LIQUIDITY SERVICES INC
Form 4
October 04, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
CLOUGH PHILLIP A

(Last) (First) (Middle)

400 EAST PRATT STREET, SUITE 910

(Street)

BALTIMORE, MD 21202-3116

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LIQUIDITY SERVICES INC [LQDT]

3. Date of Earliest Transaction (Month/Day/Year)
10/02/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								3,262,643 (1)	I	See Foot Note (2)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8 D S (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Employee Stock Option (right to buy)	$ 14.75	10/02/2006		A		9,393		(3)	10/02/2016	Common Stock	9,393	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CLOUGH PHILLIP A 400 EAST PRATT STREET SUITE 910 BALTIMORE, MD 21202-3116	X	X		

Signatures

/s/ James E. Williams, by power of attorney	10/04/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The shares are owned directly by ABS Capital Partners IV, L.P. ("ABS Capital Partners IV") in the amount of 2,887,105 shares, ABS Capital Partners IV-A, L.P. ("ABS Capital Partners IV-A") in the amount of 96,664 shares, ABS Capital Partners IV Offshore, L.P. ("ABS Capital Partners IV Offshore") in the amount of 165,817, ABS Capital Partners IV Special Offshore, L.P. ("ABS Capital Partners IV Special Offshore," and together with ABS Capital Partners IV, ABS Capital Partners IV-A, ABS Capital Partners IV Offshore, "The Funds") in the amount of 113,057 shares. ABS Partners IV, L.L.C., is the general partner of the Funds (the "General Partner"), and Donald B. Hebb, Jr., Timothy T. Weglicki, John D. Stobo, Jr., Phillip A. Clough, Frederic G. Emry, Ashoke Goswami, Ralph S. Terkowitz, and Laura L. Witt, as the managers of the General Partner (the "Managers"), are indirect beneficial owners of the reported securities

(2) Mr. Phillip Clough is a managing member of ABS Partners IV, LLC, which is the general partner of the ABS Entities. ABS Partners IV, LLC exercises voting and dispositive power over the shares held by the ABS Entities. Mr. Clough disclaims beneficial ownership of these shares except to the extent of his pecuniary interest

(3) These stock options will have a one-year vesting period, such that 100% of this option grant will vest on 10/2/2007.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

 dden;font-size:10pt;">
14,900

(14,900
)

—

Conversion fees
—

—

728

(728
)

—

Expense reimbursements
—

—

750

(750
)

—

Rental revenues
7,561

—

—

—

Explanation of Responses:

7,561

Change in unrealized gain on mortgage loans
130,842

—

—

—

130,842

Net realized gain on mortgage loans
47,528

—

—

—

47,528

Net realized gain on mortgage loans held for sale
505

—

—

—

505

Net realized gain on real estate
36,926

—

—

—

36,926

Interest income
595

563

—

(563
)

595

Total revenues
223,957

563

26,419

(26,982
)

223,957

Expenses:

Salaries and employee benefits
—

—

6,325

—

6,325

Share-based compensation
139

—

4,322

—

4,461

Legal and professional fees
5,502

158

4,364

—

10,024

Residential property operating expenses
45,890

—

—

—

45,890

Real estate depreciation and amortization
4,392

—

—

—

4,392

Selling costs and impairment
34,235

—

—

—

34,235

Mortgage loan servicing costs
47,989

—

—

—

47,989

Interest expense
39,477

—

—

(563
)

38,914

General and administrative
3,856

—

1,799

—

5,655

Related party general and administrative
25,789

630

2,000

(28,419
)

—

Total expenses

Explanation of Responses:

207,269

788

18,810

(28,982
)

197,885

Other income
3,518

—

178

(3,696
)

—

Income (loss) before income taxes
20,206

(225
)

7,787

(1,696
)

26,072

Income tax expense
53

—

187

—

240

Net income (loss)
20,153

(225
)

7,600

(1,696
)

25,832

Net income attributable to noncontrolling interest in consolidated affiliate
—

—

—

(20,181
)

(20,181
)
Net income (loss) attributable to stockholders
$
20,153

$
(225
)

