

Altisource Asset Management Corp
Form 10-Q/A
August 16, 2016

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

FORM 10-Q/A
Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-54809

Altisource Asset Management Corporation
(Exact name of registrant as specified in its charter)
UNITED STATES VIRGIN ISLANDS 66-0783125
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

36C Strand Street
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

(340) 692-1055
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

As of July 29, 2016, 1,684,194 shares of our common stock were outstanding (excluding 915,273 shares held as treasury stock).

Explanatory Note

Amendment No. 1 to Form 10-Q

We are filing this Amendment No. 1 on Form 10-Q/A (“Form 10-Q/A”) to amend our Form 10-Q for the quarter ended June 30, 2016 filed on August 8, 2016 (the “Original Form 10-Q”) to (1) correct an error in the loss per basic and diluted share of common stock as reported on our consolidated statements of operations and Note 10 of Part I, Item 1 and (2) to revise the Controls and Procedures in Part I, Item 4 of our Original Form 10-Q. We have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2 and the financial statements formatted in Extensible Business Reporting Language (“XBRL”) in Exhibits 101. No other sections of our Original Form 10-Q were affected. This adjustment does not affect previously reported total assets, liabilities, retained earnings, net loss attributable to stockholders, weighted average common stock outstanding or operating cash flows.

Although we correctly reported net loss attributable to stockholders and weighted average common stock outstanding for the period covered by this report, an error was identified in our loss per share of common stock for the three and six months ended June 30, 2016. We originally reported a loss per share of common stock, both basic and diluted, for the three and six months ended June 30, 2016 of \$0.23 and \$0.74, respectively. Upon correcting this error, our loss per share of common stock, both basic and diluted, for the three and six months ended June 30, 2016 was \$0.74 and \$1.22, respectively. All other financial information, including the net loss attributable to stockholders and weighted average common stock outstanding for all such periods, remains correct and unchanged; therefore, no other changes were made to our unaudited consolidated financial statements.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Form 10-Q in its entirety, as amended to reflect the changes described above. This Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date nor does it modify or update disclosures in any way other than as required to reflect the changes described above.

Deconsolidation of Residential

Effective January 1, 2016, Altisource Asset Management Corporation (the “Company”) adopted the provisions of Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis (“ASU 2015-02”) and performed an analysis of its relationship with Altisource Residential Corporation (“Residential”) pursuant to the amended guidance. The Company determined that the compensation it receives in return for its services to Residential is commensurate with the level of effort required to perform such services and the arrangement includes customary terms, conditions or amounts present in arrangements for similar services negotiated at arm’s length; therefore, Residential is no longer a variable interest entity under the amended guidance. As a result, effective January 1, 2016, the Company no longer consolidates the accounts of Residential. The Company has applied ASU 2015-02 using the modified retrospective approach, which has resulted in a cumulative-effect adjustment to the Company's equity on January 1, 2016. As a result, periods ending prior to the adoption were not impacted. The adoption effectively removed those balances previously disclosed that related to Residential from our consolidated financial statements and eliminated the amounts previously reported as noncontrolling interests in Residential as a consolidated affiliate. Subsequent to adoption, the Company's consolidated revenues consist primarily of management fees received from Residential under the related asset management agreement and interest and dividend income, and the Company's consolidated expenses consist primarily of salaries and employee benefits, equity-based compensation, legal and professional fees and general and administrative expenses.

Due to the significance of Residential's consolidated financial statements to the Company's historical consolidated financial statements in periods prior to January 1, 2016, the Company's consolidated financial statements have limited comparability with the Company's consolidated financial statements in prior periods.

Altisource Asset Management Corporation

June 30, 2016

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References in this report to “we,” “our,” “us,” “AAMC” or the “Company” refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Residential” refer to Altisource Residential Corporation, unless otherwise indicated. References in this report to “ASPS” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this Amendment No. 1 on Form 10-Q/A contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the “Exchange Act.” In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- our ability to implement our business strategy and the business strategy of Residential;
- our ability to retain Residential as a client;
- our ability to retain and maintain our strategic relationships;
- the ability of Residential to generate a return on invested equity capital in excess of applicable hurdle rates or cash available for distribution to its stockholders under our management;
- our ability to obtain additional asset management clients;
- our ability to effectively compete with our competitors;
- Residential's ability to complete future or pending transactions;
- the failure of ASPS to effectively perform its obligations under their agreements with us and Residential;
- the failure of Residential's servicers to effectively perform their services to Residential;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2015.

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Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of July 29, 2016, which we have concluded is the latest practicable date for financial information prior to the filing of this quarterly report.

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Altisource Asset Management Corporation

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets:		
Real estate held for use:		
Land (from previously consolidated VIE as of December 31, 2015)	\$—	\$ 56,346
Rental residential properties (net of accumulated depreciation of \$7,127 as of December 31, 2015 - from previously consolidated VIE)	—	224,040
Real estate owned (from previously consolidated VIE as of December 31, 2015)	—	455,483
Total real estate held for use, net	—	735,869
Real estate assets held for sale (from previously consolidated VIE as of December 31, 2015)	—	250,557
Mortgage loans at fair value (from previously consolidated VIE as of December 31, 2015)	—	960,534
Mortgage loans held for sale (from previously consolidated VIE as of December 31, 2015)	—	317,336
Cash and cash equivalents (including \$116,702 from previously consolidated VIE as of December 31, 2015)	39,419	184,544
Restricted cash (from previously consolidated VIE as of December 31, 2015)	—	20,566
Available-for-sale securities	14,929	—
Accounts receivable, net (including \$45,903 from previously consolidated VIE as of December 31, 2015)	—	46,026
Related party receivables	5,489	—
Prepaid expenses and other assets (including \$1,126 from previously consolidated as of December 31, 2015)	1,379	3,169
Total assets	\$61,216	\$ 2,518,601
Liabilities:		
Repurchase and loan and security agreements (from previously consolidated VIE as of December 31, 2015)	\$—	\$ 763,369
Other secured borrowings (from previously consolidated VIE as of December 31, 2015)	—	502,599
Accrued salaries and employee benefits	2,076	4,006
Accounts payable and other accrued liabilities (including \$32,448 from previously consolidated VIE as of December 31, 2015)	2,286	34,716
Total liabilities	4,362	1,304,690
Commitments and contingencies (Note 6)		
Redeemable preferred stock:		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of June 30, 2016 and December 31, 2015; redemption value \$250,000	249,237	249,133
Equity:		
Common stock, \$.01 par value, 5,000,000 authorized shares; 2,599,467 and 1,684,194 shares issued and outstanding, respectively, as of June 30, 2016 and 2,556,828 and 2,048,223 shares issued and outstanding, respectively, as of December 31, 2015	26	26
Additional paid-in capital	25,851	23,419
Retained earnings	48,982	50,678
Accumulated other comprehensive loss	(5,667)	—
Treasury stock, at cost, 915,273 shares as of June 30, 2016 and 508,605 shares as of December 31, 2015	(261,575)	(254,984)
Total stockholders' deficit	(192,383)	(180,861)
Noncontrolling interest in consolidated affiliate	—	1,145,639

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Total equity	(192,383)	964,778
Total liabilities and equity	\$61,216	\$2,518,601

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Operations
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues:				
Management fees	\$ 4,506	\$ —	\$ 8,630	\$ —
Conversion fees	544	—	946	—
Expense reimbursements	357	—	357	—
Rental revenues	—	2,140	—	3,540
Net unrealized gain on mortgage loans	—	42,209	—	103,343
Net realized gain on mortgage loans	—	19,272	—	34,654
Net realized gain on mortgage loans held for sale	—	254	—	405
Net realized gain on real estate	—	12,404	—	23,012
Interest and dividend income	247	240	541	480
Total revenues	5,654	76,519	10,474	165,434
Expenses:				
Salaries and employee benefits	2,589	1,706	4,937	3,339
Equity-based compensation	2,388	2,086	4,756	3,032
Legal and professional fees	542	158	1,083	7,691
Residential property operating expenses	—	16,857	—	29,316
Real estate depreciation and amortization	—	1,344	—	2,342
Selling costs and impairment	—	8,839	—	23,530
Mortgage loan servicing costs	—	16,246	—	34,512
Interest expense	—	13,237	—	24,720
General and administrative	578	2,017	1,092	3,468
Total expenses	6,097	62,490	11,868	131,950
Other income:				
Other income	55	—	55	—
Total other income	55	—	55	—
(Loss) income before income taxes	(388)	14,029	(1,339)	33,484
Income tax (benefit) expense	873	194	862	337
Net (loss) income	(1,261)	13,835	(2,201)	33,147
Net income attributable to noncontrolling interest in consolidated affiliate	—	(13,092)	—	(25,516)
Net (loss) income attributable to stockholders	\$ (1,261)	\$ 743	\$ (2,201)	\$ 7,631
(Loss) earnings per share of common stock – basic:				
(Loss) earnings per basic share	\$ (0.74)	\$ 0.31	\$ (1.22)	\$ 3.40
Weighted average common stock outstanding – basic	1,776,831	2,218,533	1,883,322	2,211,357
(Loss) earnings per share of common stock – diluted:				
(Loss) earnings per diluted share	\$ (0.74)	\$ 0.27	\$ (1.22)	\$ 2.77
Weighted average common stock outstanding – diluted	1,776,831	2,746,955	1,883,322	2,752,322

