impac Funding Corporation as a defendant and on October 2, 2012, the plaintiff dismissed Impac Mortgage Holdings, Inc., without prejudice. On December 27, 2012, the court granted IFC's motion to dismiss and on May 23, 2014, the court of appeals reversed the dismissal. Discovery is currently proceeding in this matter.

On December 14, 2013, a matter was filed in the US District Court, District of Minnesota, entitled Residential Funding Company, LLC v. Impac Funding Corp. alleging the defendant is responsible for unspecific debts of Pinnacle Direct Funding Corp., as its successor in interest. On April 3, 2014, the plaintiff filed a First Amended Complaint alleging the defendant is responsible for breaches of representations and warranties in connection with certain loan sales from Pinnacle to plaintiff. The plaintiff seeks declaratory relief and unspecified damages. On April 17, 2014, the Company filed a motion to dismiss the First Amended Complaint, which the court denied. The Company answered the First Amended Complaint on September 24, 2014, and filed a motion for summary judgment on January 6, 2015, which remains pending.

On October 28, 2014, an action was filed in the Superior Court of the State of California in Orange County entitled Mallory Hill vs. Impac Mortgage Holdings, Inc., Impac Mortgage Corporation et al. In the action Mr. Hill seeks compensatory damages, general damages, treble damages, exemplary damages, an accounting, injunctive relief, attorney's fees and costs for claims based upon a consulting agreement entered into with Mr. Hill, a purported employment relationship entered into with Mr. Hill and other purported claims. The matter was removed to the US District Court. The Company has filed a motion to dismiss that is pending.

In October 2011 and November 2012, the Company received letters from Countrywide Securities Corporation (Countrywide), Merrill Lynch, Pierce, Fenner & Smith Incorporated (Merrill Lynch), and UBS Securities LLC (UBS) claiming indemnification relating to mortgage backed securities bonds issued, originated or sold by ISAC, IFC, IMH Assets Corp. and the Company. The claims seek

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

indemnification from claims asserted against Countrywide, Merrill Lynch, and UBS in specified legal actions entitled American International Group Inc. v. Bank of America Corp., et al, in the United States District Court for the Southern District of New York and Federal Home Loan Bank of Boston v. Ally Financial, Inc., et al, in the United States District Court for the District of Massachusetts. The notices each seek indemnification for all losses, liabilities, damages and legal fees and costs incurred in those actions. Further related to these claims, the Company received a demand from American International Group (AIG) for claims it purports to have based upon 12 Residential Mortgage Backed Securities it purchased in which the Company was depositor, sponsor, seller and/or originator. AIG contends it has suffered almost $800 million in losses on the securities and contends there were misrepresentations and breaches of representations and warranties regarding the securities. In October 2012, January 2013, and December 2014, Deutsche Bank issued indemnification demands for claims asserted against them in the Superior Court of New York in cases entitled Royal Park Investments SA/NV v. Merrill Lynch, et al. and Dealink Funding Ltd. v. Deutsche Bank and in the Circuit Court for the City of Richmond, Virginia, in a case entitled Commonwealth of VA, et al. v. Barclays Capital Inc, et al. In February of 2013 the Company also received a notice of intent to seek indemnification on behalf of Deutsche Bank AG, Deutsche Bank Securities, Inc., DB Structured Products, Inc., ACE Securities Corp and Deutsche Alt-A Securities, Inc. The claim relates to an action filed against those entities in the Superior Court of New York.

The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the above claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Lease Commitments

The Company leases office space and certain office equipment under long-term leases expiring at various dates through 2019. Future minimum commitments under non-cancelable leases are as follows:

	Operating Leases	Capital Leases	Total
Year 2015	7,851	728	$ 8,579
Year 2016	6,519	357	6,876
Year 2017		68	68
Year 2018		34	34
Year 2019 and thereafter		23	23
Subtotal	14,370	1,210	15,580
Sublet income	(5,407)		(5,407)
Total lease commitments	$ 8,963	$ 1,210	$ 10,173

Total rental expense for the years ended December 31, 2014 and 2013 was $5.0 million and $5.8 million, respectively. During 2014 and 2013, approximately $4.8 million and $5.7 million,

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

respectively, were charged to continuing operations, and are included in occupancy expense in the consolidated statements of operations. Included in rent expense for 2014 and 2013, is an increase of $681 thousand and $202 thousand, respectively, related to changes in estimated lease liabilities as a result of changes in our expected minimum future lease payments.