$
7,600

$
(21,877
)

$
5,651

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

	Residential (GAAP)	NewSource stand-alone (Non-GAAP)	AAMC Stand-alone (Non-GAAP)	Consolidating Entries	AAMC Consolidated (GAAP)
Assets:					
Real estate held for use:					
Land	$56,346	$ —	$ —	$ —	$56,346
Rental residential properties, net	224,040	—	—	—	224,040
Real estate owned	455,483	—	—	—	455,483
Total real estate held for use, net	735,869	—	—	—	735,869
Real estate assets held for sale	250,557	—	—	—	250,557
Mortgage loans at fair value	960,534	—	—	—	960,534
Mortgage loans held for sale	317,336	—	—	—	317,336
Cash and cash equivalents	116,702	4,583	63,259	—	184,544
Restricted cash	20,566	—	—	—	20,566
Accounts receivable, net	45,903	—	123	—	46,026
Related party receivables	2,180	—	—	(2,180)	—
Investment in affiliate	—	—	12,007	(12,007)	—
Prepaid expenses and other assets	1,126	5	2,028	10	3,169
Total assets	$2,450,773	$ 4,588	$ 77,417	$ (14,177)	$2,518,601
Liabilities:					
Repurchase agreement	$763,369	$ —	$ —	$ —	$763,369
Other secured borrowings	502,599	—	—	—	502,599
Accrued salaries and employee benefits	—	—	4,006	—	4,006
Accounts payable and other accrued liabilities	32,448	1,546	722	—	34,716
Related party payables	—	—	2,180	(2,180)	—
Total liabilities	1,298,416	1,546	6,908	(2,180)	1,304,690
Commitments and contingencies	—	—	—	—	—
Redeemable preferred stock	—	—	249,133	—	249,133
Stockholders' equity (deficit):					
Common stock	556	—	26	(556)	26
Additional paid-in capital	1,202,418	7,000	21,089	(1,207,088)	23,419
(Accumulated deficit) retained earnings	(50,617)	(3,958)	55,245	50,008	50,678
Treasury stock	—	—	(254,984)	—	(254,984)
Total stockholders' equity (deficit)	1,152,357	3,042	(178,624)	(1,157,636)	(180,861)
Noncontrolling interest in consolidated affiliate	—	—	—	1,145,639	1,145,639
Total equity (deficit)	1,152,357	3,042	(178,624)	(11,997)	964,778
Total liabilities and equity	$2,450,773	$ 4,588	$ 77,417	$ (14,177)	$2,518,601

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Results of Operations

The following sets forth discussion of our results of operations for the three and nine months ended September 30, 2016 and 2015. Because the results of Residential were consolidated into our financial statements for all periods prior to January 1, 2016, the results of operations for periods beginning on or after January 1, 2016 are not comparable to the results of periods prior to January 1, 2016. As such, the disclosures set forth below do not compare the results of operations attributable to Residential to those of AAMC, including its wholly owned subsidiaries, from period to period.

We eliminate all intercompany amounts in our consolidated financial statements, which included elimination of management fees paid or owed to us by Residential for periods prior to January 1, 2016. However, the effect of such amounts received from Residential is still recognized in net income attributable to our stockholders through the adjustment for earnings attributable to noncontrolling interest for such prior periods.

Three and Nine Months Ended September 30, 2016 Versus Three and Nine Months Ended September 30, 2015

We did not recognize any rental revenues, change in unrealized gain on mortgage loans, net realized gain on mortgage loans, net realized gain on mortgage loans held for sale, net realized gain on real estate, residential property operating expenses, real estate depreciation and amortization, selling costs and impairment, mortgage loan servicing costs or interest expense during the three and nine months ended September 30, 2016. All amounts recorded in our consolidated financial statements for these captions in 2015 are attributable to Residential. In addition, the net income attributable to noncontrolling interest in consolidated affiliate is no longer applicable for periods beginning on or after January 1, 2016.

