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Altisource Asset Management Corp
Form 10-Q
August 10, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2015

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
 No

As of July 31, 2015, 2,207,459 shares of our common stock were outstanding (excluding 302,475 shares held as treasury stock).

Altisource Asset Management Corporation

June 30, 2015

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References in this report to "we," "our," "us," 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 "Altisource" refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated. References in this report to "Ocwen" refer to Ocwen Financial Corporation and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

Our disclosure and analysis in this quarterly report on Form 10-Q 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 with related parties;
- the ability of Residential to generate cash available for distribution to its stockholders under our management;
- our ability to effectively compete with our competitors;
- Residential's ability to complete future or pending transactions;
- the failure of Altisource to effectively perform its obligations under their agreements with us and Residential;
- the failure of Residential's mortgage loan 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, 2014.

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Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of July 31, 2015, 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, 2015	December 31, 2014
Assets:		
Real estate held for use:		
Land (from consolidated VIE)	\$23,743	\$14,424
Rental residential properties (net of accumulated depreciation of \$3,351 and \$1,062, respectively - from consolidated VIE)	97,533	60,908
Real estate owned (from consolidated VIE)	548,137	457,045
Total real estate held for use, net	669,413	532,377
Real estate assets held for sale (from consolidated VIE)	134,027	92,230
Mortgage loans at fair value (from consolidated VIE)	1,716,489	1,959,044
Mortgage loans held for sale (from consolidated VIE)	5,977	12,535
Cash and cash equivalents (including from consolidated VIE \$70,502 and \$66,166, respectively)	145,897	116,782
Restricted cash (from consolidated VIE)	18,459	13,282
Accounts receivable (including from consolidated VIE \$45,981 and \$10,313, respectively)	45,981	11,068
Related party receivables (from consolidated VIE)	—	17,491
Deferred leasing and financing costs, net (from consolidated VIE)	8,605	4,251
Prepaid expenses and other assets (including from consolidated VIE \$6,184 and \$373, respectively)	7,554	1,638
Total assets	\$2,752,402	\$2,760,698
Liabilities:		
Repurchase and loan and security agreements (from consolidated VIE)	\$810,236	\$1,015,000
Other secured borrowings (from consolidated VIE)	523,925	324,082
Accounts payable and accrued liabilities (including from consolidated VIE \$54,247 and \$11,678, respectively)	57,375	16,726
Related party payables (including from consolidated VIE \$0 and \$4,879, respectively)	0	6,169
Total liabilities	1,391,536	1,361,977
Commitments and contingencies (Note 6)		
Redeemable preferred stock:		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of June 30, 2015 and December 31, 2014; redemption value \$250,000	249,030	248,927
Equity:		
Common stock, \$.01 par value, 5,000,000 authorized shares; 2,509,844 and 2,207,369 shares issued and outstanding, respectively as of June 30, 2015 and 2,452,101 and 2,188,136 shares issued and outstanding, respectively, as of December 31, 2014	25	25
Additional paid-in capital	17,106	14,152
Retained earnings	61,702	54,174
Treasury stock, at cost, 302,475 shares as of June 30, 2015 and 263,965 shares as of December 31, 2014	(252,072)	(245,468)
Total stockholders' equity	(173,239)	(177,117)
Noncontrolling interest in consolidated affiliate	1,285,075	1,326,911

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Total equity	1,111,836	1,149,794
Total liabilities and equity	\$2,752,402	\$2,760,698

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, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenues:				
Rental revenues	\$2,140	\$181	\$3,540	\$250
Net unrealized gain on mortgage loans	42,209	105,042	103,343	170,172
Net realized gain on mortgage loans	19,272	10,819	34,654	20,140
Net realized gain on re-performing mortgage loans	254	—	405	—
Net realized gain on real estate	12,404	1,234	23,012	1,234
Interest income	240	81	480	189
Total revenues	76,519	117,357	165,434	191,985
Expenses:				
Residential property operating expenses	16,857	3,253	29,316	4,303
Real estate depreciation and amortization	1,344	103	2,342	151
Real estate selling costs and impairment	8,839	2,879	23,530	3,233
Mortgage loan servicing costs	16,246	16,925	34,512	28,362
Interest expense	13,237	6,945	24,720	12,653
General and administrative	5,967	4,542	17,530	10,143
Related party general and administrative	—	2,675	—	3,598
Total expenses	62,490	37,322	131,950	62,443
Other income	—	786	—	786
Income before income taxes	14,029	80,821	33,484	130,328
Income tax expense (benefit)	194	(191)	) 337	575
Net income	13,835	81,012	33,147	129,753
Net income attributable to noncontrolling interest in consolidated affiliate	(13,092)	) (67,782)	) (25,516)	) (109,695)
Net income attributable to common stockholders	\$743	\$13,230	\$7,631	\$20,058
Earnings per share of common stock – basic:				
Earnings per basic share	\$0.31	\$5.87	\$3.40	\$8.68
Weighted average common stock outstanding – basic	2,218,533	2,255,278	2,211,357	2,310,931
Earnings per share of common stock – diluted:				
Earnings per diluted share	\$0.27	\$4.60	\$2.77	\$7.00
Weighted average common stock outstanding – diluted	2,746,955	2,874,906	2,752,322	2,865,185

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						Noncontrolling	
	Number of	Amount	Additional	Retained	Treasury	Noncontrolling	interest in	Total equity
	shares		paid-in capital	earnings	stock	interest in	consolidated	
						affiliate		
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

	Common stock						Noncontrolling	
	Number of	Amount	Additional	Retained	Treasury	Noncontrolling	interest in	Total equity
	shares		paid-in capital	earnings	stock	interest in	consolidated	
				(accumulated deficit)		affiliate		
December 31, 2013	2,354,774	\$24	\$12,855	\$(5,339)	\$—	\$785,427		\$792,967
Issuance of common stock, including option exercises	82,096	—	20	—	—	—		20
Treasury shares repurchased	—	—	—	—	(197,673)	—		(197,673)
Capital contribution from noncontrolling interest	—	—	—	—	—	468,391		468,391
Distribution from noncontrolling interest	—	—	—	—	—	(53,118)		(53,118)
	—	—	—	(62)	—	—		(62)

Amortization of preferred stock issuance costs

Share-based compensation	—	—	2,735	—	—	113	2,848
Net income	—	—	—	20,058	—	109,695	129,753
June 30, 2014	2,436,870	\$24	\$15,610	\$14,657	\$(197,673)	\$1,310,508	\$1,143,126