Interest expense on the capital leases was $72 thousand and $58 thousand for the years ended December 31, 2014 and 2013, respectively.

Repurchase Reserve

When the Company sells mortgage loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The Company's whole loan sale agreements generally require it to repurchase loans if the Company breaches a representation or warranty given to the loan purchaser.

The activity related to the continuing operations repurchase reserve for previously sold loans for the years ended December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
Beginning balance	$ 4,013	$ 2,392
Provision for repurchases	1,190	1,750
Settlements	(701)	(129)
Total repurchase reserve	$ 4,502	$ 4,013

The activity related to the discontinued operations repurchase reserve for previously sold loans for the years ended December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
Beginning balance	$ 5,465	$ 8,170
Provision for repurchases	1,062	1,312
Settlements	(5,315)	(4,017)
Total repurchase reserve	$ 1,212	$ 5,465

Concentration of Risk

The aggregate unpaid principal balance of loans in the Company's long-term mortgage portfolio secured by properties in California and Florida was $3.4 billion and $694.7 million, or 51% and 11%, respectively, at December 31, 2014.

The Company does not have a significant concentration of risk to any individual client except for the U.S. government and its agencies relating to its concentration of loan sales. However, a geographic concentration arises because 62% of the Company originations were from California.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

Note 19. Share Based Payments and Employee Benefit Plans

The Company maintains a stock-based incentive compensation plan, the terms of which are governed by the 2010 Omnibus Incentive Plan (the 2010 Incentive Plan). The 2010 Incentive Plan provides for the grant of stock appreciation rights, restricted stock units, performance shares and other stock and cash-based incentive awards. Employees, directors, consultants or other persons providing services to the Company or its affiliates are eligible to receive awards pursuant to the 2010 Incentive Plan. In connection with the adoption of the 2010 Incentive Plan, the Company's 2001 Stock Plan, which was scheduled to expire in March 2011, was frozen. Further, all outstanding awards under the 2001 Stock Plan, as well as the Company's previous 1995 Stock Option, Deferred Stock and Restricted Stock Plan (together with the 2001 Stock Plan, the "Prior Plans"), were assumed by the 2010 Incentive Plan. During the third quarter of 2014, the shareholders voted on and approved the amendment to the 2010 Omnibus Incentive Plan to increase the shares subject to the plan by 300,000 shares. As of December 31, 2014, the aggregate number of shares reserved under the 2010 Incentive Plan is 1,430,410 shares (including all outstanding awards assumed from Prior Plans), and there were 59,402 shares available for grant as stock options, restricted stock and deferred stock awards. The Company issues new shares of common stock to satisfy stock option exercises. There were 409,250 options granted for the year ended December 31, 2014.

The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant with the following weighted average assumptions:

	For the year ended December 31,	
	2014	**2013**
Risk-free interest rate	1.08 - 1.79%	1.46%
Expected lives (in years)	3.48 - 5.73	5.56
Expected volatility (1)	70.47 - 75.93%	78.58%
Expected dividend yield	0.00%	0.00%
Fair value per share	$2.69 - $4.46	$7.03

(1) Expected volatilities are based on both the implied and historical volatility of the Company's stock over the expected option life.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table summarizes activity, pricing and other information for the Company's stock options for the years presented below:

	For the year ended December 31,			
	2014		2013	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	787,132	$ 9.07	796,795	$ 7.89
Options granted	409,250	5.41	255,000	10.65
Options exercised	(14,622)	2.58	(121,576)	1.45
Options forfeited / cancelled	(103,530)	18.30	(143,087)	11.76
Options outstanding at end of year	1,078,230	$ 6.88	787,132	$ 9.07
Options exercisable at end of year	534,323	$ 6.72	424,888	$ 6.72

The aggregate intrinsic value in the following table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $6.20 and $5.98 per common share as of December 31, 2014 and 2013, respectively. Aggregate intrinsic value represents the amount of proceeds the option holders would have received had all option holders exercised their options and sold the stock as of that date.

