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

x 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

o 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 x No o

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 x No o

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

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 thes 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

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							
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest in Previously Consolidated Affiliate	Total Equity
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							
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest in Consolidated Affiliate	Total Equity
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

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

December 31, 2015				
Current	58	$ 10,864	$ 13,466	$ 17,776
30	26	7,616	10,013	