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, 2015	Six months ended June 30, 2014	
Operating activities:			
Net income	\$33,147	\$129,753	
Adjustments to reconcile net income to net cash used in operating activities:			
Net unrealized gain on mortgage loans	(103,343	) (170,172)
Net realized gain on mortgage loans	(34,654	) (20,140)
Net realized gain on sale of re-performing mortgage loans	(405) —	
Net realized gain on sale of real estate	(23,012	) (1,293)
Real estate depreciation and amortization	2,342	151	
Real estate selling costs and impairment	23,530	3,233	
Accretion of interest on re-performing mortgage loans	(469) —	
Share-based compensation	3,032	2,848	
Amortization of deferred financing costs	2,218	1,109	
Loss on retirement of leasehold improvements	212	—	
Changes in operating assets and liabilities:			
Accounts receivable	4,971	473	
Related party receivables	—	4,952	
Prepaid expenses and other assets	(499	) (1,008)
Accounts payable and accrued liabilities	4,745	2,223	
Related party payables	—	2,028	
Net cash used in operating activities	(88,185	) (45,843)
Investing activities:			
Investment in mortgage loans	—	(1,056,493)
Investment in real estate	—	(27,569)
Investment in renovations	(11,001	) (1,700)
Real estate tax advances	(14,443	) (14,368)
Mortgage loan dispositions	107,887	70,379	
Mortgage loan payments	12,447	7,951	
Disposition of real estate	70,916	3,466	
Acquisition related deposits	(5,631) —	
Change in restricted cash	(5,177	) (4,391)
Net cash provided by (used in) investing activities	154,998	(1,022,725)
Financing activities:			
Proceeds from issuance of preferred stock	—	250,000	
Cost of issuance of preferred stock	—	(1,176)
Issuance of common stock, including stock option exercises	537	3,155	
Repurchase of common stock	(6,604	) (197,673)
Payment of tax withholdings on exercise of stock options	(522	) (3,135)
Capital contribution from noncontrolling interest	62	468,391	
Distribution to noncontrolling interest	(36,038	) (53,118)
Proceeds from issuance of other secured debt	221,691	—	
Repayments of secured notes	(21,306) —	
Proceeds from repurchase agreement	109,683	749,240	
Repayments of repurchase agreement	(298,078) (80,139)
Payment of deferred financing costs	(7,123) (2,335)

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Net cash (used in) provided by financing activities	(37,698) 1,133,210
Net increase in cash and cash equivalents	29,115	64,642
Cash and cash equivalents as of beginning of the period	116,782	140,000
Cash and cash equivalents as of end of the period	\$145,897	\$204,642

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

	Six months ended June 30, 2015	Six months ended June 30, 2014
Supplemental disclosure of cash flow information		
Cash paid for interest	\$21,732	\$10,496
Transfer of mortgage loans to real estate owned	271,547	220,971
Transfer of real estate owned to mortgage loans	2,865	3,594
Change in accrued capital expenditures	(1,732	) 1,746
Changes in receivables from mortgage loan dispositions, payments and real estate tax advances, net	36,359	4,796
Changes in receivables from real estate owned dispositions	1,369	—
See accompanying notes to consolidated financial statements.		

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Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Organization and basis of presentation

We were incorporated in the United States Virgin Islands on March 15, 2012, which we refer to as “inception.” Subsequent to our separation from Altisource Portfolio Solutions S.A. (“Altisource”) on December 21, 2012, we immediately commenced operations. 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 business is to provide asset management and certain corporate governance services to Altisource Residential Corporation, which we refer to as “Residential.” Residential is a Maryland corporation that acquires and manages single-family rental properties by acquiring sub-performing and non-performing mortgages throughout the United States.

Residential is currently our primary source of revenue and will drive our results. On March 31, 2015, we entered into a new asset management agreement with Residential (the “New AMA”) with an effective date of April 1, 2015. Prior to the AMA, we were party to a different asset management agreement with Residential (the “Original AMA”) pursuant to which we received incentive fees, which we refer to as our “incentive management fees,” 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 REOs that become rental properties during each quarter, our operating results are highly dependent on Residential’s operating results. For additional details on the New AMA, please see “Note 7. Related Party Transactions.”

We have concluded that Residential is a variable interest entity (“VIE”) because Residential’s equity holders lack the ability through voting rights to make decisions about Residential’s activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential because under the Residential AMA we have the power to direct the activities of Residential that most significantly impact Residential’s economic performance including establishing Residential’s investment and business strategy. As a result, we consolidate Residential in our consolidated financial statements.

Additionally, we provide management services to NewSource Reinsurance Company Ltd., which we refer to as “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 Residential invested \$18.0 million in the non-voting preferred stock of NewSource. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority (“BMA”). Because we own 100% of voting common stock of NewSource and there are no substantive kick-out rights granted to other equity owners, we consolidate NewSource in our consolidated financial statements. 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.

Since Residential commenced operations, it has completed three public equity offerings with aggregate net proceeds of approximately \$1.1 billion. Residential also entered into three separate repurchase agreements to finance its acquisition and ownership of residential mortgage loans and REO properties. The maximum aggregate funding available under these repurchase agreements at December 31, 2014 was \$1.2 billion. On April 10, 2015, Residential also entered into a loan and security agreement (the “Nomura loan agreement”) with Nomura Corporate Funding Americas, LLC (“Nomura”). The purpose of the Nomura loan agreement is to finance Residential’s beneficial ownership

of REO properties. The maximum aggregate funding available to Residential under the repurchase agreements and the Nomura loan agreement as of June 30, 2015 was \$1.0 billion, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. As of June 30, 2015, an aggregate of \$810.2 million was outstanding under Residential's repurchase agreements and the Nomura loan agreement. All obligations of Residential's subsidiaries under the repurchase agreements and the Nomura loan agreement are fully guaranteed by Residential.

Each of Residential's repurchase agreements and the Nomura loan agreement is described below:

Credit Suisse ("CS") is the lender on the repurchase agreement entered into on March 22, 2013 (the "CS repurchase agreement") with an initial aggregate maximum borrowing capacity of \$100.0 million. During 2014 the CS repurchase agreement was amended on several occasions, ultimately increasing the aggregate maximum borrowing

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capacity to \$225.0 million on December 31, 2014 with a maturity date of April 20, 2015, subject to an additional one-year extension with the approval of the lender. On April 20, 2015, Residential entered into an amended and restated repurchase agreement with CS that increased the aggregate borrowing capacity from \$225.0 million to \$275.0 million, increased the REO sublimit under the facility and extended the maturity date to April 18, 2016.

Deutsche Bank (“DB”) is the lender on the repurchase agreement entered into on September 12, 2013 (the “DB repurchase agreement”). The DB repurchase agreement matures on March 11, 2016 and includes a provision that after March 2015, Residential is not eligible for additional funding under the facility, thereby reducing Residential's aggregate funding capacity under the DB repurchase agreement to \$91.8 million, which was the amount outstanding under the facility on June 30, 2015.

Wells Fargo (“Wells”) is the lender on the repurchase agreement entered into on September 23, 2013 (the “Wells repurchase agreement”) with an initial aggregate maximum borrowing capacity of \$200.0 million. Throughout 2013 and 2014 the Wells repurchase agreement was amended several times increasing the aggregate maximum borrowing capacity to a high of \$1.0 billion, and on December 31, 2014 was reduced to \$750.0 million, subject to certain sublimits, to reflect the securitization of a significant portion of Residential's non-performing loans that previously had been financed under the Wells repurchase agreement. The maturity date of the Wells repurchase agreement was March 23, 2015. However, on February 20, 2015, Residential exercised its option to extend the termination date of this facility to March 23, 2016 without any additional funding, thereby reducing Residential's aggregate funding capacity under the Wells repurchase agreement to \$471.3 million on June 30, 2015, which was the amount outstanding under the facility on that date. Residential is in discussions with Wells to further extend the repurchase agreement with an ability to obtain additional funding. No assurance can be provided that Residential will be able to renew this facility on reasonable terms, on a timely basis or at all. The agreement calls for the advance rate to be reduced by 10% after the first 90 days of the extension term. The 10% reduction date has been extended for an additional 90 days while the parties are negotiating an amended and restated repurchase agreement.

