

OPEN SOLUTIONS INC  
Form 8-K  
August 31, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) August 25, 2004

Open Solutions Inc.

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(Exact Name of Registrant as Specified in Its Charter)  
Delaware

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(State or Other Jurisdiction of Incorporation)

000-02333-56

22-3173050

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(Commission File Number)

(IRS Employer Identification No.)

300 Winding Brook Drive, Glastonbury, CT

06033

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(Address of Principal Executive Offices)

(860) 652-3155

(Zip Code)

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(Registrant's Telephone Number, Including Area Code)

Not Applicable

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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**SIGNATURE**

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Ex-2.1 Acquisition Agreement dated August 25, 2004

Ex-99.1 Press Release dated August 26, 2004

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**Item 1.01 Entry into a Material Definitive Agreement**

On August 25, 2004, 6259936 Canada Inc. (the **Subsidiary**), a corporation incorporated under the laws of Canada and a wholly-owned subsidiary of Open Solutions Inc. (the **Registrant**), entered into an agreement to acquire all of the outstanding shares of capital stock of Datawest Solutions Inc. (**Datawest**), pursuant to the terms of an Acquisition Agreement (the **Acquisition Agreement**), dated as of August 25, 2004, between the Registrant, the Subsidiary and Datawest. Upon satisfaction of certain closing conditions set out in the Acquisition Agreement, including approval by the stockholders of Datawest, the aggregate consideration to be paid for all of the outstanding shares of capital stock of Datawest will be approximately CDN\$49,700,000 (approximately US\$38,300,000 at current exchange rates). The aggregate consideration consists of CDN\$1.23 (approximately US\$0.95 at current exchange rates) to be paid for each outstanding share of common stock of Datawest and CDN\$2.60 (approximately US\$2.00 at current exchange rates) to be paid for each outstanding share of preferred stock of Datawest. The Acquisition Agreement contemplates that the closing of the transaction will occur on the later of October 15, 2004 or the fifth business day following the satisfaction of certain closing conditions set out in the Acquisition Agreement, or on such other date that the parties agree.

Upon closing of the transaction, the Subsidiary will assume approximately CDN\$12,600,000 in debt that is currently held by Datawest pursuant to a credit facility with the Bank of Montreal. The debt consists of: (i) a term loan due October 31, 2009 with a balance of CDN\$9,757,863 as of July 31, 2004, bearing interest at the Canadian prime rate plus 0.75%, on which Datawest is obligated to pay monthly installments of CDN\$166,667 plus interest and an additional payment each May 31 equal to 50% of net cash flow for the previous fiscal year; (ii) a demand facility expiring on April 30, 2005 with a balance of CDN\$900,000 as of July 31, 2004, bearing interest at the Canadian prime rate plus 2.00%, on which Datawest is obligated to pay monthly installments of CDN\$100,000 plus interest; and (iii) a revolving line of credit with a balance of CDN\$1,905,195 as of July 31, 2004, bearing interest at the Canadian prime rate plus 0.50%. The credit facility requires that Datawest obtain the consent of the Bank of Montreal prior to the closing of the transaction.

The terms of the Acquisition Agreement were determined on the basis of arms-length negotiations. Prior to the execution of the Acquisition Agreement, to the best knowledge of the Registrant, the Registrant nor any of its affiliates, any director or officer of the Registrant, nor any associate of any such director or officer, had any material relationship with Datawest.

Datawest, headquartered in Vancouver, British Columbia, Canada, is a provider of banking and payment technology solutions. Datawest's Banking Solutions Group provides outsourced banking technology to Canadian credit unions, integrated with advanced phone and Internet banking solutions, technology for web-based experience management solutions and customer relationship management systems. The Payment Solutions Group manages an ATM network in Canada and develops and delivers electronic payment products and services, including ATM and POS systems and electronic funds transfer transaction processing, device management and monitoring. Datawest also provides professional services for implementation of banking and payment systems in major financial institutions and other financial services organizations.

The Registrant issued a press release regarding the Acquisition Agreement on August 26, 2004, which is attached as an exhibit to this report.

The foregoing summary description of the terms of the transaction is qualified in its entirety by reference to the Acquisition Agreement, which is attached as an exhibit to this report.



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Statements made in this report that state the Registrant's intentions, beliefs, expectations or predictions for the future are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers are cautioned that these statements are only predictions and may differ materially from actual future events or results. All forward looking-statements are only as of the date of this report and the Registrant undertakes no obligation to update or revise them. Such forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause the Registrant's actual intentions, beliefs, expectations or predictions to differ materially from those projected in such forward-looking statements, including economic, competitive, governmental, technological and other factors discussed in the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2004, as filed with the Securities and Exchange Commission.

**Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant**

The information contained above under Item 1.01 is incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits**

(c) Exhibits

The Exhibits to this report are listed in the Exhibit Index attached hereto.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 31, 2004

OPEN SOLUTIONS INC.