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
 Consolidated Statements of Comprehensive (Loss) Income
 (In thousands)
 (Unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net (loss) income attributable to stockholders	\$(1,261)	\$ 743	\$(2,201)	\$ 7,631
Other comprehensive loss:				
Change in unrealized loss on available-for-sale securities	(4,565)	—	(4,686)	—
Total other comprehensive loss	(4,565)	—	(4,686)	—
Comprehensive (loss) income	\$(5,826)	\$ 743	\$(6,887)	\$ 7,631

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Equity
(In thousands, except share amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest in Previously Consolidated Affiliate	Total Equity
	Number of Shares	Amount						
December 31, 2015	2,556,828	\$ 26	\$ 23,419	\$ 50,678	\$ —	\$(254,984)	\$ 1,145,639	\$ 964,778
Cumulative effect of adoption of ASU 2015-02 (Note 1)	—	—	(2,330)	609	(981)	—	(1,145,639)	(1,148,341)
January 1, 2016	2,556,828	26	21,089	51,287	(981)	(254,984)	—	(183,563)
Issuance of common stock, including option exercises	42,639	—	6	—	—	—	—	6
Treasury shares repurchased	—	—	—	—	—	(6,591)	—	(6,591)
Amortization of preferred stock issuance costs	—	—	—	(104)	—	—	—	(104)
Share-based compensation	—	—	4,756	—	—	—	—	4,756
Change in unrealized loss on available-for-sale securities	—	—	—	—	(4,686)	—	—	(4,686)
Net loss	—	—	—	(2,201)	—	—	—	(2,201)
June 30, 2016	2,599,467	\$ 26	\$ 25,851	\$ 48,982	\$ (5,667)	\$(261,575)	\$—	\$(192,383)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest in Consolidated Affiliate	Total Equity
	Number of Shares	Amount						
December 31, 2014	2,452,101	\$ 25	\$ 14,152	\$ 54,174	\$ —	\$(245,468)	\$ 1,326,911	\$ 1,149,794
Issuance of common stock, including option exercises	57,743	—	15	—	—	—	—	15
Treasury shares repurchased	—	—	—	—	—	(6,604)	—	(6,604)
Capital contribution from noncontrolling interest	—	—	—	—	—	—	62	62
Distribution from noncontrolling interest	—	—	—	—	—	—	(67,507)	(67,507)
Amortization of preferred stock issuance costs	—	—	—	(103)	—	—	—	(103)
Share-based compensation	—	—	2,939	—	—	—	93	3,032
Net income	—	—	—	7,631	—	—	25,516	33,147
June 30, 2015	2,509,844	\$ 25	\$ 17,106	\$ 61,702	\$ —	\$(252,072)	\$ 1,285,075	\$ 1,111,836

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Six months ended June 30, 2016	Six months ended June 30, 2015
Operating activities:		
Net income	\$(2,201)	\$33,147
Adjustments to reconcile net income to net cash used in operating activities:		
Net unrealized gain on mortgage loans	—	(103,343)
Net realized gain on mortgage loans	—	(34,654)
Net realized gain on sale of mortgage loans held for sale	—	(405)
Net realized gain on sale of real estate	—	(23,012)
Real estate depreciation and amortization	—	2,342
Selling costs and impairment	—	23,530
Accretion of interest on re-performing mortgage loans	—	(469)
Share-based compensation	4,756	3,032
Amortization of deferred financing costs	—	2,218
Loss on retirement of leasehold improvements	—	212
Changes in operating assets and liabilities:		
Accounts receivable	123	3,815
Related party receivables	(5,489)	1,156
Prepaid expenses and other assets	653	(499)
Accrued salaries and employee benefits	(1,993)	(325)
Accounts payable and accrued liabilities	81	5,070
Related party payables	(2,180)	—
Net cash used in operating activities	(6,250)	(88,185)
Investing activities:		
Decrease in cash due to deconsolidation of Residential (Note 1)	(116,702)	—
Purchases of securities	(15,588)	—
Investment in renovations	—	(11,001)
Real estate tax advances	—	(14,443)
Mortgage loan resolutions	—	107,887
Mortgage loan payments	—	12,447
Disposition of real estate	—	70,916
Acquisition related deposits	—	(5,631)
Change in restricted cash	—	(5,177)
Net cash (used in) provided by investing activities	(132,290)	154,998
Financing activities:		
Issuance of common stock, including stock option exercises	18	537
Repurchase of common stock	(6,591)	(6,604)
Payment of tax withholdings on exercise of stock options	(12)	(522)
Capital contribution from noncontrolling interest	—	62
Distribution to noncontrolling interest	—	(36,038)
Proceeds from issuance of other secured debt	—	221,691
Repayments of secured notes	—	(21,306)
Proceeds from repurchase agreement	—	109,683

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Repayments of repurchase agreement	—	(298,078)
Payment of deferred financing costs	—	(7,123)
Net cash used in by financing activities	(6,585)	(37,698)

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Consolidated Statements of Cash Flows (continued)
(In thousands) (Unaudited)

	Three months ended June 30, 2016	Six months ended June 30, 2015
Net decrease in cash and cash equivalents	(145,125)	29,115
Cash and cash equivalents as of beginning of the period	184,544	116,782
Cash and cash equivalents as of end of the period	\$ 39,419	\$ 145,897
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ —	\$ 21,732
Transfer of mortgage loans to real estate owned, net	—	268,682
Change in accrued capital expenditures	—	(1,732)
Changes in receivables from mortgage loan resolutions, payments and real estate tax advances, net	—	36,359
Changes in receivables from real estate owned dispositions	—	1,369
Decrease in noncontrolling interest due to deconsolidation (Note 1)	(1,145,639)	—
Decrease in repurchase and loan agreements and other secured borrowings due to deconsolidation of Residential (Note 1)	(1,265,968)	—
Decrease in real estate assets and mortgage loans due to deconsolidation of Residential (Note 1)	2,264,296	—

See accompanying notes to consolidated financial statements.

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Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
June 30, 2016
(Unaudited)

1. Organization and basis of presentation

We were incorporated in the United States Virgin Islands on March 15, 2012 (our “inception”). Subsequent to our separation from Altisource Portfolio Solutions S.A. (“ASPS”) on December 21, 2012, we immediately commenced operations. Our primary business is to provide asset management and certain corporate governance services to institutional investors. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation (“Residential”), a public real estate investment trust (“REIT”) that is focused on acquiring and managing quality, affordable single-family rental properties for working class families throughout the United States. Substantially all of our standalone revenue since inception was generated through our asset management agreement with Residential.

Residential focuses on acquiring, owning and managing single-family rental properties throughout the United States and conducts substantially all of its activities through its wholly owned subsidiary Altisource Residential, L.P. (“ARLP”) and its subsidiaries. Initially, Residential acquired its rental properties primarily through the acquisition of sub-performing and non-performing mortgage loan portfolios; however, commencing in the second quarter of 2015, it refocused its acquisition strategy to opportunistically acquire portfolios of single-family rental properties, both individually and in pools, as an avenue to more quickly achieve scale in its rental portfolio.

Residential has a long-term service agreements with ASPS, a leading provider of real estate and mortgage portfolio management, asset recovery and customer relationship management services. Residential also has servicing agreements with three separate servicers. Residential’s ability to execute its business strategy is reliant, in large part, on the performance of these service providers. ASPS and one of the three servicers, Ocwen Financial Corporation (“Ocwen”), were related parties through January 16, 2015. We also are party to certain services agreements with ASPS relating to certain support services and technology/network administration.

We initially provided services to Residential pursuant to a 15-year asset management agreement beginning December 21, 2012 (the “Original AMA”). On March 31, 2015, we entered into a new asset management agreement with Residential (the “New AMA”) under which we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Original AMA had a different incentive fee structure that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. The New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties during each quarter. Accordingly, our operating results continue to be highly dependent on Residential's operating results. See Note 7 for additional details of the New AMA.

Additionally, we provide management services to NewSource Reinsurance Company Ltd. (“NewSource”), a title insurance and reinsurance company in Bermuda. In October 2013, we invested \$2.0 million in 100% of the common stock of NewSource, and in September 2015, we contributed an additional \$5.0 million to NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). NewSource commenced reinsurance activities during the second quarter of 2014. In December 2014, NewSource determined that the economics of the initial business did not warrant the continuation of its initial reinsurance quota

share agreement with an unrelated third party. NewSource therefore transferred all of the risk of claims and future losses underwritten to an unrelated third party.

Correction of net loss per common share

Subsequent to the issuance of our Form 10-Q for the quarterly period ended June 30, 2016, we determined that there was an error in the reported amount of the loss per basic and diluted share of common stock. We originally reported loss per share of common stock, both basic and diluted, for the three and six months ended June 30, 2016 of \$0.23 and \$0.74, respectively. Upon correcting this error, our loss per share of common stock, both basic and diluted, for the three and six months ended June 30, 2016 was \$0.74 and \$1.22, respectively. All other financial information, including the net loss attributable to stockholders and

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weighted average common stock outstanding for all such periods, remains correct and unchanged; therefore, no other changes were made to our unaudited consolidated financial statements.

Basis of presentation and use of estimates

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by the Securities and Exchange Commission (“SEC”) rules and regulations. These consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2015 Annual Report on Form 10-K, which was filed with the SEC on February 29, 2016.