Nomura is the lender on the Nomura loan agreement entered into on April 10, 2015 with an initial aggregate maximum funding capacity of \$100.0 million. On May 12, 2015, Residential amended the terms of the Nomura loan agreement to increase the aggregate maximum funding capacity to \$200.0 million, subject to certain sublimits, eligibility requirements and conditions precedent to each funding. The Nomura loan agreement terminates on April 8, 2016.

Since September 2014, Residential has also completed three securitization transactions, each of which is summarized below:

On June 29, 2015, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2015-1 (“ARLP 2015-1”) issued \$205.0 million in Class A Notes (the “ARLP 2015-1 Class A Notes”) with a weighted coupon of approximately 4.01% and \$60.0 million in Class M Notes (the “ARLP 2015-1 Class M Notes”). Residential retained \$34.0 million of the ARLP 2015-1 Class A Notes and all of the ARLP 2015-1 Class M Notes. No interest will be paid on any ARLP 2015-1 Class M Notes while any ARLP 2015-1 Class A Notes remain outstanding. The ARLP 2015-1 Class A Notes and ARLP 2015-1 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2015-1 and not by any of Residential's other assets. The assets of ARLP 2015-1 are the only source of repayment and interest on the ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes. The ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes mature on May 25, 2055, and Residential does not guaranty any of the obligations of ARLP 205-1 under the terms of the Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2015-1 was \$275.7 million.

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On November 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-2 ("ARLP 2014-2") issued \$270.8 million in Class A Notes (the "ARLP 2014-2 Class A Notes") with a weighted coupon of approximately 3.85% and \$234.0 million in Class M Notes (the "ARLP 2014-2 Class M Notes"). Residential initially retained \$95.8 million of the ARLP 2014-2 Class A Notes and all of the ARLP 2014-2 Class M Notes. On February 9, 2015, Residential sold \$50.7 million of the retained ARLP 2014-2 Class A Notes to an unrelated third party. No interest will be paid on any ARLP 2014-2 Class M Notes while any ARLP 2014-2 Class A Notes remain outstanding. The ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-2 and not by any of Residential's other assets. The assets of ARLP 2014-2 are the only source of repayment and interest on the ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes. The ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes mature on January 26, 2054, and Residential does not guaranty any of the obligations of ARLP 2014-2 under the terms of the Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2014-2 was \$329.0 million.

On September 25, 2014, Residential completed a securitization transaction in which ARLP Securitization Trust, Series 2014-1 ("ARLP 2014-1") issued \$150.0 million in Class A Notes (the "ARLP 2014-1 Class A Notes") with a weighted coupon of approximately 3.47% and \$32.0 million in Class M Notes (the "ARLP 2014-1 Class M Notes") with a weighted coupon of 4.25%. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-1 and not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2014-1 was \$208.5 million.

Residential retained all of the ARLP 2014-1 Class M Notes issued by ARLP 2014-1 in its taxable REIT subsidiary ("TRS"). On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold \$15.0 million of the ARLP 2014-1 Class M Notes to NewSource. The master repurchase agreement initially required the TRS to repurchase the ARLP 2014-1 Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for additional 89-day periods. In no event can the master repurchase agreement be extended beyond September 29, 2015. The agreement is currently due to expire on September 22, 2015.

For a more complete description of Residential's repurchase agreements, loan and security agreement and securitization transactions, please see "Note 5. Borrowings."

On March 18, 2014, we closed a private placement for the issuance and sale of 250,000 shares of our Series A Convertible Preferred Stock to Luxor Capital Group, LP, a New York based investment manager, and other institutional investors for proceeds of \$250.0 million. In connection with the foregoing, the Company's Board of Directors has approved a share repurchase program that authorizes us to repurchase up to \$300.0 million of our common stock. We used substantially all of the proceeds from this transaction to repurchase shares of our common stock and for other corporate purposes. We have an aggregate of \$59.4 million remaining for repurchases under our Board-approved repurchase plan.

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 which we refer to as "U.S. GAAP." All wholly owned subsidiaries are included and all intercompany accounts and transactions have been eliminated. 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 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

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presented in this Quarterly Report as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2014 annual report on Form 10-K.

Preferred stock

During the first quarter of 2014, we issued \$250.0 million of convertible preferred stock. All of the outstanding shares of preferred stock are redeemable by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of preferred stock may cause us to redeem all the shares of preferred stock held by such holder at a redemption price equal to \$1,000 per share. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

The holders of shares of Series A Preferred Stock will not be entitled to receive dividends with respect to the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible into shares of our common stock at a conversion price of \$1,250 per share, subject to certain anti-dilution adjustments.

Upon a change of control or upon a liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Stock will be entitled to receive an amount in cash per Series A Preferred Stock equal to the greater of:

- (i) \$1,000 plus the aggregate amount of cash dividends paid on the number of shares of Common Stock into which such share of Series A Preferred Stock was convertible on each ex-dividend date for such dividends; and
- (ii) the number of shares of Common Stock into which the Series A Preferred Stock is then convertible multiplied by the then current market price of the Common Stock.

The Series A Preferred Stock confers no voting rights to holders, except with respect to matters that materially and adversely affect the voting powers, rights or preferences of the Series A Preferred Stock or as otherwise required by applicable law.

With respect to the distribution of assets upon the liquidation, dissolution or winding up of the Company, the Series A Preferred Stock ranks senior to our common stock and on parity with all other classes of preferred stock that may be issued by us in the future.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of total shareholders' equity. We have repurchased shares of our common stock (i) under our Board approval to repurchase up to \$300.0 million in shares of our common stock and (ii) upon our withholding of shares of our common stock to satisfy tax withholding obligations in connection with the vesting of our restricted stock.

Recently issued accounting standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 will include the face amount of the debt liability and the effective interest rate. The standard requires retrospective application and represents a change in accounting principle. The standard is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We do not expect the impact of adopting this standard to have a material impact on our financial position, results of operations, or cash flows.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis. ASU 2015-02 makes targeted amendments to the current consolidation guidance that change the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance addresses concerns that current accounting might require a reporting entity to consolidate another legal entity in situations in which the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights, or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations. The standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early application is permitted. We are evaluating the impact of ASU 2015-02 on our consolidated financial statements, which could result in the deconsolidation of Residential's financial information in our consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. 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. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach and is 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 financial position or results of operations.

2. Mortgage loans

Acquisitions of non-performing residential mortgage loans

During the six months ended June 30, 2015, Residential did not acquire any portfolios of non-performing residential mortgage loans. During the six months ended June 30, 2014, Residential acquired an aggregate of 5,797 residential mortgage loans, substantially all of which were non-performing, and 190 REO properties having an aggregate UPB of approximately \$1.6 billion and an aggregate market value of underlying properties of \$1.4 billion. The aggregate purchase price for these acquisitions was approximately \$940.5 million.

During the three and six months ended June 30, 2015, Residential recognized \$0.3 million and \$0.4 million, respectively for due diligence costs related to a potential purchase of a portfolio that was not ultimately acquired. During the three and six months ended June 30, 2014, Residential recognized \$2.4 million and \$2.9 million, respectively, for due diligence costs related to transactions in both general and administrative expense and related party general and administrative expense.