By: /s/ Carl D. Blandino

\_\_\_\_\_  
Carl D. Blandino  
Senior Vice President, Chief Financial  
Officer, Treasurer and Secretary

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Acquisition Agreement, dated as of August 25, 2004, between Open Solutions Inc., 6259936 Canada Inc. and Datawest Solutions Inc.
99.1	Press Release dated August 26, 2004.

padding-right:2px;">

Six months ended June 30, 2016  
Operating activities:

Net loss  
\$  
(3,060  
)

\$  
(2,201  
)

Adjustments to reconcile net loss to net cash used in operating activities:

Share-based compensation  
4,064

4,756

Changes in operating assets and liabilities:

Accounts receivable, net  
—

123

Related party receivables

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333

(5,489

)

Prepaid expenses and other assets

(893

)

653

Accrued salaries and employee benefits

(1,279

)

(1,993

)

Accounts payable and other accrued liabilities

(2,642

)

81

Related party payables

—

(2,180

)

Net cash used in operating activities

(3,477

)

(6,250

)

Investing activities:

Decrease in cash due to deconsolidation of RESI (Note 1)

—

(116,702

)

Purchases of RESI common stock

—

(15,588

)

Net cash used in investing activities

—

(132,290

)

Financing activities:

Proceeds from exercise of stock options

486

18

Repurchase of common stock

(5,530

)

(6,591

)

Payment of tax withholdings on share-based compensation plan awards

(411

)

(12

)

Net cash used in financing activities

(5,455

)

(6,585

)

Net change in cash and cash equivalents

(8,932

)

(145,125

)

Cash and cash equivalents as of beginning of the period

40,584

184,544

Cash and cash equivalents as of end of the period

\$

31,652

\$  
39,419

Supplemental disclosure of cash flow information

Income taxes paid

\$  
686

\$  
—

Decrease in noncontrolling interest due to deconsolidation of RESI (Note 1)

—

(1,145,639

)

Decrease in repurchase and loan agreements and other secured borrowings due to deconsolidation of RESI (Note 1)

—

(1,265,968

)

Decrease in real estate assets and mortgage loans due to deconsolidation of RESI (Note 1)

—

2,264,296

See accompanying notes to condensed consolidated financial statements.

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Altisource Asset Management Corporation  
Notes to Condensed Consolidated Financial Statements  
June 30, 2017  
(Unaudited)

1. Organization and basis of presentation

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

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

We provide services to RESI pursuant to the AMA, under which we are the exclusive asset manager for RESI for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The AMA provides for a fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties during each quarter. Accordingly, our operating results continue to be highly dependent on RESI’s operating results. See Note 4 for additional details of the AMA.

Additionally, we provide management services to our wholly owned subsidiary, NewSource Reinsurance Company Ltd. (“NewSource”), a title insurance and reinsurance company in Bermuda. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority. 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, and its reinsurance and insurance business has been dormant since that time.

Basis of presentation and use of estimates

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). All wholly owned subsidiaries are included, and all intercompany accounts and transactions have been eliminated.

The unaudited interim condensed consolidated financial statements and accompanying unaudited condensed consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and are 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 condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2016 Annual Report on Form 10-K, which was filed with the SEC on March 1, 2017.

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

Prior year amounts related to share-based compensation have been reclassified to salaries and employee benefits and general and administrative expenses within our condensed consolidated statement of operations for consistency with the current period presentation. This reclassification had no effect on the reported results of operations.

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Use of estimates

The preparation of condensed 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Deconsolidation of RESI

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

Preferred stock

Issuance of Series A Convertible Preferred Stock in 2014 Private Placement

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 potentially cause us to redeem all the shares of preferred stock held by such holder at a redemption price equal to \$1,000 per share from funds legally available therefor. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

The holders of shares of Series A Preferred Stock are not 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 (or an exchange ratio of 0.8 shares of common stock for each share of Series A Preferred Stock), subject to certain anti-dilution adjustments.

Upon a change of control or upon the 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.

#### Issuance of Preferred Stock under the 2016 Employee Preferred Stock Plan

On May 26, 2016, the 2016 Employee Preferred Stock Plan (the “Employee Preferred Stock Plan”) was approved by our stockholders. Pursuant to the Employee Preferred Stock Plan, the Company may grant one or more series of non-voting preferred stock, par value \$0.01 per share in the Company to induce certain employees to become employed and remain

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employees of the Company in the USVI, and any of its future USVI subsidiaries, to encourage ownership of shares in the Company by such USVI employees and to provide additional incentives for such employees to promote the success of the Company's business.

Pursuant to our stockholder approval of the Employee Preferred Stock Plan, on December 29, 2016, the Company authorized 14 additional series of preferred stock of the Company, consisting of Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series G Preferred Stock, Series H Preferred Stock, Series I Preferred Stock, Series J Preferred Stock, Series K Preferred Stock, Series L Preferred Stock, Series M Preferred Stock, Series N Preferred Stock and Series O Preferred Stock, and each series shall consist of up to an aggregate of 1,000 shares.

On January 5, 2017, we issued an aggregate of 900 shares of preferred stock to certain of our USVI employees. These shares of preferred stock are mandatorily redeemable by us in the event of the holder's termination of service with the Company for any reason; therefore, these shares are classified within accounts payable and accrued liabilities in our condensed consolidated balance sheet.

In March 2017, our Board of Directors declared and paid an aggregate of \$0.6 million of dividends on the preferred stock issued under the Employee Preferred Stock Plan. Such dividends are included in salaries and employee benefits in our condensed consolidated statement of operations.