	As of December 31,			
	2014		2013	
	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at end of year	7.89	$ 1,631	7.92	$ 1,325
Options exercisable at end of year	6.50	$ 1,319	6.73	$ 1,325

As of December 31, 2014, there was approximately $1.9 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 1.9 years.

For the years ended December 31, 2014 and 2013, the aggregate grant-date fair value of stock options granted was approximately $1.4 million and $1.8 million, respectively.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

For the years ended December 31, 2014 and 2013, total stock-based compensation expense was $1.9 million and $2.0 million, respectively.

Additional information regarding stock options outstanding as of December 31, 2014 is as follows:

	Stock Options Outstanding			Options Exercisable	
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0 - 0.53	130,410	4.44	0.53	130,410	$ 0.53
0.54 - 2.80	168,070	5.87	2.75	168,070	2.75
2.81 - 6.81	390,250	9.56	5.41		
6.82 - 10.65	190,000	8.56	10.65	63,340	10.65
10.66 - 13.81	199,500	7.91	13.81	172,503	13.81
$ 0.53 - 13.81	1,078,230	7.89	6.88	534,323	6.72

In addition to the options granted, the Company has granted deferred stock units (DSU's), which vest between one and three year periods. The fair value of each DSU was measured on the date of grant using the grant date price of the Company's stock. For the years ended December 31, 2014 and 2013, the aggregate grant-date fair value of DSU's granted was approximately $20 thousand and $320 thousand, respectively.

The following table summarizes activity, pricing and other information for the Company's DSU's for the years presented below:

	For the year ended December 31,			
	2014		2013	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
DSU's outstanding at beginning of year	72,000	$ 8.80	42,000	$ 7.48
DSU's granted	3,750	5.39	30,000	10.65
DSU's exercised				
DSU's forfeited/cancelled				
DSU's outstanding at end of period	75,750	$ 8.63	72,000	$ 8.80

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

As of December 31, 2014, there was approximately $177 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. This cost is expected to be recognized over a weighted average period of 1.5 years.

401(k) Plan

After meeting certain employment requirements, employees can participate in the Company's 401(k) plan. Under the 401(k) plan, employees may contribute up to 25% of their salaries, pursuant to certain restrictions. The Company matches 50% of the first 4% of employee contributions. Additional contributions may be made at the discretion of the board of directors. During the year ended December 31, 2014, the Company recorded approximately $289 thousand for basic matching contributions. During the year ended December 31, 2013, the Company recorded approximately $473 thousand for basic matching contributions. There were no discretionary matching contributions recorded during the years ended December 31, 2014 or 2013.

Note 20. Related Party Transactions

Historically, mortgage loans have been extended to officers and directors of the Company. All such loans were made at the prevailing market rates and conditions existing at the time. During 2014 and 2013, no mortgage loans were extended to officers or directors.

During 2013, the Company incurred an expense of $132,000 from a vendor partially owned by an officer. Services were at arms-length and performed at prevailing market rates.

The Company earns mortgage lending gains and fees and real estate service fees by providing such services to its long-term mortgage portfolio.

Note 21. Discontinued Operations

During 2007, the Company announced plans to exit substantially all of its non-conforming mortgage, commercial, retail, and warehouse lending operations. Consequently, the amounts related to these operations are presented as discontinued operations in the Company's consolidated statements of operations and comprehensive loss and its consolidated statements of cash flows, and the asset groups exited are reported as assets and liabilities of discontinued operations in its consolidated balance sheets for the periods presented.