Generally, we expect that Residential's mortgage loan and REO portfolios may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans and REO portfolios may be irregularly timed and may involve large portfolios of loans or REO, and the timing and extent of Residential's success in acquiring such assets cannot be predicted. In addition, for any given portfolio of loans that Residential agrees to acquire, it typically acquires fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet Residential's diligence standards. The number of loans excluded from an acquisition typically constitutes a relatively small portion of a particular portfolio. In some cases, the number of loans Residential does not acquire could be significant. In any case where Residential does not acquire the full portfolio, appropriate adjustments are made to the applicable purchase price.

Throughout this report, all unpaid principal balance and market value amounts for the portfolios Residential has acquired are provided as of "cut-off date" for each transaction unless otherwise indicated. The "cut-off date" for each acquisition is a date shortly before the closing used to identify the final loans being purchased and the related unpaid principal balance, market value of underlying properties and other characteristics of the loans.

Transfer of mortgage loans to real estate owned

During the three months ended June 30, 2015 and 2014, Residential transferred 687 and 894 mortgage loans, respectively, to REO at an aggregate fair value based on broker price opinions ("BPOs"), of \$133.9 million and \$120.8 million respectively. Such transfers occur when the foreclosure sale is complete. In connection with these transfers to REO, Residential recorded \$14.7 million and \$28.5 million, respectively, in net unrealized gains on mortgage loans.

During the six months ended June 30, 2015 and 2014, Residential transferred 1,411 and 1,530 mortgage loans, respectively, to REO at an aggregate fair value based on BPOs, of \$268.7 million and \$217.4 million respectively. Such transfers occur when the foreclosure sale is complete. In connection with these transfers to REO, Residential

recorded \$33.1 million and \$52.1 million, respectively, in net unrealized gains on mortgage loans. At June 30, 2015 Residential had 6,316 loans with a carrying value of \$1.3 billion that were in the foreclosure process compared to 7,841 loans with a carrying value of \$1.5 billion at December 31, 2014.

Dispositions of non-performing residential mortgage loans

During the three months ended June 30, 2015 and 2014, Residential disposed of 270 and 135 mortgage loans, respectively, primarily through short sales, refinancing, foreclosure sales, and sale of loans that had transitioned to re-performing loans from prior non-performing loan acquisitions. In connection with these dispositions, Residential recorded \$19.3 million and \$10.8 million, respectively, of net realized gains on mortgage loans.

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During the six months ended June 30, 2015 and 2014, Residential disposed of 420 and 251 mortgage loans, respectively, primarily through short sales, refinancing, foreclosure sales, and sale of loans that had transitioned to re-performing loans from prior non-performing loan acquisitions. In connection with these dispositions, Residential recorded \$34.7 million and \$20.1 million, respectively, of net realized gains on mortgage loans.

Acquisitions and dispositions of re-performing residential mortgage loans

On June 27, 2014, Residential acquired 879 re-performing mortgage loans with an aggregate market value of underlying properties of \$271.1 million for an aggregate purchase price of \$144.6 million. Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. These 879 re-performing residential mortgage loans were determined to have common risk characteristics and have been accounted for as a single loan pool.

During October 2014, Residential sold an aggregate of 934 re-performing loans to an unrelated third party for an aggregate purchase price of \$164 million. The sale included 770 loans from the re-performing mortgage loans purchased in June 2014, and 164 loans that had transitioned to re-performing status from prior non-performing loan acquisitions. During June 2015, Residential sold an aggregate of 189 re-performing loans to an unrelated third party for an aggregate purchase price of \$34.6 million. The sale included 52 loans from the re-performing mortgage loans purchased in June 2014, and 137 loans that had transitioned to re-performing status from prior non-performing loan acquisitions. Approximately \$2.0 million of the proceeds from the June 2015 re-performing loan sale were used to purchase the loans out of Residential's ARLP 2014-1 and ARLP 2014-2 securitizations and approximately \$16.4 million of the proceeds were used to purchase the loans out of Residential's Wells repurchase facility. Therefore, Residential's net proceeds from the June 2015 re-performing loan sale were approximately \$16.2 million.

Under ASC 310-30, Residential estimates cash flows expected to be collected, adjusted for expected prepayments and defaults expected to be incurred over the life of the loan pool. Residential determines the excess of the loan pool's contractually required principal and interest payments over the expected cash flows as an amount that should not be accreted, the nonaccretable yield. The difference between expected cash flows and the present value of the expected cash flows is referred to as the accretable yield, which represents the amount that is expected to be recorded as interest income over the remaining life of the loan pool. 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 June 30, 2015, these re-performing loans, having a UPB of \$8.8 million and a carrying value of \$6.0 million, were held for sale.

The following tables present information regarding the estimates of the contractually required payments and the cash flows expected to be collected as of the date of the acquisition and changes in the balance of the accretable yield (\$ in thousands):

	Six months ended June 30, 2015	
	Accretable Yield	Carrying Amount of Loans
Balance at the beginning of the period	\$7,640	\$12,535
Additions	—	37
Payments and other reductions, net	(3,285)	(7,064)
Accretion	(469)	469
Balance at the end of the period	\$3,886	\$5,977

3. Real estate assets, net

Acquisitions

During the six months ended June 30, 2015, Residential acquired no REO properties as part of their portfolio acquisitions. During three and six months ended June 30, 2014, Residential acquired 190 REO properties for an aggregate purchase price of \$27.6 million.

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On June 28, 2015, Residential entered into an agreement (the “IH Purchase Agreement”) to purchase an aggregate of 1,325 REO properties, the substantial majority of which were rented and occupied, from certain subsidiaries of Invitation Homes (“Invitation Homes”) for an aggregate purchase price of approximately \$112.6 million (the “IH Transaction”). The IH Purchase Agreement provided for a 30-day contingency period after signing in which Residential was entitled to complete due diligence on the REO properties, with each of Invitation Homes and Residential having the ability to terminate the IH Purchase Agreement based on the due diligence results. On July 28, 2015, the contingency period expired, and Invitation Homes and Residential determined to move forward with the closing of the IH Transaction. We currently expect Residential to complete the IH Transaction in the third quarter of 2015. There can be no assurance that Residential will be able to complete the IH Transaction on a timely basis or at all.

Real estate held for use

As of June 30, 2015, Residential had 3,977 REO properties held for use. Of these properties, 777 had been rented, 96 were being listed for rent and 111 were in varying stages of renovation. With respect to the remaining 2,993 REO properties, we will make a final determination whether each property meets Residential’s rental profile after (a) applicable state redemption periods have expired, (b) the foreclosure sale has been ratified (c) Residential has recorded the deed for the property, (d) utilities have been activated and (e) Residential has secured access for interior inspection. A majority of the REO properties are subject to state regulations which require Residential to await the expiration of a redemption period before a foreclosure can be finalized. Residential includes these redemption periods in its portfolio pricing which generally reduces the price Residential pays for the mortgage loans. Once the redemption period expires, Residential immediately proceeds to record the new deed, take possession of the property, activate utilities, and start the inspection process in order to make its final determination.

As of December 31, 2014, Residential had 3,349 REO properties held for use. Of these properties, 336 had been rented, 197 were being listed for rent and 254 were in various stages of renovation. With respect to the remaining 2,562 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile. As of June 30, 2014, Residential had 1,766 REO properties held for use. Of these properties, 102 had been rented, 40 were being listed for rent and 140 were in various stages of renovation. With respect to the remaining 1,484 REO properties, we were in the process of determining whether these properties would meet Residential's rental profile. If a REO property meets Residential's rental profile, we determine the extent of renovations that are needed to generate an optimal rent and maintain consistency of renovation specifications for future branding. If we determine that the REO property will not meet Residential's rental profile, we list the property for sale, in certain instances after renovations are made to optimize the sale proceeds.