Recently issued accounting standards

Adoption of recent accounting standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. We adopted the provisions of ASU 2017-01 effective January 1, 2017. This adoption had no significant effect on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The amendments in ASU 2016-18 should be applied on a retrospective transition basis. Early adoption is permitted, including adoption during an interim period. Effective January 1, 2017, the Company has adopted the provisions of ASU 2016-18. This adoption had no significant effect on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718). ASU 2016-09 makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. This ASU became effective for interim and annual reporting periods beginning after December 15, 2016. Our adoption of this amendment on January 1, 2017 did not have a significant effect on our condensed consolidated financial



statements.

Recently issued accounting standards not yet adopted

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption during an interim period. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities

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that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The amendments in ASU 2016-15 should be applied on a modified retrospective transition basis. We do not expect this amendment to have a significant effect on our consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early adoption is permitted. The amendments in ASU 2016-02 should be applied on a modified retrospective transition basis, and a number of practical expedients may apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. We do not expect this amendment to have a significant effect on our consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which effectively delayed the adoption date of ASU 2014-09 by one year. In 2016, the FASB issued accounting standards updates that amended several aspects of ASU 2014-09. ASU 2014-09, as amended, 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 consolidated financial statements. We anticipate applying this amendment using the modified retrospective method.

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## 2. Fair value of financial instruments

The following table sets forth carrying amount and the fair value of the Company's financial assets by level within the fair value hierarchy as of the dates indicated (\$ in thousands):

	Level 1	Level 2	Level 3
	Quoted	Observable	
	Prices in	Inputs	Unobservable
Carrying	Active	Other Than	Inputs
Amount	Markets	Level 1	
		Prices	
June 30, 2017			
Recurring basis (assets):			
Available-for-sale securities: RESI common stock	\$21,021	\$ 21,021	\$ —
			\$ —
December 31, 2016			
Recurring basis (assets):			
Available-for-sale securities: RESI common stock	\$17,934	\$ 17,934	\$ —
			\$ —

We did not transfer any assets from one level to another level during the six months ended June 30, 2017 and during the year ended December 31, 2016.

The fair value of our available-for-sale securities is based on unadjusted quoted market prices from active markets.

We held 1,624,465 shares of RESI's common stock at each of June 30, 2017 and December 31, 2016, representing approximately 3.0% RESI's then-outstanding common stock at each date, which is included as available-for-sale securities in our condensed consolidated balance sheet. All of our shares of RESI's common stock were acquired in open market transactions. We received dividends on RESI's common stock of \$0.2 million and \$0.5 million during the three and six months ended June 30, 2017, respectively, and we received dividends on RESI's common stock of \$0.2 million and \$0.5 million during the three and six months ended June 30, 2016, respectively.

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017				
Available-for-sale securities: RESI common stock	\$20,596	\$ 425	\$ —	\$21,021
December 31, 2016				
Available-for-sale securities: RESI common stock	\$20,596	\$ —	\$ 2,662	\$17,934

We have recognized no other-than-temporary impairment related to our investment in RESI's common stock.

During the six months ended June 30, 2016, we acquired 1,300,000 shares of RESI's common stock in open market transactions at a weighted average purchase price of \$11.97 per share, respectively.

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3. Commitments and contingencies

Litigation, claims and assessments

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party during 2017:

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

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff, and lead plaintiff filed an amended complaint on June 19, 2015.

AAMC and Mr. Erbey filed a motion to dismiss the amended complaint for failure to state a claim upon which relief can be granted, and on April 6, 2017, the Court issued an opinion and order granting defendants' motion to dismiss.

On May 1, 2017, Plaintiff filed a motion for leave to amend the complaint and, at the same time, filed a proposed first amended consolidated complaint. AAMC and Mr. Erbey opposed the motion, and on July 5, 2017, the Court issued an opinion and order denying with prejudice the motion of the Plaintiff for leave to file the first amended consolidated complaint.

On July 7, 2017, Plaintiff filed a notice of appeal with the Third Circuit Court of Appeals with respect to the federal district court's April 6, 2017 memorandum and order granting Defendants' motion to dismiss, the April 6, 2017 order granting Defendants' motion to dismiss and the July 5, 2017 order denying with prejudice Plaintiff's motion for leave to file the first amendment consolidated complaint in the matter.

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

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

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

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

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

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4. Related party transactions

Asset management agreement with RESI

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

We provide RESI with a management team and support personnel who have substantial experience in the acquisition and management of residential properties and residential mortgage loans. Both the management team and support personnel are employed exclusively by AAMC or affiliates thereof and are thus not employees of RESI. Our management also has significant corporate governance experience that enables us to manage RESI's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of RESI's Board of Directors to any business or entity competing against RESI in (a) the acquisition or sale of SFR and/or REO properties, non-performing and re-performing mortgage loans or other similar assets; (b) the carrying on of a single-family rental business or (c) any other activity in which RESI engages. Notwithstanding the foregoing, we may engage in any other business or render similar or different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following RESI's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without RESI's prior consent.

The AMA, which became effective on April 1, 2015, provides for a management fee structure as follows:

**Base Management Fee.** We are entitled to a quarterly base management fee equal to 1.5% of the product of (i) RESI's average invested capital (as defined in the AMA) for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The base management fee percentage increases to 1.75% of average invested capital while RESI has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while RESI 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 RESI's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by RESI) exceeds an annual hurdle return rate of between 7.0% and 8.25% (depending on the 10-year treasury rate). The incentive management fee increases to 22.5% while RESI has between 2,500 and 4,499 Rental Properties and increases to 25% while RESI has 4,500 or more Rental Properties; and

**Conversion Fee.** We are entitled to a quarterly conversion fee equal to 1.5% of assets converted into leased single-family homes by RESI for the first time during the applicable quarter.