Effective January 1, 2016, the accompanying consolidated financial statements include the accounts of AAMC and its consolidated subsidiaries, which are comprised of voting interest entities in which we are determined to have a controlling financial interest under Accounting Standards Codification (“ASC”) 810, as amended by Accounting Standards Update ASU (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis (“ASU 2015-02”). Our voting interest entities consist entirely of our wholly owned subsidiaries. We also consider variable interest entities (“VIEs”) for consolidation where we are the primary beneficiary as described below. With the adoption of the ASU 2015-02 effective January 1, 2016, we no longer consolidate Residential as a VIE, and we currently do not have any other potential VIEs.

For legal entities evaluated for consolidation, we must determine whether the interests that we hold and fees paid to us qualify as a variable interest in the entity. This includes an evaluation of fees paid to us where we act as a decision maker or service provider to the entity being evaluated. Fees received by us are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions or amounts that are customarily present in arrangements for similar services negotiated at arm’s length and (iii) our other economic interests in the VIE held directly and indirectly through our related parties, as well as economic interests held by related parties under common control, where applicable, would not absorb more than an insignificant amount of the entity’s losses or receive more than an insignificant amount of the entity’s benefits.

For those entities in which we have a variable interest, we perform an analysis to first determine whether the entity is a VIE. This determination includes considering whether the entity’s equity investment at risk is sufficient, whether the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity’s activities either involve or are conducted on behalf of that investor and its related parties and whether the entity’s at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary. Performance of such analysis requires the exercise of judgment.

The primary beneficiary of a VIE is generally defined as the party who has a controlling financial interest in the VIE. We are generally deemed to have a controlling financial interest in a VIE if we have (i) the power to direct the

activities of the VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. For purposes of evaluating (ii) above, fees paid to us are excluded if the fees are compensation for services provided commensurate with the level of effort required to be performed and the arrangement includes only customary terms, conditions or amounts present in arrangements for similar services negotiated at arm's length. We also evaluate our economic interests in the VIE held directly by us and indirectly through our related parties, as well as economic interests held by related parties under common control, where applicable. The primary beneficiary evaluation is generally performed qualitatively on the basis of all facts and circumstances. However, quantitative information may also be considered in the analysis, as appropriate. These analyses require judgment. Changes in the economic interests (either by us, our related parties or third parties) or amendments to the governing documents of the VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. The primary beneficiary evaluation is updated periodically.

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For voting interest entities, we shall consolidate the entity if we have a controlling financial interest. We have a controlling financial interest in a voting interest entity if (i) for legal entities other than limited partnerships, we own a majority voting interest in the entity or, for limited partnerships and similar entities, we own a majority of the entity's kick-out rights through voting limited partnership interests and (ii) non-controlling shareholders or partners do not hold substantive participating rights and no other conditions exist that would indicate that we do not control the entity.

Prior to our deconsolidation of Residential as described below, our consolidated financial statements also include those VIEs that were included within Residential consolidated financial statements. Residential had three securitization trusts, ARLP Securitization Trust, Series 2014-1 ("ARLP 2014-1"), ARLP Securitization Trust, Series 2014-2 ("ARLP 2014-2") and ARLP Securitization Trust, Series 2015-1 ("ARLP 2015-1"), which were classified as VIEs. Because Residential is the primary beneficiary, these entities were included in the consolidated financial statements of Residential but are no longer included in our consolidated financial statements since the deconsolidation. See Note 5 for more information regarding these securitization trusts.

Deconsolidation of Residential

Effective January 1, 2016, we adopted the provisions of ASU 2015-02, and we performed an analysis of our relationship with Residential pursuant to the amended guidance. We determined that the compensation we receive in return for our services to Residential is commensurate with the level of effort required to perform such services and the arrangement includes customary terms, conditions or amounts present in arrangements for similar services negotiated at arm's length; therefore, Residential is no longer a VIE under the amended guidance. As a result, effective January 1, 2016, we no longer consolidate the accounts of Residential. We have applied ASU 2015-02 using the modified retrospective approach, which has resulted in a cumulative-effect adjustment to equity on January 1, 2016. As a result, periods ending prior to the adoption were not impacted. The adoption effectively removed those balances previously disclosed that related to Residential from our consolidated financial statements and eliminated the amounts previously reported as noncontrolling interests in Residential as a consolidated affiliate. Subsequent to adoption, our consolidated revenues consist primarily of management fees received from Residential under the New AMA and interest and dividend income, and our consolidated expenses consist primarily of salaries and employee benefits, equity-based compensation, legal and professional fees and general and administrative expenses.

As a result of our deconsolidation of Residential, we have also reclassified certain prior period amounts for consistency with the current period presentation, including accrued salaries and benefits within the consolidated balance sheet and salaries and benefits, equity-based compensation and legal and professional fees within the consolidated statement of operations. These reclassifications had no effect on the reported results of operations.

Available-for-sale securities

The securities we hold consist solely of the common stock of Residential. These securities are classified as available for sale and are reported at fair value. We adjust our investment in Residential common stock to fair value based on unadjusted quoted market prices in active markets. Changes in the fair value are recorded in accumulated other comprehensive income (loss) as changes in unrealized gain (loss) on available-for-sale securities. Our ability to sell these securities, or the price ultimately realized for these securities, depends upon the demand in the market and potential restrictions on the timing at which we may be able to sell the Residential common stock when desired.

Deferred debt issuance costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs are presented on the balance sheet as a deduction from the carrying amount of the related debt liability

instead of being presented as an asset. Debt disclosures include the face amount of the debt liability and the effective interest rate. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU 2015-15 provides additional guidance to ASU 2015-03, which did not address presentation or subsequent measurement of debt issuance costs related to line of credit arrangements. ASU 2015-15 noted that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement.

Residential's application of ASU 2015-03 represents a change in accounting principle and has been applied retrospectively, which resulted in i) a reclassification of the deferred debt issuance cost component of Residential's deferred leasing and

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financing costs to repurchase agreements and other secured borrowings and ii) a reclassification of deferred leasing cost component of Residential's deferred leasing and financing costs to prepaid expenses and other assets in our consolidated balance sheets.

The following table represents the effect of change on the prior periods that were reclassified as a result this adoption (\$ in thousands):

	December 31, 2015		
	As Previously Reported	Adjustments	Current Presentation
Assets:			
Deferred leasing and financing costs (1)	\$7,886	\$ (7,886)	\$ —
Prepaid expenses and other assets (1)	2,458	711	3,169
Liabilities:			
Repurchase agreements	767,513	(4,144)	763,369
Other secured borrowings	505,630	(3,031)	502,599

(1) Upon adoption of ASU 2015-03, Residential reclassified its deferred leasing costs to prepaid expenses and other assets.

Recently issued accounting standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation – Stock Compensation (Topic 718). ASU 2016-09 makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. This update standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This update is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this ASU on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the impact of adopting this standard to have a material impact on

our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which effectively delayed the adoption date of ASU 2014-09 by one year. ASU 2014-09 is therefore effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2016. We do not expect this amendment to have a significant effect on our consolidated financial statements.

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2. Real estate assets, net

As of June 30, 2016, we had no real estate assets. The following describes Residential's real estate assets that were included in our consolidated financial statements as of December 31, 2015. These real estate assets are no longer included in our consolidated financial statements effective from January 1, 2016.

Real estate held for use

As of December 31, 2015, Residential had 4,933 REO properties held for use. Of these properties, 2,118 had been leased, 264 were being listed and ready for rent and 350 were in varying stages of renovation and unit turn status. With respect to the remaining 2,201 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile.

Real estate held for sale

As of December 31, 2015, Residential classified 1,583 properties having an aggregate carrying value of \$250.6 million as real estate held for sale. Management determined to divest of these properties because they did not meet its residential rental property investment criteria.

3. Mortgage loans

As of June 30, 2016, we had no mortgage loans due to the deconsolidation of Residential. The following describes Residential's mortgage loans that were included in our consolidated financial statements as of December 31, 2015 as well as certain related activity recognized in our consolidated financial statements for the three and six months ended June 30, 2015.

The following table sets forth the fair value of Residential's mortgage loans, the related unpaid principal balance and market value of underlying properties by delinquency status as of December 31, 2015 (\$ in thousands):

	Number of Loans	Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties
December 31, 2015				
Current	730	\$124,595	\$165,645	\$177,348
30	80	12,003	18,142	21,858
60	38	5,688	8,088	8,766
90	984	130,784	216,717	196,963
Foreclosure	3,907	687,464	946,962	917,671
Mortgage loans at fair value	5,739	\$960,534	\$1,355,554	\$1,322,606

The following table sets forth the carrying value of Residential's mortgage loans held for sale, the related unpaid principal balance and market value of underlying properties by delinquency status as of December 31, 2015 (\$ in thousands):

	Number of Loans	Carrying Value	Unpaid Principal Balance	Market Value of Underlying Properties
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December 31, 2015

Current	58	\$10,864	\$13,466	\$17,776
30	26	7,616	10,013	12,200
60	6	668	775	1,063
90	328	73,164	101,121	103,395
Foreclosure	879	225,024	314,991	330,573
Mortgage loans held for sale	1,297	\$317,336	\$440,366	\$465,007

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Re-performing residential mortgage loans

For the three and six months ended June 30, 2015, Residential recognized no provision for loan loss and no adjustments to the amount of the accretable yield. For the three and six months ended June 30, 2015, Residential accreted \$0.2 million and \$0.5 million, respectively, into interest income with respect to these re-performing loans. As of December 31, 2015, these re-performing loans, having a UPB of \$6.0 million and a carrying value of \$4.0 million, were included in mortgage loans held for sale. Due to the deconsolidation of Residential, no re-performing residential mortgage loans were included in our consolidated financial statements effective from January 1, 2016.