Real estate held for sale

As of June 30, 2015, Residential classified 819 properties having an aggregate carrying value of \$134.0 million as real estate held for sale as they do not meet its residential rental property investment criteria. As of December 31, 2014, Residential had 611 REO properties having an aggregate carrying value of \$92.2 million held for sale, and as of June 30, 2014, Residential had 192 REO properties having an aggregate carrying value of \$27.6 million held for sale. None of these REO properties have any operations; therefore, we are not presenting discontinued operations related to these properties.

Residential records residential properties held for sale at the lower of either the carrying amount of REO or its estimated fair value less estimated selling costs. If the carrying amount exceeds the estimated fair value, as adjusted, Residential records impairment equal to the amount of such excess. If an increase in fair value is noted at a subsequent measurement date, a gain is recognized to the extent of any previous impairment recognized. As of June 30, 2015 Residential had \$7.8 million of impairment on the 819 REO properties having a fair value of \$153.9 million. As of

December 31, 2014 Residential had \$4.9 million of impairment on the 611 REO properties having a fair value of \$96.0 million. There was no impairment on the 192 REO properties held at June 30, 2014.

Dispositions

During the three and six months ended June 30, 2015, Residential disposed of 321 and 575 REO properties, respectively, and recorded \$12.4 million and \$23.0 million of net realized gains on real estate, respectively. During the three and six months ended June 30, 2014, Residential disposed of 22 and 24 REO properties, respectively, and recorded \$1.2 million of net realized gains for the three and six months ended June 30, 2014.

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4. Fair value of financial instruments

The following table sets forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of June 30, 2015 and December 31, 2014 (\$ in thousands):

	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
June 30, 2015			
Recurring basis (assets)			
Mortgage loans	\$—	\$—	\$1,716,489
Nonrecurring basis (assets)			
Real estate assets held for sale	\$—	\$—	\$153,868
Transfer of real estate owned to mortgage loans	\$—	\$—	\$2,865
Transfer of mortgage loans to real estate owned	\$—	\$—	\$271,547
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	\$—	\$—	\$5,977
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase and loan and security agreements at fair value	\$—	\$810,236	\$—
Other secured borrowings	\$—	\$521,500	\$—
December 31, 2014			
Recurring basis (assets)			
Mortgage loans	\$—	\$—	\$1,959,044
Nonrecurring basis (assets)			
Real estate assets held for sale	\$—	\$—	\$96,041
Transfer of real estate owned to mortgage loans	\$—	\$—	\$8,400
Transfer of mortgage loans to real estate owned	\$—	\$—	\$595,668
Not recognized on consolidated balance sheets at fair value (assets)			
Mortgage loans held for sale	\$—	\$—	\$12,535
Not recognized on consolidated balance sheets at fair value (liabilities)			
Repurchase agreements at fair value	\$—	\$1,015,000	\$—
Other secured borrowings	\$—	\$336,409	\$—

Residential has not transferred any assets from one level to another level during the six months ended June 30, 2015 or during the year ended December 31, 2014.

The carrying values of Residential's and our cash and cash equivalents, restricted cash, related party receivables, accounts payable and accrued liabilities, related party payables, preferred stock, and investment in NewSource are equal to or approximate fair value. The fair value of mortgage loans is estimated using our proprietary pricing model. The fair value of transfers of mortgage loans to real estate owned is estimated using BPOs. The fair value of 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 the 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 other secured borrowings is estimated using observable market data. The following table sets forth the changes in Residential's level 3 assets that are measured at fair value on a recurring basis (\$ in thousands):

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	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Mortgage loans				
Beginning balance	\$1,853,495	\$1,766,142	\$1,959,044	\$1,207,163
Investment in mortgage loans	—	300,503	—	913,011
Net unrealized gain on mortgage loans	42,209	105,042	103,343	170,172
Net realized gain on mortgage loans	19,272	10,819	34,654	20,140
Mortgage loan dispositions and payments	(82,070	) (44,314	) (147,238	) (83,772
Real estate tax advances to borrowers	4,264	4,716	11,391	12,722
Reclassification of realized gains on real estate sold from unrealized gains	13,175	—	23,977	—
Transfer of real estate owned to mortgage loans	1,509	5,563	2,865	5,563
Transfer of mortgage loans to real estate owned	(135,365	) (124,443	) (271,547	) (220,971
Ending balance at June 30	\$1,716,489	\$2,024,028	\$1,716,489	\$2,024,028
Net unrealized gain on mortgage loans held at the end of the period	\$29,784	\$70,623	\$80,852	\$108,820

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 June 30, 2015 and December 31, 2014 (\$ in thousands):

	Number of loans	Carrying Value	Unpaid principal balance	Market value of underlying properties ⁽¹⁾
June 30, 2015				
Current	727	\$117,544	\$165,532	\$169,272
30	102	16,148	22,309	24,784
60	59	7,128	10,398	11,972
90	1,930	316,877	493,893	477,131
Foreclosure	6,316	1,258,792	1,767,873	1,654,676
Mortgage loans	9,134	\$1,716,489	\$2,460,005	\$2,337,835
December 31, 2014				
Current	670	\$107,467	\$159,731	\$160,654
30	109	15,424	22,629	24,046
60	57	7,921	11,624	12,510
90	2,286	361,434	569,930	544,709
Foreclosure	7,841	1,466,798	2,172,047	1,951,606
Mortgage Loans	10,963	\$1,959,044	\$2,935,961	\$2,693,525

(1)

Market value is based on the most recent BPO provided to us by the applicable seller for each property in the respective portfolio as of its cut-off date or an updated BPO received since the acquisition was completed.

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The following table sets forth the carrying value of Residential's remaining re-performing mortgage loans from the re-performing loan portfolio acquired in June 2014, which are held for sale, the related unpaid principal balance and market value of underlying properties by delinquency status as of June 30, 2015 and December 31, 2014 (\$ in thousands):

	Number of loans	Carrying value	Unpaid principal balance	Market value of underlying properties ⁽¹⁾
June 30, 2015				
Current	13	\$1,908	\$2,531	\$3,760
30	6	1,045	1,440	1,909
60	5	466	1,254	1,253
90	17	2,457	3,126	3,847
Foreclosure	3	101	422	348
Mortgage loans held for sale	44	\$5,977	\$8,773	\$11,117
December 31, 2014				
Current	68	\$8,317	\$11,938	\$15,154
30	6	1,118	1,667	2,004
60	4	359	644	670
90	24	2,741	4,149	4,624
Mortgage loans held for sale	102	\$12,535	\$18,398	\$22,452

(1) Market value is based on the most recent BPO provided to us by the applicable seller for each property in the respective portfolio as of its cut-off date or an updated BPO received since the acquisition was completed.