Because RESI has more than 4,500 rented properties, we are entitled to receive a base management fee of 2.0% of RESI's invested capital and a potential incentive management fee percentage of 25% of the amount by which RESI exceeds its then-required return on invested capital threshold.

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

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

Under the AMA, RESI reimburses us for the compensation and benefits of the General Counsel dedicated to RESI and certain other out-of-pocket expenses incurred on RESI's behalf.

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The AMA requires that we are the exclusive asset manager for RESI for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to RESI achieving an average annual return on invested capital of at least 7.0%. RESI's termination rights under the AMA are significantly limited. Neither party is entitled to terminate the AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or RESI "for cause" for certain events such as a material breach of the AMA and failure to cure such breach, (b) RESI for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the AMA or (c) RESI in connection with certain change of control events.

If the AMA were terminated by RESI, our financial position and future prospects for revenues and growth would be materially adversely affected.

## Summary of related party transactions

The following table presents our significant transactions with RESI, which is a related party, for the periods indicated (\$ in thousands):

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Management fees from RESI	\$ 3,999	\$ 4,506	\$ 8,210	\$ 8,630
Conversion fees from RESI	434	544	1,038	946
Expense reimbursements from RESI	210	357	406	357

No incentive management fee was due from RESI for the second quarter of 2017 because RESI's return on invested capital (as defined in the AMA) was below the cumulative required hurdle rate. Under the AMA, to the extent RESI has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an incentive management fee. As of June 30, 2017, RESI's aggregate return shortfall under the AMA was approximately 60.40% of invested capital. As each quarter with a shortfall rolls off the trailing seven quarters, the aggregate shortfall will change by the difference in the quarter that rolls off versus the most recently completed quarter.

We held 1,624,465 shares of RESI's common stock at each of June 30, 2017 and December 31, 2016, representing approximately 3.0% of RESI's then-outstanding common stock at each date. All of our shares of RESI's common stock were acquired in open market transactions.

On March 23, 2017, we completed the repurchase of an aggregate of 50,000 shares of common stock from an affiliated fund of Luxor Capital Partners Group ("Luxor") in a block trade at a price of \$52.50 per share, or an aggregate of \$2.6 million, pursuant to our previously reported \$300.0 million stock repurchase program. Luxor may be considered a related party of the Company because a Luxor partner is a member of our Board of Directors. Following the transaction, the Company now holds the acquired shares as treasury shares.

## 5. Share-based payments

On March 7, 2017, we granted 20,205 restricted stock units to members of management with a weighted average grant date fair value of \$78.58 per share. The restricted stock units will vest in three equal annual installments on each of March 7, 2018, 2019 and 2020, subject to forfeiture or acceleration. During the six months ended June 30, 2016, we



granted no share-based payments to members of management.

Our Directors each received annual grants of restricted stock equal to \$60,000 based on the market value of our common stock at the time of the annual stockholders meeting. These shares of restricted stock vest and are issued after a one-year service period, subject to each Director attending at least 75% of the Board and committee meetings. No dividends are paid on the shares until the award is issued. During the six months ended June 30, 2017 and 2016, we granted 2,001 and 10,200 shares of restricted stock, respectively, to our Directors with a weighted average grant date fair value per share of \$89.93 and \$18.08, respectively.

We recorded \$1.9 million and \$4.1 million of compensation expense related to our grants of restricted stock for the three and six months ended June 30, 2017, respectively, and we recorded \$2.4 million and \$4.8 million of compensation expense related

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to our grants of restricted stock for the three and six months ended June 30, 2016, respectively. As of June 30, 2017 and December 31, 2016, we had an aggregate \$7.5 million and \$9.6 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.5 years at each period end.

## 6. Income taxes

We are domiciled in the USVI and under current USVI law are obligated to pay taxes in the USVI on our income. We applied for tax benefits from the USVI Economic Development Commission and received our certificate of benefits (the "Certificate"), effective as of February 1, 2013. Pursuant to the Certificate, so long as we comply with its provisions, we will receive a 90% tax reduction on our USVI-sourced income taxes until 2043.

As of June 30, 2017 and December 31, 2016, we accrued no interest or penalties associated with any unrecognized tax benefits, nor did we recognize any interest expense or penalty during the six months ended June 30, 2017 and 2016.

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

## 7. Earnings per share

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Numerator				
Net loss	\$(1,742 )	\$(1,261 )	\$(3,060 )	(2,201 )
Amortization of preferred stock issuance costs	(51 )	(52 )	(103 )	(104 )
Numerator for basic and diluted EPS – loss attributable to common stockholders	\$(1,793 )	\$(1,313 )	\$(3,163 )	\$(2,305 )
Denominator				
Weighted average common stock outstanding – basic	1,563,272	1,776,831	1,554,462	1,883,322
Weighted average common stock outstanding – diluted	1,563,272	1,776,831	1,554,462	1,883,322
Loss per basic common share	\$(1.15 )	\$(0.74 )	\$(2.03 )	\$(1.22 )
Loss per diluted common share	\$(1.15 )	\$(0.74 )	\$(2.03 )	\$(1.22 )

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Numerator				
Amortization of preferred stock issuance costs	\$ 51	\$ 52	\$ 103	\$ 104
Denominator				
Stock options	45,057	167,720	79,198	168,659
Restricted stock	40,635	39,170	40,650	45,646
Preferred stock, if converted	200,000	200,000	200,000	200,000

## 8. Segment information

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

## 9. Subsequent events

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

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

Our Company

We operate in a single segment focused on providing asset management and certain corporate governance services to institutional investors. We were incorporated in the United States Virgin Islands (“USVI”) on March 15, 2012. In October 2013, we applied for and were granted registration by the Securities and Exchange Commission (“SEC”) as a registered investment adviser under section 203(c) of the Investment Advisers Act of 1940.