Management Fees and Expense Reimbursements

We received total management fees from Residential under the New AMA of $4.7 million and $14.2 million during the three and nine months ended September 30, 2016, respectively, compared to $5.0 million and $25.1 million during the three and nine months ended September 30, 2015, respectively. The reduction in management fees received from Residential was primarily due to the change in fee structure upon entering into the New AMA and decreases in Residential's average invested capital upon which the management fee is calculated.

Our management fees received for the three and nine months ended September 30, 2016 consisted of $4.2 million and $12.8 million of Base Management Fees, respectively, and $0.5 million and $1.4 million of Conversion Fees, respectively. We did not receive any Incentive Management Fees under the New AMA during the nine months ended September 30, 2016. Our management fees received from Residential during the three and nine months ended September 30, 2015 consisted of $4.7 million and $9.4 million of Base Management Fees, respectively, and $0.3 million and $0.7 million of Conversion Fees, respectively, under the New AMA. In addition, our management fees for the nine months ended September 30, 2015 included $14.9 million of management incentive fees under the Original AMA for the first quarter of 2015. Pursuant to the terms of the New AMA, the management incentive fees for the first quarter of 2015 were recalculated during the fourth quarter of 2015, and it was determined that $6.9 million was reimbursable by us to Residential.

Following Residential’s completion of the HOME SFR Transaction described above in “Management Overview,” Residential has now exceeded 4,500 rented properties which, commencing in the fourth quarter of 2016, drives an increase in the Base Management Fee to 2% of Residential’s invested capital and an increase in the Incentive Management Fee percentage to 25% of the amount by which Residential exceeds its then-required return on invested capital threshold.

We recognized expense reimbursements of $0.2 million and $0.6 million for the three and nine months ended September 30, 2016, respectively, related to travel and other out-of-pocket costs in managing Residential's business and the employment costs of related to the general counsel dedicated to Residential. We received expense reimbursements of $0.8 million for the nine months ended September 30, 2015 related to expenses reimbursable to us under the Original AMA during the first quarter of 2015.

Prior to January 1, 2016, we eliminated all management fees and expense reimbursements from Residential in our consolidated statement of operations.

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Rental Revenues

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any rental revenues during the nine months ended September 30, 2016. Residential's rental revenues from its residential rental properties were $4.0 million and $7.6 million for the three and nine months ended September 30, 2015, respectively.

Changes in Unrealized Gain on Mortgage Loans

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any change in unrealized gain on mortgage loans during the nine months ended September 30, 2016. Residential's change in unrealized gains on mortgage loans were $27.5 million and $130.8 million for the three and nine months ended September 30, 2015, respectively, which was driven by $17.0 million and $68.4 million, respectively, of unrealized gains upon conversion of mortgage loans to REO; $33.9 million and $126.6 million, respectively, of unrealized gains from the net increase in the fair value of loans; and $23.4 million and $64.2 million, respectively, of reclassifications from unrealized gains on mortgage loans to realized gains on real estate and mortgage loans.

Net Realized Gain on Mortgage Loans

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any net realized gain on mortgage loans during the nine months ended September 30, 2016. Residential's net realized gains on mortgage loans was $12.9 million and $47.5 million for the three and nine months ended September 30, 2015, respectively. Residential disposed of 145 and 565 mortgage loans during the three and nine months ended September 30, 2015, respectively, primarily from short sales, foreclosure sales and sale of re-performing loans.

Net Realized Gain on Mortgage Loans Held for Sale

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any net realized gain on mortgage loans held for sale during the nine months ended September 30, 2016. Residential recognized $0.1 million and $0.5 million of net realized gains on mortgage loans held for sale during the three and nine months ended September 30, 2015, respectively, due to its resolutions of one and seven re-performing loans during the same periods, respectively.

Net Realized Gain on Real Estate

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any net realized gain on real estate during the nine months ended September 30, 2016. Residential's net realized gains on real estate were $13.9 million and $36.9 million for the three and nine months ended September 30, 2015, respectively, during which Residential disposed of 357 and 932 residential properties, respectively.