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 June 30, 2015 and December 31, 2014:

Input	June 30, 2015	December 31, 2014
Equity discount rate	15.0%	15.0%
Debt to asset ratio	65.0%	65.0%
Cost of funds	3.5% over 1 month LIBOR	3.5% over 1 month LIBOR
Annual change in home pricing index	0% to 7.5%	-0.1% to 7.6%
Loan resolution probabilities — modification	0% to 44.7%	0% to 44.7%
Loan resolution probabilities — rental	0% to 100.0%	0% to 100.0%
Loan resolution probabilities — liquidation	0% to 100.0%	0% to 100.0%
Loan resolution timelines (in years)	0.1 to 5.3	0.1 to 5.3
Value of underlying properties	\$500 - \$5,500,000	\$3,000 - \$5,300,000

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5. Borrowings

Repurchase agreements and the Nomura loan agreement

Residential's operating partnership and certain of its Delaware Statutory Trust subsidiaries, as applicable, have entered into master repurchase agreements with major financial institutions. The purpose of these repurchase agreements is to finance the acquisition and ownership of mortgage loans, rental properties and REO properties in its portfolio. On April 10, 2015, Residential entered into the Nomura loan agreement for the purpose of financing its beneficial ownership of REO properties. Residential has effective control of the assets associated with these agreements and therefore it has concluded these are financing arrangements. As of June 30, 2015, the weighted average annualized interest rate on borrowing under Residential's repurchase agreements and the Nomura loan agreement was 3.30%, excluding amortization of deferred financing costs.

The following table sets forth data with respect to Residential's repurchase agreements and the Nomura loan agreement as of June 30, 2015 and December 31, 2014 (\$ in thousands):

	Maximum borrowing capacity	Book value of collateral	Amount outstanding
June 30, 2015			
CS repurchase agreement due April 18, 2016	\$275,000	\$367,114	\$202,855
Wells repurchase agreement due March 23, 2016	471,303	949,984	471,303
DB repurchase agreement due March 11, 2016	91,750	208,958	91,750
Nomura loan agreement due April 8, 2016	200,000	69,831	44,328
	\$1,038,053	\$1,595,887	\$810,236
December 31, 2014			
CS repurchase agreement due April 20, 2015	\$225,000	\$332,618	\$222,044
Wells repurchase agreement due March 23, 2015	750,000	1,036,409	569,509
DB repurchase agreement due March 11, 2016	250,000	450,532	223,447
	\$1,225,000	\$1,819,559	\$1,015,000

Under the terms of each of its repurchase agreements, as collateral for the funds Residential draws thereunder, subject to certain conditions, Residential's operating partnership will sell to the applicable lender equity interests in its Delaware statutory trust subsidiaries that owns the applicable underlying assets on its behalf, or the trust will directly sell such underlying mortgage assets. In the event the lender determines the value of the collateral has decreased, the lender has the right to initiate a margin call and require Residential, or the applicable trust subsidiary, to post additional collateral or to repay a portion of the outstanding borrowings. The price paid by the lender for each mortgage asset Residential finances under the repurchase agreements is based on a percentage of the market value of the mortgage asset and may depend on its delinquency status. With respect to funds drawn under the repurchase agreements, Residential's operating partnership is required to pay the lender interest based on LIBOR or at the lender's cost of funds plus a spread calculated based on the type of applicable mortgage assets collateralizing the funding, as well as certain other customary fees, administrative costs and expenses to maintain and administer the repurchase agreements. Residential does not collateralize any of its repurchase facilities with cash. Pursuant to the CS repurchase agreement, Residential is entitled to collateralize a portion of the facility with securities. As of June 30, 2015, approximately \$10.6 million of the amounts outstanding under the CS repurchase agreement was collateralized by \$17.0 million of the Class M Notes issued and retained by Residential in connection with the securitization completed in September 2014 by ARLP 2014-1, and approximately \$29.4 million of the amounts outstanding under the CS repurchase agreement was collateralized by \$45.1 million of the Class A-2 Notes issued and retained by Residential in connection with the securitization completed in November 2014 by ARLP 2014-2.

The repurchase agreements require Residential to maintain various financial and other covenants, including maintaining a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the repurchase agreements contain customary events of default. Residential is restricted by the terms of its repurchase agreements from paying dividends greater than its REIT taxable income in a calendar year.

Residential is currently in compliance with the covenants and other requirements with respect to its repurchase agreements. We monitor Residential's banking partners' ability to perform under the repurchase agreements and have concluded there is currently no reason to doubt that they will continue to perform under the repurchase agreements as contractually obligated. For additional information on the repurchase agreements, please see "Note 1. Organization and basis of presentation."

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Under the terms of the Nomura loan agreement, subject to certain conditions, Nomura may advance funds to Residential from time to time, with such advances collateralized by REO properties. The advances paid under the Nomura loan agreement with respect to the REO properties from time to time will be based on a percentage of the market value of the applicable REO properties. Under the terms of the Nomura loan agreement, Residential is required to pay interest based on the one-month LIBOR plus a spread and certain other customary fees, administrative costs and expenses in connection with Nomura's structuring, management and ongoing administration of the facility.

The Nomura loan agreement requires Residential to maintain various financial and other covenants, including a minimum adjusted tangible net worth, a maximum ratio of indebtedness to adjusted tangible net worth and specified levels of unrestricted cash. In addition, the Nomura loan agreement contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and/or certain representations and warranties, cross-defaults, certain material adverse changes, bankruptcy or insolvency proceedings and other events of default customary for this type of transaction. The remedies for such events of default are also customary for this type of transaction and include the acceleration of the principal amount outstanding under the Nomura loan agreement and the liquidation by Nomura of the REO properties then subject thereto.

Other Secured Debt - Securitizations

On June 29, 2015, Residential completed a securitization transaction in which ARLP 2015-1 issued \$205.0 million in ARLP 2015-1 Class A Notes with a weighted coupon of approximately 4.01% and \$60.0 million in ARLP 2015-1 Class M Notes. ARLP 2015-1 is a Delaware statutory trust that is wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee. Residential retained \$34.0 million of the ARLP 2015-1 Class A Notes and all of the ARLP 2015-1 Class M Notes. No interest will be paid on any ARLP 2015-1 Class M Notes while any ARLP 2015-1 Class A Notes remain outstanding. The ARLP 2015-1 Class A Notes and ARLP 2015-1 Class M Notes are non-recourse to Residential and are secured solely by the non-performing mortgage loans and REO properties of ARLP 2015-1 but not by any of Residential's other assets. The assets of ARLP 2015-1 are the only source of repayment and interest on the ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes, thereby making the cash proceeds received by ARLP 2015-1 of loan payments, loan liquidations, loan sales and sales of converted REO properties the sole sources of the payment of interest and principal by ARLP 2015-1 to the bond holders. The ARLP 2015-1 Class A Notes and the ARLP 2015-1 Class M Notes mature on May 25, 2055, and Residential does not guaranty any of the obligations of ARLP 205-1 under the terms of the Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2015-1 was \$275.7 million.

On November 25, 2014, Residential completed a securitization transaction in which ARLP 2014-2 issued \$270.8 million in ARLP 2014-2 Class A Notes with a weighted coupon of approximately 3.85% and \$234.0 million in ARLP 2014-2 Class M Notes. ARLP 2014-2 is a Delaware statutory trust that is wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee. Residential initially retained \$95.8 million of the ARLP 2014-2 Class A Notes and all of the ARLP 2014-2 Class M Notes. On February 9, 2015, Residential sold \$50.7 million of the retained ARLP 2014-2 Class A Notes to an unrelated third party. No interest will be paid on any ARLP 2014-2 Class M Notes while any ARLP 2014-2 Class A Notes remain outstanding. The ARLP 2014-2 Class A Notes and ARLP 2014-2 Class M Notes are non-recourse to Residential and are secured solely by the non-performing mortgage loans and REO properties of ARLP 2014-2 but not by any of Residential's other assets. The assets of ARLP 2014-2 are the only source of repayment and interest on the ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes, thereby making the cash proceeds received by ARLP 2014-2 of loan payments, loan liquidations, loan sales and sales of converted REO properties the sole sources of the payment of interest and principal by ARLP 2014-2 to the bond holders. The ARLP 2014-2 Class A Notes and the ARLP 2014-2 Class M Notes mature on January 26, 2054, and Residential does not guaranty any of the obligations of ARLP 2014-2 under the terms of the Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2014-2 was \$329.0 million.