The following table presents changes in the balance of the accretable yield for the periods indicated:

	Three months ended June 30, 2015	Six months ended June 30, 2015
Accretable Yield		
Balance at the beginning of the period	\$7,207	\$7,640
Acquisitions	—	—
Payments and other reductions, net	(3,084)	(3,285)
Accretion	(237)	(469)
Balance at the end of the period	\$3,886	\$3,886

4. Fair value of financial instruments

The following table sets forth the fair value of financial assets by level within the fair value hierarchy as of June 30, 2016 (\$ in thousands):

	Level 1 Quoted Prices in Active Markets	Level 2 Observable Inputs other than Level 1 Prices	Level 3 Unobservable Inputs
June 30, 2016			
Recurring basis (assets)			
Available-for-sale securities: Residential common stock	\$ 14,929	\$ —	\$ —

We did not transfer any assets from one level to another level during the six months ended June 30, 2016 or during the year ended December 31, 2015.

The carrying values of our cash and cash equivalents, related party receivables, accrued salaries and employee benefits, accounts payable and other accrued liabilities and related party payables are equal to or approximate fair value. The fair value of our available-for-sale securities is based on unadjusted quoted market prices from active markets.

As of June 30, 2016, we held 1,624,465 shares of Residential's common stock, representing approximately 2.98% of Residential's then-outstanding common stock, which is included as available-for-sale securities in our consolidated balance sheet as of June 30, 2016. At December 31, 2015, we held 324,465 shares of Residential's common stock, representing approximately 0.58% of Residential's then-outstanding common stock. All of our shares of Residential's common stock were acquired in open market transactions. As of December 31, 2015, we eliminated our investment in Residential common stock upon consolidation (see Note 1).

The following table presents the amortized cost and fair value of our available-for-sale securities as of June 30, 2016 (\$ in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential common stock	\$ 20,596	\$	—\$ 5,667	\$ 14,929
Total available-for-sale securities	\$ 20,596	\$	—\$ 5,667	\$ 14,929

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We have recognized no other-than-temporary impairment related to our investment in Residential's common stock. Management believes that the declines in the fair value driven by temporary market fluctuations.

During the six months ended June 30, 2016, we acquired 1,300,000 shares of Residential's common stock in open market transactions at an average purchase price of \$11.97 per share. We did not acquire any of Residential's common stock during the six months ended June 30, 2015.

Due to the deconsolidation of Residential effective January 1, 2016, we did not have any level 3 assets in our consolidated financial statements for the six months ended June 30, 2016.

The following describes Residential's financial assets and liabilities that were included in our consolidated financial statements as of December 31, 2015 as well as certain related activity recognized in our consolidated financial statements for the three and six months ended June 30, 2015.

The following table sets forth the fair value of Residential's financial assets and liabilities by level within the fair value hierarchy as of December 31, 2015 (\$ in thousands):

	Level 1 Quoted Prices in Active Markets	Level 2 Observable Inputs other than Level 1 Prices	Level 3 Unobservable Inputs
December 31, 2015			
Recurring basis (assets)			
Mortgage loans at fair value	\$	—\$	—\$ 960,534
Nonrecurring basis (assets)			
Real estate assets held for sale	—	—	250,557
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	—	—	317,336
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	—	767,513	—
Other secured borrowings	—	502,268	—

Residential did not transfer any assets from one level to another level during the year ended December 31, 2015.

The carrying values of Residential's cash and cash equivalents, restricted cash, related party receivables, accrued salaries and employee benefits, accounts payable and other accrued liabilities, and related party payables are equal to or approximate fair value. The fair values of Residential's mortgage loans at fair value and non-performing mortgage loans held for sale are estimated using our proprietary pricing model. The fair value of Residential's real estate assets held for sale is estimated using BPOs, estimated sales prices from pending contracts and discounted cash flow models. The fair value of Residential's re-performing mortgage loans held for sale is estimated using the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The fair value of Residential's repurchase agreements is estimated using the income approach based on credit spreads available currently in the market for similar floating rate debt. The fair value of Residential's other secured borrowings is estimated using observable market data.

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The following table sets forth the changes in Residential's level 3 assets that are measured at fair value on a recurring basis for the three and six months ended June 30, 2015 (\$ in thousands):

	Three months ended June 30, 2015	Six months ended June 30, 2015
Mortgage loans at fair value		
Beginning balance	\$1,853,495	\$1,959,044
Net unrealized gain on mortgage loans	42,209	103,343
Net realized gain on mortgage loans	19,272	34,654
Mortgage loan resolutions and payments	(82,070)	(147,238)
Real estate tax advances to borrowers	4,264	11,391
Reclassification of realized gains on real estate sold from unrealized gains	13,175	23,977
Transfer of mortgage loans to real estate owned, net	(133,856)	(268,682)
Ending balance	\$1,716,489	\$1,716,489
Net unrealized gain on mortgage loans held at the end of the period	\$29,784	\$80,852

The significant unobservable inputs used in the fair value measurement of Residential's mortgage loans are discount rates, forecasts of future home prices, alternate loan resolution probabilities, resolution timelines and the value of underlying properties. Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. A decrease in the housing pricing index in isolation would decrease the fair value. Individual loan characteristics such as location and value of underlying collateral affect the loan resolution probabilities and timelines. An increase in the loan resolution timeline in isolation would decrease the fair value. A decrease in the value of underlying properties in isolation would decrease the fair value. The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of Residential's mortgage loans as of December 31, 2015:

Input	December 31, 2015
Equity discount rate	15.0%
Debt to asset ratio	65.0%
Cost of funds	3.5% over 1 month LIBOR
Annual change in home pricing index	0.0% to 10.2%
Loan resolution probabilities — modification	0% to 44.7%
Loan resolution probabilities — rental	0% to 100.0%
Loan resolution probabilities — liquidation	0% to 100.0%
Loan resolution timelines (in years)	0.1 to 5.6
Value of underlying properties	\$3,000 - \$4,500,000

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5. Borrowings

As of June 30, 2016, we had no outstanding debt due to the deconsolidation of Residential. The following describes Residential's repurchase and loan agreements and its other secured borrowings that were included in our consolidated financial statements as of December 31, 2015.

Repurchase and loan agreements

The following table sets forth data with respect to Residential's repurchase agreements and loan agreement as of December 31, 2015 (\$ in thousands):

	Maximum Borrowing Capacity	Book Value of Collateral	Amount Outstanding	Amount of Available Funding
December 31, 2015				
Repurchase agreement due April 18, 2016	\$275,000	\$335,184	\$ 194,346	\$ 80,654
Repurchase agreement due September 27, 2017	750,000	708,275	371,130	378,870
Repurchase agreement due March 11, 2016	54,944	130,863	54,944	—
Loan agreement due April 8, 2016	200,000	204,578	147,093	52,907
Less: deferred debt issuance costs	—	—	(4,144)	—
	\$1,279,944	\$1,378,900	\$ 763,369	\$ 512,431

Other secured debt

As of December 31, 2015, Residential's consolidated financial statements included three securitization trusts (ARLP 2015-1, ARLP 2014-2 and ARLP 2014-1), which were VIEs of which Residential was the primary beneficiary. Each trust was a Delaware statutory trust that was wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee.

As of December 31, 2015, the book value of the underlying securitized assets held by ARLP 2015-1 was \$282.1 million, the book value of the underlying securitized assets held by ARLP 2014-2 was \$322.5 million, and the book value of the underlying securitized assets held by ARLP 2014-1 was \$202.3 million.

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The following table sets forth data with respect to these notes as of December 31, 2015 (\$ in thousands):

	Interest Rate	Amount Outstanding
December 31, 2015		
ARLP Securitization Trust, Series 2015-1		
ARLP 2015-1 Class A Notes due May 25, 2055 (1)	4.01 %	\$ 203,429
ARLP 2015-1 Class M Notes due May 25, 2044	— %	60,000
ARLP Securitization Trust, Series 2014-2		
ARLP 2014-2 Class A Notes due January 26, 2054 (2)	3.63 %	244,935
ARLP 2014-2 Class M Notes due January 26, 2054	— %	234,010
ARLP Securitization Trust, Series 2014-1		
ARLP 2014-1 Class A Notes due September 25, 2044 (3)	3.47 %	136,404
ARLP 2014-1 Class M Notes due September 25, 2044 (4)	4.25 %	32,000
Intercompany eliminations		
Elimination of ARLP 2015-1 Class A Notes due to ARNS, Inc.		(34,000)
Elimination of ARLP 2015-1 Class M Notes due to ARLP		(60,000)
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.		(45,138)
Elimination of ARLP 2014-2 Class M Notes due to ARLP		(234,010)
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.		(32,000)
Less: deferred debt issuance costs		(3,031)
		\$ 502,599

(1) The expected redemption date for the Class A Notes ranged from June 25, 2018 to June 25, 2019.