Interest and Dividend Income

During the three and nine months ended September 30, 2016, we recognized $0.2 million and $0.8 million, respectively, of dividends from Residential common stock. We recognized no dividends on our Residential common stock during the nine months ended September 30, 2015. We also recognized a nominal amount of interest income on bank balances during the three and nine months ended September 30, 2016 and 2015.

During the three and nine months ended September 30, 2015, we recognized $0.2 million and $0.6 million, respectively, of interest income payable from Residential to NewSource on notes issued by Residential's securitization trust, which was eliminated on consolidation. In addition, Residential accreted $0.1 million and $0.6 million of interest income on its re-performing loans acquired in June 2014 during the three and nine months ended September 30, 2015, respectively.

Salaries and Employee Benefits

Salaries and employee benefits was $2.6 million and $3.0 million during the three months ended September 30, 2016 and 2015, respectively. This decrease in salaries and benefits is primarily due to a one-time bonus catch up accrual that was made in the third quarter of 2015 that did not occur in 2016 as well as lower salaries and benefits due to the departure of certain employees during the three months ended September 30, 2016.

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Salaries and employee benefits was $7.6 million and $6.3 million during the nine months ended September 30, 2016 and 2015, respectively. The increase in salaries and benefits is primarily due to increases in our employee headcount.

Share-based Compensation

Share-based compensation, excluding amounts attributable to Residential during 2015, was $2.4 million and $7.2 million for the three and nine months ended September 30, 2016, respectively, compared to $1.4 million and $4.3 million for the three and nine months ended September 30, 2015, respectively. The increase in share-based compensation was primarily due to awards being granted throughout the nine months of 2015, partially offset by a decrease in the fair value of non-employee awards. In addition, share-based compensation of $45 thousand and $139 thousand was attributable to Residential for the three and nine months ended September 30, 2015, respectively.

Legal and Professional Fees

Legal and professional fees, excluding amounts attributable to Residential during 2015, were $0.4 million and $1.5 million during the three and nine months ended September 30, 2016, respectively, compared to $0.9 million and $4.5 million during the three and nine months ended September 30, 2015, respectively. This decrease is primarily due to a significant reduction in litigation expenses from those incurred during the first nine months of 2015 related to ongoing motion practice in a litigation matter.

In addition to the above, legal and professional fees of $1.4 million and $5.5 million were attributable to Residential for the three and nine months ended September 30, 2015, respectively, which includes legal and professional fees associated with the negotiation of the New AMA during the first quarter of 2015. Pursuant to a cost-sharing agreement, we reimbursed $2.0 million of such fees to Residential, which we recorded in related party general and administrative expenses. Residential recorded $2.0 million of corresponding other income. Both the $2.0 million expense recorded by us and the $2.0 million other income recorded by Residential were eliminated on consolidation as of September 30, 2015.

Residential Property Operating Expenses

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any residential property operating expenses during the nine months ended September 30, 2016. Residential incurred $16.6 million and $45.9 million of residential property operating expenses during the three and nine months ended September 30, 2015, respectively, related to its 6,270 REO properties at September 30, 2015.

Real Estate Depreciation and Amortization

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any real estate depreciation and amortization during the nine months ended September 30, 2016. Residential incurred $2.1 million and $4.4 million of real estate depreciation and amortization during the three and nine months ended September 30, 2015, respectively.

Selling Costs and Impairment

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any selling costs and impairment during the nine months ended September 30, 2016. Residential's selling costs of REO held for sale were $5.9 million and $19.7 million for the three and nine months ended September 30, 2015, respectively. Residential also recognized $1.2 million in mortgage loan selling costs for the three and nine months ended September 30, 2015. Lastly, Residential recognized $3.6 million and $13.4 million of REO valuation impairment for the three and nine months ended September 30, 2015, respectively.

Mortgage Loan Servicing Costs

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any mortgage loan servicing costs during the nine months ended September 30, 2016. Residential incurred $13.5 million and $48.0 million of mortgage loan servicing costs primarily for servicing fees, foreclosure fees and advances of residential property insurance for the three and nine months ended September 30, 2015, respectively.