Our primary client currently is Altisource Residential Corporation (“RESI”), a publicly-traded real estate investment trust focused on acquiring and managing quality, affordable single-family rental (“SFR”) properties for working class families throughout the United States. RESI is currently our primary source of revenue and drives our results.

We provide services to RESI pursuant to an asset management agreement (the “AMA”) under which we are the exclusive asset manager for RESI for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The AMA provides for a fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for loans and real estate owned (“REO”) properties that become rental properties during each quarter.

Our strategy for RESI is to build long-term shareholder value through the creation of a large portfolio of SFR homes that are targeted to operate at a best-in-class yield. We believe there is a compelling opportunity in the single-family rental market and that we have implemented the right strategic plan for RESI to capitalize on the sustained growth in single-family rental demand. We target the moderately priced single-family home market for RESI which, in our view, offers optimal yield opportunities for RESI that should benefit AAMC in the form of growing management fees as RESI continues to grow.

In order to achieve this goal for both RESI and AAMC, we have focused on (i) identifying and acquiring high-yielding SFR properties for RESI in pools or on a targeted, individual basis; (ii) working with RESI’s property managers to implement a cost-effective and scalable property management structure; (iii) selling certain mortgage loans and non-rental REO properties for RESI that do not meet its targeted rental criteria, which generates cash that RESI may reinvest in acquiring additional SFR properties; (iv) resolving the remaining mortgage loans in RESI’s portfolio, including the conversion of a portion of the underlying properties to rental units and (v) extending the duration of RESI’s financing arrangements to better match the long-term nature of our rental portfolio.

Additionally, we provide management services to our wholly owned subsidiary, NewSource Reinsurance Company Ltd. (“NewSource”), a title insurance and reinsurance company in Bermuda. On December 2, 2013, NewSource became registered as a licensed reinsurer with the Bermuda Monetary Authority. 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, and its reinsurance and insurance business has been dormant since that time. We consolidate NewSource in our condensed consolidated financial statements.

Management Overview

During the second quarter of 2017, we made substantial progress on RESI's strategic objectives through continued SFR property acquisitions, the sale of the majority of its mortgage loans and the disposition of non-rental REO properties.

On June 29, 2017, we negotiated and consummated RESI's second closing under its previously disclosed agreement to acquire up to 3,500 SFR properties (the "HOME Flow Transaction") from entities (the "Sellers") sponsored by Amherst Holdings, LLC ("Amherst") in multiple closings. In this second closing, RESI's indirect wholly owned subsidiary, HOME SFR Borrower III, LLC ("HOME Borrower III"), acquired 751 SFR properties for an aggregate purchase price of \$117.1 million. To date, RESI has acquired 1,508 SFR properties pursuant to the HOME Flow Transaction, including the 757 SFR properties acquired by its indirect wholly owned subsidiary, HOME SFR Borrower II, LLC ("HOME Borrower II") on March 30, 2017.

The purchase price of the second closing was funded with approximately \$87.8 million in a seller financing arrangement representing 75% of the aggregate purchase price (the "HOME III Loan Agreement"). The HOME III Loan Agreement is a floating rate loan, composed of eight floating rate components, interest on each of which is computed monthly based on one-month LIBOR plus a fixed component spread. The entire principal amount is currently allocable to one component at a fixed-rate spread over one-month LIBOR, which is anticipated to be the weighted average fixed rate spread for the duration of the HOME III Loan Agreement. The initial maturity date of the HOME III Loan Agreement is October 9, 2019. HOME Borrower

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III has the option to extend the HOME III Loan Agreement beyond the initial maturity date for three successive one-year extensions, provided, among other things, that there is no event of default under the HOME III Loan Agreement on each maturity date.

In connection with both closings under the HOME Flow Transaction, RESI again retained Main Street Renewal, LLC (“MSR”), the current property manager for the portfolio, to provide property management services for the acquired rental homes, including leasing and lease management, operations, maintenance, repair, property management and property disposition services. We believe that RESI's property management agreements with MSR and Altisource Portfolio Solutions S.A. are, and will continue to be, key drivers of efficiency and cost management in RESI's model. We believe such agreements will also provide RESI with scalable, established, geographically dispersed property management infrastructures to support its growing portfolio of SFR properties.

During the second quarter of 2017, we also continued RESI's efforts to recycle capital through the sale of certain mortgage loans and non-rental REO properties. We advised RESI on the successful completion of the sale of 2,104 mortgage loans during May 2017, bringing the total NPLs sold by RESI in bulk transactions to 2,660 for the first six months of 2017. As of June 30, 2017, RESI has sold the substantial majority of its non-performing and re-performing loans. In addition, we have continued to assist RESI in making significant progress on the sale of its non-rental REO properties with an additional 522 and 935 of such properties sold during the three and six months ended June 30, 2017, respectively. These mortgage loan and non-rental REO property sales continue to allow RESI to recycle capital to purchase pools of stabilized rental homes at attractive yields, to repurchase common stock or to utilize the proceeds for such other purposes as RESI determines will best serve its stockholders.