(2) The expected redemption date for the Class A Notes ranged from November 27, 2017 to November 27, 2018.

(3) The expected redemption date for the Class A Notes ranged from September 25, 2017 to September 25, 2018.

(4) The expected redemption date for the Class M Notes was September 25, 2018.

6. Commitments and Contingencies

Litigation, claims and assessments

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party as of June 30, 2016:

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al. On January 16, 2015, a putative shareholder class action complaint was filed in the United States District Court of the Virgin Islands by a purported shareholder of AAMC under the caption City of Cambridge Retirement System v. Altisource Asset Management Corp., et al., 15-cv-00004. The action names as defendants AAMC, Mr. Erbey and certain officers of AAMC and alleges that the defendants violated federal securities laws by failing to disclose material information to AAMC shareholders concerning alleged conflicts of interest held by Mr. Erbey with respect to AAMC's relationship and transactions with Residential, Altisource, Home Loan Servicing Solutions, Ltd., Southwest Business Corporation, NewSource Reinsurance Company and Ocwen, including allegations that the defendants failed to disclose (i) the nature of relationships between Mr. Erbey, AAMC and those entities; and (ii) that the transactions were the result of an allegedly unfair process from which Mr. Erbey failed to recuse himself. The action seeks, among other things, an award of monetary damages to the putative class in an unspecified amount and an award of attorney's and other fees and expenses. AAMC and Mr. Erbey are the only defendants who have been served with the complaint.

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff. On May 15, 2015, the court entered a scheduling order requiring plaintiff to file an amended complaint on or

before June 19, 2015, and setting a briefing schedule for any motion to dismiss. Plaintiff filed an amended complaint on June 19, 2015. On July 20, 2015, AAMC and Mr. Erbey filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on September 3, 2015, and we are awaiting a decision from the court on the motion.

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We believe the amended complaint is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Kanga v. Altisource Asset Management Corporation, et al. On March 12, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix, by a purported shareholder of AAMC under the caption Nanzeen Kanga v. William Erbey, et al., SX-15-CV-105. The action names as defendants William C. Erbey and each of the current and former members of AAMC's Board of Directors and alleges that Mr. Erbey and AAMC's directors breached fiduciary duties in connection with the disclosures that are the subject of the City of Cambridge Retirement System case described above and certain other matters involving the relationship of Residential and AAMC.

On May 15, 2015, the plaintiff and the defendants filed an agreed motion to stay the action until the earliest of any of the following events: (i) the City of Cambridge Retirement System action is dismissed with prejudice; (ii) any of the defendants in the City of Cambridge Retirement System action file an answer in that action; and (iii) defendants do not move to stay any later-filed derivative action purportedly brought on behalf of us arising from similar facts as the Kanga action and relating to the same time frame or such motion to stay is denied.

At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Sokolowski v. Erbey, et al. On December 24, 2014, a shareholder derivative action was filed in the United States District Court for the Southern District of Florida by a purported shareholder of Ocwen. The action named the directors of Ocwen as defendants and alleged, among other things, various breaches of fiduciary duties by the directors of Ocwen.

On February 11, 2015, plaintiff filed an amended complaint naming the directors of Ocwen as defendants and also naming Residential, AAMC, Altisource and Home Loan Servicing Solutions, Ltd. as alleged aiders and abettors of the purported breaches of fiduciary duties. The amended complaint alleges that the directors of Ocwen breached their fiduciary duties by, among other things, allegedly failing to exercise oversight over Ocwen's compliance with applicable laws, rules and regulations; failing to exercise oversight responsibilities with respect to the accounting and financial reporting processes of Ocwen; failing to prevent conflicts of interest and allegedly improper related party transactions; failing to adhere to Ocwen's code of conduct and corporate governance guidelines; selling personal holdings of Ocwen stock on the basis of material adverse inside information; and disseminating allegedly false and misleading statements regarding Ocwen's compliance with regulatory obligations and allegedly self-dealing transactions with related companies. Plaintiff claims that as a result of the alleged breaches of fiduciary duties, Ocwen has suffered damages, including settlements with regulatory agencies in excess of \$2 billion, injury to its reputation and corporate goodwill and exposure to governmental investigations and securities and consumer class action lawsuits. In addition to the derivative claims, the plaintiff also alleges an individual claim that Ocwen's 2014 proxy statement allegedly contained untrue statements of material fact and failed to disclose material information in violation of federal securities laws. The plaintiff seeks, among other things, an order requiring the defendants to repay to Ocwen unspecified amounts by which Ocwen has been damaged or will be damaged, an award of an unspecified amount of exemplary damages, changes to Ocwen's corporate governance and an award of attorneys' and other fees and expenses.

On April 13, 2015, nominal defendant Ocwen and defendants Mr. Erbey and Mr. Faris filed a motion to stay the action.

On July 16, 2015, we filed a motion to dismiss all claims against us in the action, based upon, among other arguments, lack of personal jurisdiction and failure to state a claim. Co-defendant Residential filed a similar motion to dismiss the

complaint as to all claims asserted against it.

On December 8, 2015, the court granted Residential's and our motions to dismiss for lack of personal jurisdiction with leave to amend the jurisdiction allegations no later than January 4, 2016.

On December 15, 2015, Hutt v. Erbey, et al., Case No. 15-cv-81709-WPD, was transferred to the Southern District of Florida from the Northern District of Georgia. That same day, a third related derivative action, Lowinger v. Erbey, et al., Case No. 15-cv-62628-WPD, was also filed in the Southern District of Florida. The court then requested that the parties file a response stating their positions as to whether the actions should be consolidated. On December 29, 2015, we filed a response stating that we took no position on the issue of consolidation, so long as our defenses were fully reserved should plaintiff Sokolowski seek to file an amended complaint. Neither plaintiff Sokolowski nor plaintiff Hutt opposed consolidation in their responses. On December 30, 2015, the court issued an order that, among other things, extended the deadline for plaintiff Sokolowski to file its amended complaint to cure the jurisdictional defects as to Residential and us until January 13, 2016. On January 8, 2016, the court issued an order consolidating the three related actions.

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On February 2, 2016, Plaintiffs Sokolowski and Lowinger filed competing motions for appointment of lead counsel in the consolidated action. These motions were fully briefed on February 5, 2016. Subsequently, on February 17, 2016, the court issued an order appointing Sokolowski's counsel as lead counsel with Lowinger's and Hutt's counsel serving on the executive committee of the plaintiffs. It also ordered that a consolidated complaint in the matter shall be filed no later than March 8, 2016.

On March 8, 2016, the plaintiffs filed a consolidated certified shareholder derivative complaint (the "Consolidated Complaint") in the action. On March 11, the Special Litigation Committee of Ocwen sought additional time beyond the March 31, 2016 originally anticipated completion date to analyze the Consolidated Complaint. On March 22, 2016, the parties filed a joint consent motion for entry of an order amending the briefing schedule regarding the Consolidated Complaint. On March 23, 2016, the court entered a scheduling order requiring defendants to file their motions to dismiss on or before May 13, 2016, plaintiffs to file a response to any such motion on or before June 17, 2016 and defendants to file any reply briefs on or before July 15, 2016.

On May 13, 2016, we filed a motion to dismiss the Sokolowski action as to us. Subsequently, plaintiffs sought and received an extension to file their opposition to the defendants' motions to dismiss to August 19, 2016.

We believe the complaint against us is without merit. At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible loss, if any.

Management does not believe that we have incurred an estimable, probable or material loss by reason of any of the above actions.

7. Related party transactions

New Asset Management Agreement with Residential

On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure which replaces the incentive fee structure under the Original AMA as follows:

Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25 while Residential has fewer than 2,500 single family rental properties actually rented ("Rental Properties"). The Base Management Fee percentage increases to 1.75% of invested equity capital while Residential has between 2,500 and 4,499 rental properties and increases to 2.0% of invested equity capital while Residential has 4,500 or more rental properties;

Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested equity capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while Residential has 4,500 or more Rental Properties; and

Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of the single-family homes leased by Residential for the first time during the quarter.

Residential has the flexibility to pay up to 25% of the incentive management fee to us in shares of Residential common stock.

Under the New AMA, we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested equity capital of at least 7.0%. Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the base management fee described above. Only the compensation and benefits of the general counsel dedicated to Residential is reimbursed by Residential.

Neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) Residential and/or us “for cause” for certain events such as a material breach of the New AMA and failure to

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cure such breach, (b) Residential for certain other reasons such as Residential's failure to achieve a return on invested equity capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA, and (c) Residential in connection with certain change of control events.

Summary of Related Party Transactions

The following table presents our significant transactions with Residential, which is a related party (\$ in thousands). Prior to our adoption of ASU 2015-02 on January 1, 2016, our transactions with Residential were eliminated upon consolidation.

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Base management fees	\$ 4,506	\$ 4,752	\$ 8,630	\$ 4,752
Conversion fees	544	399	946	399
Management incentive fees (1)	—	—	—	14,900
Expense reimbursements	357	—	357	750
Professional fee sharing for negotiation of New AMA	—	—	—	2,000

Pursuant to the terms of the New AMA, the management incentive fees for the first quarter of 2015 were (1) recalculated during the fourth quarter of 2015, and it was determined that \$6.9 million was reimbursable by us to Residential.