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Interest Expense

Due to our deconsolidation of Residential effective January 1, 2016, we did not recognize any interest expense during the nine months ended September 30, 2016. Residential incurred $14.2 million and $38.9 million of interest expense for the three and nine months ended September 30, 2015, respectively, related to borrowings under its repurchase and loan facilities (including amortization of deferred financing costs).

General and Administrative Expenses

General and administrative expenses, excluding amounts attributable to Residential for 2015, were $0.6 million and $0.5 million for the three months ended September 30, 2016 and 2015, respectively. This increase was primarily due to occupancy costs of an office location opened in January 2016.

General and administrative expenses, excluding amounts attributable to Residential for 2015, were $1.7 million and $1.8 million for the nine months ended September 30, 2016 and 2015, respectively. This decrease was primarily due to the write-off of leasehold improvements during the second quarter of 2015.

In addition, general and administrative expenses of $1.7 million and $3.9 million were attributable to Residential for the three and nine months ended September 30, 2015, respectively.

Liquidity and Capital Resources

As of September 30, 2016, we had cash and cash equivalents of $41.9 million compared to $67.8 million as of December 31, 2015, excluding cash attributable to Residential. We believe this cash is sufficient to fund our operations since we are generating asset management fees under the New AMA and dividend income related to dividends declared and paid on the 1,624,465 shares of Residential common stock we own and our only ongoing cash expenditures are lease obligations, salaries and employee benefits, legal and professional fees and general and administrative expenses, which are covered by the Base Management Fees we receive under the New AMA.

Following Residential's completion of the HOME SFR Transaction described above in "Management Overview," Residential has now exceeded 4,500 rented properties which, commencing in the fourth quarter of 2016, drives an increase in the Base Management Fee to 2% of Residential's invested capital and an increase in the Incentive Management Fee percentage to 25% of the amount by which Residential exceeds its then-required return on invested capital threshold.

Treasury shares

At September 30, 2016, a total of $256.4 million in shares of our common stock have 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 $43.6 million remaining for repurchases under our Board-approved repurchase plan.

Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. Because we no longer consolidated Residential into our consolidated financial statements as of January 1, 2016, the cash flows reported for the periods presented below are not comparable. The following table sets forth the actual cash flows for the periods indicated ($ in thousands):

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net cash used in operating activities	$(3,049)	$(130,548)
Net cash (used in) provided by investing activities (1)	(132,290)	165,749
Net cash (used in) provided by financing activities	(7,312)	651
Total cash flows	$(142,651)	$35,852

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

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Net cash used in operating activities for the nine months ended September 30, 2016 consisted primarily of net loss and changes in operating assets and liabilities, partially offset by share-based compensation. Net cash used in operating activities for the nine months ended September 30, 2015 by Residential and us consisted primarily of net income and changes in operating assets and liabilities offset by the change in unrealized gains on Residential's mortgage loans and realized gains on mortgage loans and real estate.

Net cash used in investing activities for the nine months ended September 30, 2016 consisted primarily of our purchases of the common stock of Residential and a reduction of reported cash due to the deconsolidation of Residential. Net cash provided by investing activities for the nine months ended September 30, 2015 consisted primarily of Residential's proceeds from the disposition of loans and real estate net of investments in real estate, partially offset by Residential's investment in real estate and renovations.

Net cash used in financing activities for the nine months ended September 30, 2016 consisted primarily repurchases of our common stock. Net cash provided by financing activities for the nine months ended September 30, 2015 consisted primarily of Residential's net proceeds from other secured borrowings, partially offset by Residential's net repayments of repurchase and loan agreements, payment of dividends and repurchases of its common stock.

Off-balance Sheet Arrangements

We have no off-balance sheet arrangements as of September 30, 2016, and neither we nor Residential had any off-balance sheet arrangements as of December 31, 2015.

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 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 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, 2015 as filed with the SEC on February 29, 2016.

Deconsolidation of Residential

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

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

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 Residential's common stock.