We have continued our efforts to optimize RESI's financing structure. In addition to securing the HOME III Loan Agreement in June 2017, we also facilitated RESI's entry, on April 6, 2017, into a fixed rate, five-year credit and security agreement with an aggregate principal balance of \$100.0 million (the “Term Loan Agreement”). The majority of the proceeds of the Term Loan Agreement were used to reduce RESI's balances on certain of its other short-term repurchase and loan agreements. We believe that the Term Loan Agreement, together with the seller financing arrangements obtained under the HOME Flow Transaction, better matches the long term nature of RESI's assets than the shorter term repurchase and loan agreements historically used to finance its portfolios while providing RESI with protection against rising interest rates.

Additionally, on April 6, 2017, we facilitated RESI's amendment and restatement of its loan and security agreement with Nomura Corporate Funding Americas, LLC to, among other things, extend the termination date of the facility by one year to April 5, 2018.

We believe the foregoing developments are critical to our strategy of building long-term stockholder value for RESI through the creation of a large portfolio of SFR homes that we target operating for RESI at a best-in-class yield. To the extent RESI is successful in implementing this strategy under our management, the fees we earn under the AMA should be positively impacted.

#### Asset Management Agreement with RESI

Pursuant to the AMA, we design and implement RESI's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by RESI's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of RESI's day-to-day operations; (2) defining investment criteria in RESI's investment policy in cooperation with its Board of Directors; (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities; (4) analyzing and executing sales of REO properties and residential mortgage loans; (5) overseeing the renovation, leasing and property management of RESI's SFR properties performed by its property managers; (6) overseeing the servicing of RESI's residential

mortgage loan portfolios; (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

We provide RESI with a management team and support personnel who have substantial experience in the acquisition and management of residential properties and residential mortgage loans. Both the management team and support personnel are employed exclusively by AAMC or affiliates thereof and are thus not employees of RESI. Our management also has significant corporate governance experience that enables us to manage RESI's business and organizational structure efficiently. We have agreed not to provide the same or substantially similar services without the prior written consent of RESI's Board of Directors to any business or entity competing against RESI in (a) the acquisition or sale of SFR and/or REO properties, non-performing and re-performing mortgage loans or other similar assets; (b) the carrying on of a single-family rental business or (c) any other activity in which RESI engages. Notwithstanding the foregoing, we may engage in any other business or render similar or

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different services to any businesses engaged in lending or insurance activities or any other activity other than those described above. Further, at any time following RESI's determination and announcement that it will no longer engage in any of the above-described competitive activities, we would be entitled to provide advisory or other services to businesses or entities in such competitive activities without RESI's prior consent.

The AMA, which became effective on April 1, 2015, provides for a management fee structure as follows:

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

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

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

Because RESI has more than 4,500 rented properties, we are entitled to receive a base management fee of 2.0% of RESI's invested capital and a potential incentive management fee percentage of 25% of the amount by which RESI exceeds its then-required return on invested capital threshold.

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

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

Under the AMA, RESI reimburses us for the compensation and benefits of the general counsel dedicated to RESI and certain other out-of-pocket expenses incurred on RESI's behalf.

The AMA requires that we are the exclusive asset manager for RESI for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to RESI achieving an average annual return on invested capital of at least 7.0%. RESI's termination rights under the AMA are significantly limited. Neither party is entitled to terminate the AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or RESI "for cause" for certain events such as a material breach of the AMA and failure to cure such breach, (b) RESI for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the AMA or (c) RESI in connection with certain change of control events.

No incentive management fee was due from RESI for the second quarter of 2017 because RESI's return on invested capital (as defined in the AMA) was below the cumulative required hurdle rate. Under the AMA, to the extent RESI has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an incentive management fee. As of June 30, 2017, RESI's aggregate return shortfall under the AMA was approximately 60.40% of



invested capital. As each quarter with a shortfall rolls off the trailing seven quarters, the aggregate shortfall will change by the difference in the quarter that rolls off versus the most recently completed quarter.

If the AMA were terminated by RESI, our financial position and future prospects for revenues and growth would be materially adversely affected.

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Metrics Affecting our Consolidated Results

Revenues

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

Expenses

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

Results of Operations

The following sets forth discussion of our results of operations for the three and six months ended June 30, 2017 and 2016.

Three and Six Months Ended June 30, 2017 Compared to Three and Six Months Ended June 30, 2016

Management Fees and Expense Reimbursements

Pursuant to the AMA, we received base management fees from RESI of \$4.0 million and \$8.2 million during the three and six months ended June 30, 2017, respectively, compared to \$4.5 million and \$8.6 million during the three and six months ended June 30, 2016, respectively. The decrease in base management fees is primarily driven by declines in RESI's average invested capital, partially offset by increases in the base management fee percentage under the AMA related to the increase in RESI's rental portfolio.

We received conversion fees from RESI of \$0.4 million and \$1.0 million during the three and six months ended June 30, 2017, respectively, compared to \$0.5 million and \$0.9 million during the three and six months ended June 30, 2016, respectively. We expect the conversion fees we receive to fluctuate dependent upon the number and fair market

value of properties converted to rented properties for the first time during the quarter.