On September 25, 2014, Residential completed a securitization transaction in which ARLP 2014-1 issued \$150.0 million in ARLP 2014-1 Class A Notes with a weighted coupon of approximately 3.5% and \$32.0 million in ARLP 2014-1 Class M Notes with a weighted coupon of 4.25%. ARLP 2014-1 is a Delaware statutory trust that is wholly-owned by Residential's operating partnership with a federally-chartered bank as its trustee. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes are non-recourse to Residential and are secured solely by the non-performing mortgage loans of ARLP 2014-1 but not by any of Residential's other assets. The assets of ARLP 2014-1 are the only source of repayment and interest on the ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes, thereby making the cash proceeds received by ARLP 2014-1 of loan payments, loan liquidations, loan sales and sales of converted REO properties the sole sources of the payment of interest and principal by ARLP 2014-1 to the bond holders. The ARLP 2014-1 Class A Notes and the ARLP 2014-1 Class M Notes mature on September 25, 2044, and Residential does not guaranty any of the obligations of ARLP 2014-1 under the terms of the

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Indenture governing the notes or otherwise. As of June 30, 2015, the book value of the underlying securitized assets held by ARLP 2014-1 was \$208.5 million.

Residential retained all of the ARLP 2014-1 Class M Notes in its TRS. On September 30, 2014, pursuant to a master repurchase agreement, the TRS sold \$15.0 million of the ARLP 2014-1 Class M Notes to NewSource. The master repurchase agreement initially required the TRS to repurchase the ARLP 2014-1 Class M Notes from NewSource at a 5.0% yield on December 28, 2014, with the parties having the option to extend the master repurchase agreement for additional 89-day periods. In no event can the master repurchase agreement be extended beyond September 29, 2015. The agreement is currently due to expire on September 22, 2015.

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The following table sets forth data with respect to these notes as of June 30, 2015 and December 31, 2014 (\$ in thousands):

	Interest Rate	Amount outstanding
June 30, 2015		
ARLP Securitization Trust, Series 2015-1		
ARLP 2015-1 Class A Notes due May 25, 2055 ⁽¹⁾	4.01	% \$205,000
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⁾	3.87	% 255,144
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	% 142,919
ARLP 2014-1 Class M Notes due September 25, 2044 ⁽⁴⁾	4.25	% 32,000
ARNS, Inc.		
Securities sold under agreement to repurchase due September 22, 2015	5.00	% 14,991
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 A Notes due to ARNS, Inc.		(14,991)
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.		(32,000)
		\$ 523,925
December 31, 2014		
ARLP Securitization Trust, Series 2014-2		
ARLP 2014-2 Class A Notes due January 26, 2054 ⁽²⁾	3.85	% \$269,820
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	% 150,000
ARLP 2014-1 Class M Notes due September 25, 2044 ⁽⁴⁾	4.25	% 32,000
ARNS, Inc.		
Securities sold under agreement to repurchase due March 27, 2015	5.00	% 14,991
Intercompany eliminations		
Elimination of ARLP 2014-2 Class A Notes due to ARNS, Inc.		(95,729)
Elimination of ARLP 2014-2 Class M Notes due to ARNS, Inc.		(234,010)
Elimination of ARLP 2014-1 Class A Notes due to ARNS, Inc.		(15,000)
Elimination of ARLP 2014-1 Class M Notes due to ARNS, Inc.		(32,000)
		\$ 324,082

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

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

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

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

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6. Commitments and Contingencies

Litigation, claims and assessments

Set forth below are certain developments in our legal proceedings since the March 2, 2015 filing of our annual report on Form 10-K for the year ended December 31, 2014 and the May 7, 2015 filing of our quarterly report on Form 10-Q for the three months ended March 31, 2015:

The Police Retirement System of Saint Louis v. Erbey, et al. On June 30, 2015, The Police Retirement System of Saint Louis and the defendants entered into a Stipulation and Agreement of Compromise, Settlement and Release (the "Settlement Stipulation") for the settlement of this derivative action (the "Settlement"), and the parties filed the Settlement Stipulation with the Circuit Court for Baltimore City, Maryland (the "Court") on the same day. By Order dated August 3, 2015, the Court preliminarily approved the Settlement, scheduled a hearing on November 9, 2015 to consider final approval of the Settlement, and authorized Residential to provide notice of the proposed Settlement to stockholders. If the Settlement is finally approved by the Court and, ultimately, no shareholders successfully object to the Settlement, it will resolve and release all claims in the action that were, or could have been, brought by or on behalf of Residential challenging the Original AMA among Residential, Altisource Residential L.P. and us, or the negotiation of, the terms and provisions of, or the approval of the New AMA. In addition, pursuant to the Settlement Stipulation, the parties agreed that the defendants will pay the attorneys' fees and expenses of plaintiff's counsel, in an amount not to exceed \$6.0 million. We have been informed by our insurers that the Settlement will be a covered claim under our insurance policy.

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al. On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff and denying the three other motions 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, defendants to file their motions to dismiss on or before July 20, 2015, plaintiff to file a response to any such motion on or before August 19, 2015 and defendants to file any reply briefs on or before September 3, 2015. On June 19, 2015, the lead plaintiff filed an amended complaint, and on July 20, 2015, defendants filed a motion to dismiss all claims in the action. 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 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 action is dismissed with prejudice; (ii) any of the defendants in the City of Cambridge 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.

Sokolowski v. Erbey, et al. 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 has filed a similar motion to dismiss the complaint as to all claims asserted against it. Briefing on the motions to dismiss the complaint is ongoing.

Hulstrom v. William C. Erbey, et al. On April 23, 2015, a shareholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix by a purported shareholder of Residential under the caption *Kirk Hulstrom v. William Erbey et al. SX-15-CV-158*. The action names as defendants William C. Erbey and each of the current and former members of Residential's Board of Directors and certain officers of the Company, Residential and Ocwen. In the complaint, plaintiff asserts claims against the individual defendants for breach of fiduciary duty, abuse of control and gross mismanagement in connection with the asset management agreement among Residential,

Altisource Residential, L.P. and us. As to Ocwen and us, plaintiff alleges that Ocwen and we aided and abetted the purported breaches of fiduciary duty and that we have been unjustly enriched by the asset management agreement. The complaint also names Residential as a nominal defendant. 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.

In connection with the Police Retirement System case described above, management had previously established a consolidated litigation accrual in the amount of \$3.0 million. Given the notice received by us from our insurers that the Police Retirement System case is a covered claim, we have reversed the \$3.0 million litigation accrual.

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

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7. Related party transactions

New Asset Management Agreement with Residential

On March 31, 2015, we entered into a new Asset Management Agreement (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 asset management agreement (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 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 capital while Residential has between 2,500 and 4,499 rental properties and increases to 2.0% of invested 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 capital (based on AFFO as defined in the New AMA) exceeds a 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 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.