Table of Contents

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

The following table presents the discontinued operations' condensed balance sheets as of December 31, 2014 and 2013:

	At December 31, 2014	At December 31, 2013
Cash and cash equivalents	$ -	$ -
Other assets	100	2,277
Total assets	$ 100	$ 2,277
Repurchase reserve	$ 1,212	$ 5,465
Legal settlements	-	3,775
Other liabilities	1,934	3,643
Total liabilities	$ 3,146	$ 12,883

The following table presents the discontinued operations' condensed statements of operations for the years ended December 31, 2014 and 2013:

	For the years ended December 31, 2014	For the years ended December 31, 2013
Provision for repurchases	$ (1,063)	$ (1,312)
Legal settlements	-	(3,775)
Other income (expense)	(1,292)	2,050
Net loss	$ (2,355)	$ (3,037)

Note 22. Tax Benefits Preservation Rights Plan

In September 2013, the Company adopted a Tax Benefits Preservation Rights Agreement (Rights Plan) to help preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, Tax Benefits). In general, the Company may "carry forward" net operating losses in certain circumstances to offset current and future taxable income, which will reduce federal and state income tax liability, subject to certain requirements and restrictions. The Company's ability to use these Tax Benefits would be substantially limited and impaired if it were to experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") and the Treasury Regulations promulgated thereunder. Generally, the Company will experience an "ownership change" if the percentage of the shares of Common Stock owned by one or more "five-percent shareholders" increases by more than 50 percentage points over the lowest percentage of shares of Common Stock owned by such stockholder at any time during the prior three year on a rolling basis. As such, the Rights Plan has a 4.99% "trigger" threshold that is intended to act as a deterrent to any person or entity seeking to acquire 4.99% or more of the outstanding Common Stock without the prior approval of the Board. The Rights Plan also has certain ancillary anti-takeover effects. The rights accompany each share of common stock of the Company and are evidenced by ownership of common stock. The rights are not exercisable except upon the occurrence of certain change of control events. Once triggered, the rights would entitle the stockholders, other than a person qualifying as an "Acquiring Person" pursuant to the rights plan, to certain "flip-in", "flip-over" and exchange rights. The rights issued under the Rights Plan may be redeemed by the board of directors at a nominal redemption price

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data or as otherwise indicated)

of $0.001 per right, and the board of directors may amend the rights in any respect until the rights are triggered. The Rights Plan expires September 2, 2016.

Note 23. Subsequent Events

On January 6, 2015, the Company, and its wholly-owned subsidiary, IMC, entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with CashCall, Inc. ("CashCall") pursuant to which IMC agreed to purchase substantially all the assets and assume certain liabilities of CashCall's residential mortgage operations. Upon closing, CashCall's mortgage operations will operate as a separate division of IMC under the name CashCall Mortgage.

Pursuant to the Asset Purchase Agreement, and subject to the terms and conditions contained therein, the purchase price consists of a fixed component and a contingent component. The fixed component includes (i) the aggregate payment of $10 million in cash, payable in installments through January 2016 and (ii) approximately 500,000 newly issued unregistered shares of the Company. The contingent component consists of a three year earn-out provision based on a percentage of the pre-tax profits of the CashCall Mortgage division purchased, which is expected to be an average of approximately 55% during the three year earn-out period of the CashCall Mortgage division's profitability.

Warehouse Amendments

In January 2015, repurchase agreement 1 was amended to increase the maximum borrowing capacity from $100.0 million to $125.0 million.

In January 2015, repurchase agreement 3 was amended to increase the maximum borrowing capacity from $50.0 million to $75.0 million.

In January 2015, repurchase agreement 4 was amended to increase the maximum borrowing capacity from $125.0 million to $175.0 million. In February 2015, repurchase agreement 4 was amended to increase the maximum borrowing capacity from $175.0 million to $225.0 million.

In February 2015, repurchase agreement 5 was amended to increase the maximum borrowing capacity from $100.0 million to $150.0 million.

Short-term borrowing

In January 2015, the Company entered into a $5.0 million short-term borrowing secured by Ginnie Mae servicing with an interest rate of 15%. The balance was repaid in March 2015.