Because RESI has more than 4,500 rented properties, we are entitled to receive a base management fee of 2% of RESI's invested capital and a potential incentive management fee percentage of 25% of the amount by which RESI exceeds its then-required return on invested capital threshold.

We recognized expense reimbursements due from RESI of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2017, respectively, compared to \$0.4 million for each of the three and six months ended June 30, 2016. Expense reimbursements relate primarily to travel and other out-of-pocket costs in managing RESI's business and the employment costs related to the general counsel dedicated to RESI.

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Salaries and Employee Benefits

Salaries and employee benefits were \$5.3 million and \$4.4 million during the three months ended June 30, 2017 and 2016, respectively. The increase in salaries and benefits in 2017 is primarily due to increases in employee headcount, partially offset by reduced share-based compensation expense related to restricted stock grants to management.

Salaries and employee benefits were \$10.0 million and \$8.6 million during the six months ended June 30, 2017 and 2016, respectively. The increase in salaries and benefits in 2017 is primarily due to increases in employee headcount, partially offset by reduced share-based compensation expense related to restricted stock grants to management. The 2017 amount also includes \$0.6 million related to dividends declared and paid by the Board of Directors on the preferred stock issued to our USVI employees under our 2016 Employee Preferred Stock Plan.

Legal and Professional Fees

Legal and professional fees were \$0.3 million and \$0.5 million during the three months ended June 30, 2017 and 2016, respectively. This decrease is primarily due to a decrease in legal fees related to a reduction in the preparation and filing of motions related to the City of Cambridge class action, which was dismissed with prejudice during the second quarter of 2017.

Legal and professional fees were \$1.0 million and \$1.1 million during the six months ended June 30, 2017 and 2016, respectively. This decrease is primarily due to a decrease in legal fees related to a reduction in the preparation and filing of motions related to the City of Cambridge class action, which was dismissed with prejudice during the second quarter of 2017.

General and Administrative Expenses

General and administrative expenses were \$0.7 million and \$1.2 million during the three months ended June 30, 2017 and 2016, respectively. This decrease was primarily due to decreased share-based compensation expense related to non-employee awards.

General and administrative expenses were \$1.9 million and \$2.2 million during the six months ended June 30, 2017 and 2016, respectively. This decrease was primarily due to decreased share-based compensation expense related to non-employee awards.

Dividend Income on RESI Common Stock

Dividends received on shares of RESI common stock decreased to \$243 thousand and \$487 thousand for the three and six months ended June 30, 2017, respectively, from \$244 thousand and \$536 thousand for the three and six months ended June 30, 2016, respectively, primarily due to the non-recurrence of a special dividend declared by RESI in the first quarter of 2016.

Liquidity and Capital Resources

As of June 30, 2017, we had cash and cash equivalents of \$31.7 million compared to \$40.6 million as of December 31, 2016. At June 30, 2017, we also had \$21.0 million in RESI common stock, compared to \$17.9 million in RESI common stock as of December 31, 2016, due to the increase in RESI's stock price during the first six months of 2017. We also continue to generate asset management fees from RESI under our AMA. We believe that these sources of liquidity will be sufficient to enable us to meet anticipated short-term (one year) liquidity requirements since we are continuing to generate asset management fees under the AMA and receiving dividend income on the

RESI common stock we own and our only ongoing cash expenditures are salaries and employee benefits, legal and professional fees, lease obligations and other general and administrative expenses.

#### Treasury Shares

At June 30, 2017, a total of \$265.5 million in shares of our common stock had been repurchased under the authorization by our Board of Directors to repurchase up to \$300.0 million in shares of our common stock. Repurchased shares are held as treasury stock and are available for general corporate purposes. We have an aggregate of \$34.5 million remaining for repurchases under our Board-approved repurchase plan.

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## Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth our cash flows for the periods indicated (\$ in thousands):

	Six months ended June 30, 2017	Six months ended June 30, 2016
Net cash used in operating activities	\$(3,477)	\$(6,250 )
Net cash used in investing activities (1)	—	(132,290 )
Net cash used in financing activities	(5,455 )	(6,585 )
Total cash flows	\$(8,932)	\$(145,125)

(1) Upon deconsolidation of RESI effective January 1, 2016, we recognized a reduction in cash of \$116.7 million, which represented the cash attributable to RESI within our consolidated balance sheet as of December 31, 2015.

Net cash used in operating activities for the six months ended June 30, 2017 and 2016 consisted primarily of payment of salaries, annual incentive compensation, dividends on preferred stock issued to employees, legal and professional fees, lease obligations and other general and administrative expenses.

We had no investing cash flows during the six months ended June 30, 2017. Net cash used in investing activities for the six months ended June 30, 2016 consisted primarily of our purchases of the common stock of RESI and a reduction of reported cash due to the deconsolidation of RESI effective January 1, 2016.

Net cash used in financing activities for the six months ended June 30, 2017 and 2016 consisted primarily repurchases of our common stock.

## Off-balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2017 or December 31, 2016.

## Recent Accounting Pronouncements

See Item 1 - Financial statements (unaudited) - "Note 1. Organization and basis of presentation - Recently issued accounting standards."