No Incentive Management Fee was due from Residential for the second quarter of 2016 because Residential's return on invested equity capital (as defined in the New AMA) for the five quarters covered by the New AMA was below the required hurdle rate. Under the New AMA, to the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee. As of June 30, 2016, Residential's aggregate return shortfall from the prior five quarters under the New AMA was approximately 26.89% of invested equity capital. Therefore, Residential must achieve a 28.64% return on invested equity capital in the third quarter of 2016 before any Incentive Management Fee will be due from Residential. In future quarters, return on invested equity capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be due from Residential.

As of June 30, 2016, we held 1,624,465 shares of Residential's common stock, representing approximately 2.98% of Residential's then-outstanding common stock. At December 31, 2015, we held 324,465 shares of Residential's common stock, representing approximately 0.58% of Residential's then-outstanding common stock. All of our shares of Residential's common stock were acquired in open market transactions.

8. Share-based payments

During the six months ended June 30, 2016, we granted no share-based payments to members of management. During the three months ended June 30, 2015, we granted 44,132 shares of market-based restricted stock to certain members of executive management under our 2012 Equity Incentive Plan with a weighted average grant date fair value per share of \$181.02.

Our directors each received annual grants of restricted stock equal to \$60 thousand based on the market value of our common stock at the time of the annual stockholders meeting. These shares of restricted stock vest and are issued after a one-year service period subject to each director attending at least 75% of the Board and committee meetings. No dividends are paid on the shares until the award is issued. During the six months ended June 30, 2016 and 2015, we granted 10,200 and 1,122 shares of restricted stock, respectively, to our directors with a weighted average grant date fair value per share of \$18.08 and \$162.66, respectively.

We recorded \$2.4 million and \$4.8 million of compensation expense related to these grants for the three and six months ended June 30, 2016, respectively, and we recorded \$2.1 million and \$2.9 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016 and December 31, 2015, we had an aggregate \$14.2 million and \$18.7 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.8 years and 2.9 years, respectively.

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9. Income taxes

We are domiciled in the United States Virgin Islands (“USVI”) and under current USVI law are obligated to pay taxes in the United States Virgin Islands on income and/or capital gains. We applied for tax benefits from the United States Virgin Islands Economic Development Commission and received our certificate of benefits, effective as of February 1, 2013. Under the certificate of benefits, so long as we comply with the provisions of the certificate, we will receive a 90% exemption on our USVI-sourced income taxes until 2043. NewSource is considered a controlled foreign corporation (“CFC”) to AAMC. Subpart F income generated by a CFC is taxed currently in the USVI and is not eligible for the reduced tax rate under the certificate of benefits.

As of June 30, 2016 and December 31, 2015, we accrued no interest or penalties associated with any unrecognized tax benefits, nor did we recognize any interest expense or penalty during the six months ended June 30, 2016 and 2015. As of December 31, 2015, Residential accrued no interest or penalties associated with any unrecognized tax benefits, nor did Residential recognize any interest expense or penalty during the six months ended June 30, 2015. Residential recorded nominal state and local tax expense on income and property for the three and six months ended June 30, 2015. Our subsidiaries and we remain subject to tax examination for the period from inception to December 31, 2015.

Management assesses the available evidence to estimate if sufficient future taxable income will be generated to utilize existing deferred tax assets. Based on this assessment as of June 30, 2016, we recorded a valuation allowance for the deferred tax assets that we believe are more likely than not to be realized. This valuation allowance resulted in the recognition of \$0.9 million of income tax expense for the three and six months ended June 30, 2016. If, in future periods, we determine that positive evidence exists that these deferred tax assets are more likely than not to be realized, the related valuation allowance would be reversed to the extent that the deferred tax asset is more likely than not to be realized.

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10. Earnings per share

The following table sets forth the components of diluted earnings per share (in thousands, except share and per share amounts):

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Numerator				
Net (loss) income attributable to stockholders	\$ (1,261)	\$ 743	\$ (2,201)	7,631
Amortization of preferred stock issuance costs	52	50	104	103
Numerator for basic EPS – (loss) income available to common stockholders	(1,313)	693	(2,305)	7,528
Add back amortization of preferred stock issuance costs	—	50	—	103
Numerator for diluted EPS – (loss) income available to common stockholders after assumed conversions	\$ (1,313)	\$ 743	\$ (2,305)	\$ 7,631
Denominator				
Weighted average common stock outstanding – basic	1,776,831	2,218,533	1,883,322	2,211,357
Stock options using treasury method	—	230,243	—	231,478
Restricted stock	—	98,179	—	109,487
Preferred stock if converted	—	200,000	—	200,000
Weighted average common stock outstanding – diluted	1,776,831	2,746,955	1,883,322	2,752,322
(Loss) earnings per basic share	\$ (0.74)	\$ 0.31	\$ (1.22)	\$ 3.40
(Loss) earnings per diluted share	\$ (0.74)	\$ 0.27	\$ (1.22)	\$ 2.77

We excluded the items presented below from the calculation of diluted earnings per share as they were antidilutive for the periods indicated:

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Numerator (\$ in thousands)				
Amortization of preferred stock issuance costs	\$ 52	\$ —	—\$ 104	\$ —
Denominator (in weighted-average shares)				
Stock options	167,720	—	168,659	—
Restricted stock	39,170	—	45,646	—
Preferred stock if converted	200,000	—	200,000	—

11. Segment information

Our primary business is to provide asset management and certain corporate governance services to institutional investors. Because substantially all of our revenue is derived from the services we provide to Residential under the New AMA, we operate as a single segment focused on providing asset management and corporate governance

services.

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12. Subsequent events

Management has evaluated the impact of all subsequent events through the issuance of these consolidated interim financial statements and has determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.

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Item 2. Management's discussion and analysis of financial condition and results of operations

Our Company

Our primary business is to provide asset management and certain corporate governance services to institutional investors. We were incorporated in the United States Virgin Islands on March 15, 2012. In October 2013, we applied for and were granted registration by the SEC as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation (“Residential”), a publicly-traded real estate investment trust (“REIT”) focused on acquiring and managing quality, affordable single-family rental properties for working class families throughout the United States. Residential is currently our primary source of revenue and will drive our results. We operate in a single segment focused on providing asset management and certain corporate governance services to Residential.

We initially provided services to Residential pursuant to a 15-year asset management agreement beginning December 21, 2012 (the “Original AMA”). On March 31, 2015, we entered into a new asset management agreement with Residential (the “New AMA”) under which we will continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Original AMA had a different incentive fee structure that gave us a share of Residential’s cash flow available for distribution to its stockholders as well as reimbursement for certain overhead and operating expenses. Although the New AMA provides for a new fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties for the first time during each quarter, our operating results are highly dependent on Residential's operating results. See the “Asset Management Agreement with Residential” section for additional details of the New AMA.

Prior to January 1, 2016, we had concluded that Residential was a variable interest entity (“VIE”) that we consolidated in our consolidated financial statement. Effective January 1, 2016, we adopted the provisions of Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis (“ASU 2015-02”), and we determined that Residential is no longer a VIE under the amended guidance. As a result, effective January 1, 2016, we no longer consolidate the accounts of Residential. Due to the significance of Residential's accounts to the Company's historical consolidated financial statements, the comparability of the Company's consolidated financial statements as of and for the three and six months ended June 30, 2016 have limited comparability with periods ending on or before December 31, 2015.

Additionally, we provide management services to NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the BMA. We consolidate NewSource in our consolidated financial statements.

Management Overview

During the first six months of 2016 and thereafter, we continued to pursue our objective of managing Residential to become one of the top single-family rental REITs serving working class American families and their communities with a view to providing robust returns on equity and long-term growth for its investors. Among others, important steps to achieve Residential's objective include:

• We have had continued success in executing upon Residential’s diversified single-family acquisition strategy and in managing Residential to capitalize on the compelling market opportunity to acquire high-yielding single-family homes at attractive prices. During the second quarter of 2016, we increased the size of Residential’s rental portfolio by 446 properties to bring its rental portfolio to 3,977 properties at June 30, 2016, representing an increase of 13% over

the prior quarter. We have developed and employed internal proprietary models, which we believe give Residential an advantage in identifying and purchasing rental properties with optimal rental return metrics in areas that have attractive occupancy levels and rental margins.

We continue to identify and evaluate attractive portfolios of homes for potential acquisition by Residential from a variety of market participants. In July 2016, we negotiated for Residential a non-binding letter of intent to acquire between 4,000 and 4,500 single-family rental properties from an unrelated third party, which is subject to negotiation of definitive transaction documents, due diligence, financing arrangements and other factors. This transaction, which is targeted to achieve yields similar to Residential's current single-family rental assets, would be expected to close in the third or fourth quarter of 2016. We are also considering other large single-family rental portfolio purchases for Residential that are available in the market. There can be no assurance that we will be able to successfully negotiate and consummate any of these potential transactions for Residential on a timely basis or at all.

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We continued efforts to enable Residential to sell certain non-performing mortgage loans (“NPLs”) to take advantage of attractive market pricing during the second quarter of 2016. Residential completed the sale of 895 NPLs during the quarter, bringing the total NPLs sold in bulk transactions to 1,973 for the first six months of 2016. We have also accelerated the sale of Residential’s non-rental REO properties with 910 of such properties sold during the second quarter as compared to 686 properties sold in the first quarter of 2016, representing a 33% increase. We expect that NPL sales and non-rental REO property sales has and will provide Residential with significant liquidity to allow Residential to recycle capital and purchase pools of stabilized rental homes at attractive yields without additional equity dilution.