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 cure such breach, (b) Residential for certain other reasons such as Residential's 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, and (c) Residential in connection with certain change of control events.

Under the amended fee structure of the New AMA, the fees due from Residential reduced from \$15.5 million in the second quarter of 2014 to \$5.2 million in the second quarter of 2015. The \$5.2 million fees due from Residential in the second quarter of 2015 consists of a \$4.8 million Base Management Fee and a \$0.4 million Conversion Fee. No Incentive Management Fee was due from Residential for the second quarter of 2015 because return on invested capital (as defined in the New AMA) was below the required hurdle rate. The amount by which return on invested capital was below the required hurdle rate in the second quarter of 2015 is a deficit which is carried forward for up to seven future quarters or until the deficit is reduced by Residential's future performance above the hurdle rate. In future quarters, return on invested capital must exceed the required hurdle rate for the current quarter plus any carried forward cumulative deficit from the prior seven quarters before any Incentive Management Fee is due from Residential.

Summary of Related Party Transaction Expenses

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen, Chairman of Altisource, and Chairman of Residential. Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, Residential and AAMC and is no longer a member of the Board of Directors for any of these companies. Accordingly, at that point, Ocwen and Altisource are no longer considered related parties of Residential and AAMC as defined by FASB Accounting Standards Codification (“ASC”) Topic 850, Related Party Disclosures. Transactions under our agreements with Ocwen and Altisource for the current year through January 16, 2015 were not material to our consolidated results of operations.

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Our Consolidated Statements of Operations included the following significant related party transactions (\$ in thousands):

	Three months ended June 30, 2015	Six months ended June 30, 2015	Counter-party	Consolidated Statements of Operations location
2015				
Expense reimbursements	—	750	Residential/NewSource	Net income attributable to noncontrolling interest in consolidated affiliate
Conversion fee	399	399	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Base management fee	4,962	5,172	Residential/NewSource	Net income attributable to noncontrolling interest in consolidated affiliate
Management incentive fee	—	14,900	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Professional fee sharing for negotiation of AMA	—	2,000	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
	Three months ended June 30, 2014	Six months ended June 30, 2014	Counter-party	Consolidated Statements of Operations location
2014				
Residential property operating expenses	\$3,169	\$4,219	Ocwen/Altisource	Residential property operating expenses
Mortgage loan servicing costs	14,942	25,432	Ocwen	Mortgage loan servicing costs
Due diligence and unsuccessful deal costs	1,655	1,766	Altisource	Related party general and administrative expenses
Office and occupancy costs	69	143	Ocwen	Related party general and administrative expenses
Salaries and benefits	612	1,129	Ocwen/Altisource	Related party general and administrative expenses
Base management fee	210	521	NewSource	Net income attributable to noncontrolling interest in consolidated affiliate
Expense reimbursements	1,789	3,258	Residential	Net income attributable to noncontrolling interest in consolidated affiliate
Management incentive fee	13,715	24,626	Residential	Net income attributable to noncontrolling interest in consolidated affiliate

On September 30, 2014, pursuant to a master repurchase agreement, Residential's TRS sold \$15.0 million of the ARLP 2014-1 Class M Notes to NewSource for a purchase price of 15.0 million. The master repurchase agreement initially required the TRS to repurchase the ARLP 2014-1 Class M Notes from NewSource at a 5.0% yield on

December 28, 2014, with the parties having the option to extend the master repurchase agreement for additional 89 day periods. In no event can the master repurchase agreement be extended beyond September 29, 2015. The agreement is currently due to expire on September 22, 2015.

8. Share-based payments

During the six months ended June 30, 2015 and 2014, we granted 44,132 and 8,765 shares, respectively, 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 and \$791.27, respectively.

Our directors each received annual grants of restricted stock equal to \$60 thousand and \$45 thousand based on the market value of our common stock at the time of the annual stockholders meeting for 2015 and 2014, respectively. This restricted stock vests and is 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, 2015 and 2014, we granted 1,122 and 205 shares of stock, respectively, pursuant to our 2013 Director Equity Plan with a weighted average grant date fair value per share of \$162.66 and \$1,090.26, respectively.

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We recorded \$2.1 million and \$2.9 million of compensation expense related to these grants for the three and six months ended June 30, 2015, respectively, and recorded \$(0.5) million and \$2.7 million of compensation expense for the three and six months ended June 30, 2014, respectively. As of June 30, 2015 and 2014, we had an aggregate \$23.1 million and \$22.3 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.8 years and 3.1 years, respectively.

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, 2015 and 2014, neither Residential nor we accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the six months ended June 30, 2015 and 2014. 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, 2014.

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, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Numerator				
Net income	\$743	\$13,230	\$7,631	20,058
Amortization of preferred stock issuance costs	50	—	103	—
Numerator for basic EPS - income available to common stockholders	693	13,230	7,528	20,058
Add back amortization of preferred stock issuance costs	50	—	103	—
Numerator for diluted EPS - income available to common stockholders after assumed conversions	\$743	\$13,230	\$7,631	\$20,058
Denominator				
Weighted average common stock outstanding – basic	2,218,533	2,255,278	2,211,357	2,310,931
Stock options using treasury method	230,243	250,287	231,478	262,033
Restricted stock	98,179	169,341	109,487	176,665
Preferred shares if converted	200,000	200,000	200,000	115,556
	2,746,955	2,874,906	2,752,322	2,865,185

Weighted average common stock
outstanding – diluted

Earnings per basic share	\$0.31	\$5.87	\$3.40	\$8.68
Earnings per diluted share	\$0.27	\$4.60	\$2.77	\$7.00

For the three and six months ended June 30, 2015, we had 16,947 and 29,674 weighted average restricted shares, respectively, that were excluded from the calculation of diluted earnings per share as they were antidilutive.

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11. Segment information

Our primary business is to provide asset management and certain corporate governance services to Residential. Residential's primary business is the acquisition and ownership of single-family rental assets. Residential's primary sourcing strategy is to acquire these assets by purchasing sub-performing and non-performing mortgage loans. While we focus on Residential acquiring rental properties through the acquisition of distressed mortgage loans, we have also always considered purchasing rental properties through other avenues, including, without limitation, though the purchase of portfolios of single-family rental properties, REO properties, residential mortgage-backed securities, clean-up calls and other distressed assets. As a result, we operate in a single segment focused on the management of Residential's resolution of sub-performing and non-performing mortgages and ownership of rental residential properties.

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

Overview

Our primary business is to provide asset management and certain corporate governance services to Residential and NewSource. We are an SEC-registered investment adviser under section 203(c) of the Investment Advisers Act of 1940. Residential is currently our primary source of revenue and currently drives our results.

We have concluded that Residential is a variable interest entity because Residential's equity holders lack the ability through voting rights to make decisions about Residential's activities that have a significant effect on the success of Residential. We have also concluded that we are the primary beneficiary of Residential's financial condition and results of operations because under the AMA we have the power to direct the activities of Residential that most significantly impact Residential's economic performance including establishing Residential's investment and business strategy. As a result, we consolidate Residential's financial results in our consolidated financial statements.

The New AMA with Residential

On March 31, 2015 we entered into a new Asset Management Agreement with Residential (the "New AMA") which became effective on April 1, 2015. The New AMA provides for a new management fee structure which replaces the incentive fee structure under the original asset management agreement with Residential (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 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 capital while Residential has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while Residential ha