## Critical Accounting Judgments

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of generally accepted accounting principles involves the exercise of varying degrees of judgment. Certain amounts included in or affecting our financial statements and related disclosures must be estimated, which requires us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our condensed consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities and our revenues and expenses during the reporting period and our disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements. Actual results may differ significantly from our estimates, and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in

which the facts that give rise to the revision become known.

For additional details on our critical accounting judgments, please see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Judgments” in our Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC on March 1, 2017.

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Item 3. Quantitative and qualitative disclosures about market risk

Market risk includes risks that arise from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market sensitive instruments. The primary market risk that we are currently exposed to is market risk related to our investment in RESI's common stock.

Investment Risk Relating to RESI's Common Stock

We hold an aggregate of 1,624,465 shares of RESI common stock in open market transactions, and we may purchase additional shares of RESI common stock from time to time. If additional purchases are commenced, any such purchases of RESI common stock by us may be discontinued at any time, or we may commence sales of such common stock. To the extent we have purchased, or continue to acquire, RESI common stock, we will be exposed to risks and uncertainties with respect to our ownership of such shares, including downward pressure on RESI's stock price, a reduction or increase of dividends declared and paid on the RESI stock and/or an inability to dispose of such shares at a time when we otherwise may desire or need to do so. There can be no assurance that we will be successful in mitigating such risks.

In addition, under the terms of the AMA, RESI has the flexibility to pay up to 25% of our incentive management fees in shares of RESI common stock. Should RESI make this election, we would further be exposed to the above-described market risk on the shares we receive.

Item 4. Controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, management has determined that the Company's disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.





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Part II

Item 1. Legal proceedings

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party during 2017:

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

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff, and lead plaintiff filed an amended complaint on June 19, 2015.

AAMC and Mr. Erbey filed a motion to dismiss the amended complaint for failure to state a claim upon which relief can be granted, and on April 6, 2017, the Court issued an opinion and order granting defendants' motion to dismiss.

On May 1, 2017, Plaintiff filed a motion for leave to amend the complaint and, at the same time, filed a proposed first amended consolidated complaint. AAMC and Mr. Erbey opposed the motion, and on July 5, 2017, the Court issued an opinion and order denying with prejudice the motion of the Plaintiff for leave to file the first amended consolidated complaint.

On July 7, 2017, Plaintiff filed a notice of appeal with the Third Circuit Court of Appeals with respect to the federal district court's April 6, 2017 memorandum and order granting Defendants' motion to dismiss, the April 6, 2017 order granting Defendants' motion to dismiss and the July 5, 2017 order denying with prejudice Plaintiff's motion for leave to file the first amendment consolidated complaint in the matter.

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

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

On May 15, 2015, the plaintiff and the defendants filed an agreed motion to stay the action until the earliest of any of the following events: (i) the City of Cambridge Retirement System action is dismissed with prejudice; (ii) any of the

defendants in the City of Cambridge Retirement System action file an answer in that action; and (iii) defendants do not move to stay any later-filed derivative action purportedly brought on behalf of us arising from similar facts as the Kanga action and relating to the same time frame or such motion to stay is denied.

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

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

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## Item 1A. Risk factors

There have been no material changes in our risk factors since December 31, 2016. For information regarding our risk factors, you should carefully consider the risk factors discussed in “Item 1A. Risk factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 1, 2017.

## Item 2. Unregistered sales of equity securities and use of proceeds

## Issuance of Preferred Shares to USVI Employees

On January 5, 2017, we issued an aggregate of 900 shares of preferred stock to certain of our USVI employees pursuant to our 2016 Employee Preferred Stock Plan. These shares of preferred stock are mandatorily redeemable by us in the event of the holder's termination of service with the Company for any reason; therefore, these shares are classified within accounts payable and accrued liabilities in our condensed consolidated balance sheet.

## Issuer Purchases of Equity Securities

In March 2014, the Board of Directors authorized a stock repurchase plan of up to \$300.0 million of common stock. During the second quarter of 2017, we repurchased an aggregate of 11,840 shares for an aggregate purchase price of \$1.0 million. As of June 30, 2017, we have remaining approximately \$34.5 million authorized by our Board of Directors for share repurchases. Repurchased shares will be held as treasury stock and will be available for general corporate purposes.

Below is a summary of our stock repurchases for the quarter ending June 30, 2017 (in thousands, except share and per share amounts):

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Value of Shares that may yet be Purchased Under Plans or Programs (1)
April 1, 2017 to April 30, 2017	—	\$	—1,178,766	\$ 35,484
May 1, 2017 to May 31, 2017	7,394	81.00	1,186,160	34,885
June 1, 2017 to June 30, 2017	4,446	90.25	1,190,606	34,484
For the quarter ended June 30, 2017	11,840	84.47	1,190,606	34,484

(1) Since Board approval of repurchases is based on a dollar amount, we cannot estimate the number of shares remaining to be purchased.

## Item 4. Mine safety disclosures

Not applicable.



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Item 6. Exhibits

Exhibits

Exhibit Number	Description
2.1	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
3.1	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
3.2	First Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed with the SEC on December 5, 2012).
3.3	Certificate of Designations establishing the Company's Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2014).
<u>31.1</u> *	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
<u>31.2</u> *	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
<u>32.1</u> *	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
<u>32.2</u> *	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Altisource Asset Management Corporation

Date: August 8, 2017 By: /s/ Robin N. Lowe

Robin N. Lowe

Chief Financial Officer

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