Residential’s partnership with Altisource Portfolio Solutions S.A. (“ASPS”) remains a key driver of efficiency and cost management in Residential’s model, and provides it with a scalable, established, nationwide property management infrastructure to support its acquisition of large numbers of single-family rental properties. Importantly, we manage Residential’s external property management structure with ASPS, which allows Residential to achieve scale in its single-family rental portfolio without incurring the substantial costs of developing its nationwide property management infrastructure.

Under our guidance, Residential’s lenders continue to support its single-family rental strategy. In March 2016, we increased the size of Residential’s repurchase facility with Credit Suisse from \$275.0 million to \$350.0 million, and in April 2016, we increased the size of Residential’s loan facility with Nomura Corporate Funding Americas, LLC from \$200 million to \$250 million and extended the facility for an additional year to April 2017.

These amendments were in addition to the amendment and restatement of Residential’s repurchase facility with Wells Fargo in September 2015, which not only maintained the size of the Wells Fargo facility at \$750.0 million but also increased the percentage of REO properties that can be financed under the facility to 40% of the facility, or \$300.0 million.

We believe the foregoing developments are highly important to Residential’s strategy of building long-term stockholder value through the creation of a large portfolio of single-family rental homes that we target operating at a best-in-class yield. To the extent Residential is successful in implementing this strategy under our management, the fees we earn under the New AMA should be positively impacted.

Asset Management Agreement with Residential

Pursuant to the New AMA, we design and implement Residential’s business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Residential’s Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Residential’s day-to-day operations, (2) defining investment criteria in Residential’s investment policy in cooperation with its Board of Directors, (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities, (4) analyzing and executing sales of properties and residential mortgage loans, (5) overseeing Altisource’s renovation, leasing and property management of Residential’s single-family rental properties, (6) overseeing the servicing of Residential’s residential mortgage loan portfolios, (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

We provide Residential with a management team and appropriate support personnel who have substantial experience in the management of residential mortgage loans and residential rental properties. Our management also has significant corporate governance experience that enables us to manage Residential’s business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of Residential’s board of directors to any business or entity competing against Residential in (a) the acquisition or sale of portfolios of REO properties, (b) the carrying on of a single-family rental business, (c) the

acquisition or sale of single-family rental properties, non-performing and re-performing mortgage loans or other similar assets, (d) the purchase of portfolios of sub-performing or non-performing residential mortgage loans or (e) any other activity in which Residential engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following Residential's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without Residential's prior consent.

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On March 31, 2015, we entered into the New AMA with Residential. The New AMA, which became effective on April 1, 2015, provides for a new management fee structure, which replaces the incentive fee structure under the Original AMA, as follows:

Base Management Fee. We are entitled to a quarterly Base Management Fee equal to 1.5% of the product of (i) Residential's average invested equity capital for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The Base Management Fee percentage increases to 1.75% of invested equity capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested equity capital while it has 4,500 or more Rental Properties;

Incentive Management Fee. We are entitled to a quarterly Incentive Management Fee equal to 20% of the amount by which Residential's return on invested equity capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Residential) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The Incentive Management Fee increases to 22.5% while Residential has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties; and

Conversion Fee. We are entitled to a quarterly Conversion Fee equal to 1.5% of the market value of assets converted into leased single-family homes by Residential for the first time during the quarter.

To the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee.

Residential has the flexibility to pay up to 25% of the Incentive Management Fee to us in shares of its common stock. Under the New AMA, Residential will not be required to reimburse us for the allocable compensation and routine overhead expenses of our employees and staff, all of which will now be covered by the Base Management Fee described above. Only the compensation and benefits of the general counsel dedicated to Residential is reimbursed by Residential.

Under the New AMA, we continue to be the exclusive asset manager for Residential for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Residential achieving an average annual return on invested capital of at least 7.0% during the then-current term. The Original AMA had a 15 year term, but provided Residential with significant termination rights, including the ability to terminate the agreement if Residential's board determined, in its sole discretion, that our performance was unsatisfactory or our compensation was reasonable. However, under the New AMA, Residential's termination rights are significantly limited. Under the New AMA, neither party is entitled to terminate the New AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Residential "for cause" for certain events such as a material breach of the New AMA and failure to cure such breach, (b) Residential for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the New AMA or (c) Residential in connection with certain change of control events.

No Incentive Management Fee was due from Residential for the second quarter of 2016 because Residential's return on invested equity capital (as defined in the New AMA) for the five quarters covered by the New AMA was below the required hurdle rate. Under the New AMA, to the extent Residential has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an Incentive Management Fee. As of June 30, 2016, Residential's aggregate return shortfall from the prior five quarters under the New AMA was approximately 26.89% of invested equity capital. Therefore, Residential must achieve a 28.64% return on invested equity capital in the second quarter of

2016 before any Incentive Management Fee will be due from Residential. In future quarters, return on invested equity capital must exceed the required hurdle for the current quarter plus any carried-forward cumulative additional hurdle shortfall from the prior seven quarters before any Incentive Management Fee will be due from Residential.

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Metrics Affecting our Consolidated Results

Subsequent to January 1, 2016

Subsequent to our deconsolidation of Residential effective January 1, 2016, our operating results are affected by various factors and market conditions, including the following:

Revenues

Our revenues primarily consist of (i) quarterly fees due to us under the New AMA, including a Base Management Fee, an Incentive Management Fee and a Conversion Fee as described above, (ii) reimbursements of out-of-pocket expenses in our management of Residential's business and (iii) dividends we receive on our common stock of Residential. The Base Management Fee is derived as a percentage of Residential's average invested equity capital, and the Conversion Fee is based on the number and value of mortgage loans and/or REO properties that Residential converts to rental properties for the first time in each period. The Incentive Management Fee is directly dependent upon Residential's financial performance being in excess of a 7.0%-8.25% minimum return on invested equity capital and will vary with Residential's financial performance. Expense reimbursements we receive from Residential relate primarily to travel and other out-of-pocket solely related to managing Residential's business and the base salary, bonus, benefits and stock compensation, if any, solely of the general counsel dedicated to Residential. All other salary, bonus, benefits and stock compensation of AAMC's employees (other than Residential share-based compensation issued to them by Residential) are the responsibility of AAMC and are not reimbursed by Residential. Dividends on Residential's common stock will vary with Residential's financial performance, taxable income, liquidity needs and other factors deemed relevant by Residential's board of directors. In addition, we recognize changes in the fair value of our holdings of Residential common stock as other income or loss, which will be directly dependent upon fluctuations in the market price of Residential's common stock.

Expenses

Our expenses consist primarily of salaries and employee benefits, equity-based compensation, legal and professional fees and general and administrative expenses. Salaries and employee benefits includes the base salaries, incentive bonuses, medical coverage, retirement benefits, relocation and other benefits provided to our employees for their services. Equity-based compensation is a non-cash expense related to the restricted stock issued pursuant to authorized equity-based compensation plans. Legal and professional fees include services provided by third-party attorneys, accountants and other service providers of a professional nature. General and administrative expenses include costs related to the general operation and overall administration of our business.

Prior to January 1, 2016

Prior to our deconsolidation of Residential effective January 1, 2016, our operating results were heavily dependent upon Residential's operating results. Although our results continue to be heavily dependent on Residential's operating results, our reported consolidated results of operations for periods prior to January 1, 2016 consolidated the financial results of Residential, which were a significant component of our consolidated results. As a result of our deconsolidation of Residential, the results operations in periods commencing on or after January 1, 2016 have limited comparability to periods prior to January 1, 2016. Residential's results are affected by various factors, some of which are beyond our control, and the Residential financial data that is no longer a part of our financial statements includes the following:

Residential's Revenues

Residential's revenues primarily consisted of the following:

Rental revenues. Minimum contractual rents from leases were recognized on a straight-line basis over the terms of i. the leases in residential rental revenues. Therefore, actual amounts billed in accordance with the lease during any given period may have been higher or lower than the amount of rental revenue recognized for the period.

Net realized gain on mortgage loans. Residential recorded net realized gains, including the reclassification of ii. previously accumulated net unrealized gains, upon the liquidation of a loan which may have consisted of short sale, third party sale of the underlying property, refinancing or full debt pay-off of the loan.

Net unrealized gains from the conversion of loans to REO. Upon conversion of loans to REO, Residential marked iii. the properties to the then-most recent market value. The difference between the carrying value of the asset at the time of

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conversion and the then-most recent market value, based on BPOs, was recorded in Residential's statement of operations as net unrealized gain on mortgage loans.

iv. Net unrealized gains from the change in fair value of loans. After Residential's sub-performing and non-performing mortgage loans were acquired, the fair value of each loan was adjusted in each subsequent reporting period as the loan proceeded to a particular resolution (i.e., modification or conversion to real estate owned). As a loan approached resolution, the resolution timeline for that loan decreased and costs embedded in the discounted cash flow model for loan servicing, foreclosure costs and property insurance were incurred and removed from future expenses. The shorter resolution timelines and reduced future expenses each increased the fair value of the loan. The increase in the value of the loan was recognized in net unrealized gain on mortgage loans in Residential's statements of operations.

v. Net realized gain on real estate. REO properties that did not meet Residential's investment criteria were sold out of its taxable REIT subsidiary. The realized gain or loss recognized in financial statements reflects the net amount of realized and unrealized gains on sold REOs from the time of acquisition to sale completion.

Residential's Expenses

Residential's expenses primarily consisted of residential property operating expenses, depreciation and amortization, selling costs and impairment, mortgage loan servicing, interest expense, general and administrative expenses, expense reimbursement as well as fees to us from Residential under the applicable asset management agreement. Residential property operating expenses were expenses associated with Residential's ownership and operation of rental properties, including expenses such as property management fees, expenses towards repairs, utility expenses on vacant properties, turnover costs, property taxes, insurance and HOA dues. Depreciation and amortization was a non-cash expense associated with the ownership of real estate, which was depreciated on a straight-line basis over a fixed life. Selling costs and impairment represented Residential's estimate for the costs to be incurred to sell a property or mortgage loan and an amount that represented the carrying amount over the estimated fair value less costs to sell. Mortgage loan servicing costs were primarily for servicing fees, foreclosure fees and advances of residential property insurance. Interest expense consisted of the costs to borrow money in connection with Residential's debt financing of its portfolios. General and administrative expenses consisted of the costs related to the general operation and overall administration of Residential's business. Under the Original AMA, expense reimbursement consisted primarily of our employee salaries in direct correlation to the services they provide on Residential's behalf and other personnel costs and corporate overhead. Under the New AMA, there are no general expense or salary reimbursements. The fees from Residential consisted of compensation due from Residential under the applicable asset management agreement. Under the Original AMA, fees due from Residential were based on the amount of cash available for distribution to its stockholders for each period. Under the New AMA, the management fees we receive from Residential are based on a combination of a percentage of Residential's invested equity capital, a conversion fee for assets that convert to single-family rentals during each period and Residential's return on invested equity capital. The percentage payment on each of these metrics will vary based on Residential's number of leased properties. The fees due from Residential under the respective asset management agreements are eliminated in consolidation but increase our net income by reducing the amount of net income attributable to noncontrolling interest.

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Summary Management Reporting Information

Prior to our deconsolidation of Residential, we evaluated the operations of AAMC on a stand-alone basis in addition to evaluating our consolidated financial performance, which included the results of Residential and NewSource under U.S. GAAP. In evaluating our operating performance and managing our business under the Original AMA, we considered the incentive management fees and, if any, reimbursement of expenses paid to us by Residential as well as our stand-alone operating expenses. We maintained our internal management reporting on this basis. The following table presents our consolidating balance sheet and statement of operations, which are reconciled to U.S. GAAP. Accordingly, the entries necessary to consolidate AAMC's subsidiaries, including, but not limited to, elimination of investment in subsidiaries, elimination of intercompany receivables and payables, and elimination of fees paid under the asset management agreement and reimbursed expenses, are reflected in the Consolidating Entries column.

Upon our adoption of ASU 2015-02, we are no longer required to consolidate the results of Residential. Therefore, we do not present the table for the current period.

The following tables include non-GAAP performance measures that we believe are useful to assist investors in gaining an understanding of the trends and operating results for our business on a stand-alone basis. This information should be considered in addition to, and not as a substitute for, our financial results determined in accordance with U.S. GAAP.

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Altisource Asset Management Corporation
 Consolidating Statement of Operations
 Three months ended June 30, 2015
 (In thousands)

	Residential (GAAP)	NewSource Stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Revenues:					
Base management fees	\$ —	\$ —	\$ 4,962	\$ (4,962)) \$ —
Conversion fees	—	—	399	(399)) —
Rental revenues	2,140	—	—	—	2,140
Net unrealized gain on mortgage loans	42,209	—	—	—	42,209
Net realized gain on mortgage loans	19,272	—	—	—	19,272
Net realized gain on mortgage loans held for sale	254	—	—	—	254
Net realized gain on real estate	12,404	—	—	—	12,404
Interest income	240	161	—	(161)	) 240
Total revenues	76,519	161	5,361	(5,522)	) 76,519
Expenses:					
Salaries and employee benefits	—	—	1,706	—	1,706
Equity-based compensation	37	—	2,049	—	2,086
Legal and professional fees	271	43	(156)	) —	158
Residential property operating expenses	16,857	—	—	—	16,857
Real estate depreciation and amortization	1,344	—	—	—	1,344
Selling costs and impairment	8,839	—	—	—	8,839
Mortgage loan servicing costs	16,246	—	—	—	16,246
Interest expense	13,398	—	—	(161)	) 13,237
General and administrative	1,261	—	756	—	2,017
Related party general and administrative	5,151	210	—	(5,361)) —
Total expenses	63,404	253	4,355	(5,522)	) 62,490
Income (loss) before income taxes	13,115	(92)	) 1,006	—	14,029
Income tax expense	23	—	171	—	194
Net income (loss)	13,092	(92)	) 835	—	13,835
Net income attributable to noncontrolling interest in consolidated affiliate	—	—	—	(13,092)) (13,092)
Net income (loss) attributable to stockholders	\$ 13,092	\$ (92)) \$ 835	\$ (13,092)) \$ 743

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Altisource Asset Management Corporation
Consolidating Statement of Operations
Six months ended June 30, 2015
(In thousands)

	Residential (GAAP)	NewSource Stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Revenues:					
Base management fees	\$ —	\$ —	\$ 5,172	\$ (5,172)) \$ —
Incentive management fees	—	—	14,900	(14,900)) —
Conversion fees	—	—	399	(399)) —
Expense reimbursements	—	—	750	(750)) —
Rental revenues	3,540	—	—	—	3,540
Net unrealized gain on mortgage loans	103,343	—	—	—	103,343
Net realized gain on mortgage loans	34,654	—	—	—	34,654
Net realized gain on mortgage loans held for sale	405	—	—	—	405
Net realized gain on real estate	23,012	—	—	—	23,012
Interest income	480	321	—	(321)	) 480
Total revenues	165,434	321	21,221	(21,542)	) 165,434
Expenses:					
Salaries and employee benefits	—	—	3,339	—	3,339
Equity-based compensation	93	—	2,939	—	3,032
Legal and professional fees	4,112	118	3,461	—	7,691
Residential property operating expenses	29,316	—	—	—	29,316
Real estate depreciation and amortization	2,342	—	—	—	2,342
Selling costs and impairment	23,530	—	—	—	23,530
Mortgage loan servicing costs	34,512	—	—	—	34,512
Interest expense	25,041	—	—	(321)	) 24,720
General and administrative	2,145	—	1,323	—	3,468
Related party general and administrative	20,801	420	2,000	(23,221)) —
Total expenses	141,892	538	13,062	(23,542)	) 131,950
Other income	2,000	—	—	(2,000)) —
Income (loss) before income taxes	25,542	(217)	) 8,159	—	33,484
Income tax expense	26	—	311	—	337
Net income (loss)	25,516	(217)	) 7,848	—	33,147
Net income attributable to noncontrolling interest in consolidated affiliate	—	—	—	(25,516)	) (25,516)
Net income (loss) attributable to stockholders	\$ 25,516	\$ (217)) \$ 7,848	\$ (25,516)) \$ 7,631

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Altisource Asset Management Corporation
 Consolidating Balance Sheet
 December 31, 2015
 (In thousands)

	Residential (GAAP)	NewSource stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Assets:					
Real estate held for use:					
Land	\$56,346	\$ —	\$ —	\$ —	\$56,346
Rental residential properties, net	224,040	—	—	—	224,040
Real estate owned	455,483	—	—	—	455,483
Total real estate held for use, net	735,869	—	—	—	735,869
Real estate assets held for sale	250,557	—	—	—	250,557
Mortgage loans at fair value	960,534	—	—	—	960,534
Mortgage loans held for sale	317,336	—	—	—	317,336
Cash and cash equivalents	116,702	4,583	63,259	—	184,544
Restricted cash	20,566	—	—	—	20,566
Accounts receivable, net	45,903	—	123	—	46,026
Related party receivables	2,180	—	—	(2,180)	—
Investment in affiliate	—	—	12,007	(12,007)	—
Prepaid expenses and other assets	1,126	5	2,028	10	3,169
Total assets	\$2,450,773	\$ 4,588	\$ 77,417	\$ (14,177)	\$ 2,518,601
Liabilities:					
Repurchase agreement	\$763,369	\$ —	\$ —	\$ —	\$763,369
Other secured borrowings	502,599	—	—	—	502,599
Accrued salaries and employee benefits	—	—	4,006	—	4,006
Accounts payable and other accrued liabilities	32,448	1,546	722	—	34,716
Related party payables	—	—	2,180	(2,180)	—
Total liabilities	1,298,416	1,546	6,908	(2,180)	1,304,690
Commitments and contingencies	—	—	—	—	—
Redeemable preferred stock	—	—	249,133	—	249,133
Equity:					
Common stock	572	—	26	(572)	26
Additional paid-in capital	1,227,385	7,000	21,089	(1,232,055)	23,419
Retained earnings (accumulated deficit)	(50,617)	(3,958)	55,245	50,008	50,678
Treasury stock	(24,983)	—	(254,984)	24,983	(254,984)
Total stockholders' equity (deficit)	1,152,357	3,042	(178,624)	(1,157,636)	(180,861)
Noncontrolling interest in consolidated affiliate	—	—	—	—	—