Investment Risk Relating to Residential's Common Stock

We have purchased an aggregate of 1,624,465 shares of Residential common stock in open market transactions, and we may purchase additional shares of Residential common stock from time to time. If additional purchases are commenced, any such purchases of Residential 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, Residential common stock, we will be exposed to risks and uncertainties with respect to our ownership of such shares, including downward pressure on Residential's stock price, a reduction or increase of dividends declared and paid on the Residential 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 New AMA, Residential has the flexibility to pay up to 25% of our Incentive Management Fees in shares of Residential common stock. Should Residential 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 not effective as of September 30, 2016 solely as a result of a material weakness related to the operation of our financial statement review procedures.

As described in Part I, Item 4 of our Amendment No. 1 on Form 10-Q/A filed on August 16, 2016 that amended our Form 10-Q for the quarter ended June 30, 2016 filed on August 8, 2016, we identified a material weakness in our internal control over financial reporting relating to the operation of our review procedures related to our consolidated financial statements and footnotes, which resulted in an error in the disclosure of loss per share of common stock for the three and six months ended June 30, 2016.

As described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2015, we identified a material weakness in the design of our internal control over financial reporting that related to the review of assumptions used to determine the fair value of Residential's mortgage loans. As a result of the deconsolidation of

Residential from our consolidated financial statements effective January 1, 2016, our balance sheet and results of operations are no longer affected by the valuation of Residential's mortgage loans, and the mortgage loan portfolio is no longer included in our consolidated financial statements. Therefore, the facts that gave rise to the material weakness are no longer applicable to us.

Changes in Internal Control over Financial Reporting

In an effort to remediate the material weakness related to the operation of our financial statement review procedures with respect to our second quarter 2016 Form 10-Q, we have enhanced our internal control over financial reporting to include additional review procedures, both manual and automated, to ensure we accurately calculate and report financial information.

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Although we anticipate that these additional internal control procedures will have a material positive effect on our internal control framework, our evaluation of the effectiveness of such control procedures is ongoing, and we are continuing to work to ensure these procedures are effective in remediating this material weakness. We believe this material weakness will be remediated in connection with our year-end reviews and determination of the effectiveness of our internal control framework.

Except as described above, 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 September 30, 2016 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 2016:

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

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff. On May 15, 2015, the court entered a scheduling order requiring plaintiff to file an amended complaint on or before June 19, 2015, and setting a briefing schedule for any motion to dismiss. Plaintiff filed an amended complaint on June 19, 2015. On July 20, 2015, AAMC and Mr. Erbey filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on September 3, 2015, and we are awaiting a decision from the court on the motion.

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

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

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

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

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

On February 11, 2015, plaintiff filed an amended complaint naming the directors of Ocwen as defendants and also naming Residential, AAMC, Altisource and Home Loan Servicing Solutions, Ltd. as alleged aiders and abettors of the purported breaches of fiduciary duties. The amended complaint alleges that the directors of Ocwen breached their fiduciary duties by, among other things, allegedly failing to exercise oversight over Ocwen's compliance with applicable laws, rules and regulations; failing to exercise oversight responsibilities with respect to the accounting and financial reporting processes of Ocwen; failing to prevent conflicts of interest and allegedly improper related party transactions; failing to adhere to Ocwen's code of conduct and corporate governance guidelines; selling personal holdings of Ocwen stock on the basis of material adverse inside information; and disseminating allegedly false and misleading statements regarding Ocwen's compliance with regulatory obligations and allegedly self-dealing transactions with related companies. Plaintiff claims that as a result of the alleged breaches of fiduciary duties, Ocwen has suffered damages, including settlements with regulatory agencies in excess of $2

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billion, injury to its reputation and corporate goodwill and exposure to governmental investigations and securities and consumer class action lawsuits. In addition to the derivative claims, the plaintiff also alleges an individual claim that Ocwen’s 2014 proxy statement allegedly contained untrue statements of material fact and failed to disclose material information in violation of federal securities laws. The plaintiff seeks, among other things, an order requiring the defendants to repay to Ocwen unspecified amounts by which Ocwen has been damaged or will be damaged, an award of an unspecified amount of exemplary damages, changes to Ocwen's corporate governance and an award of attorneys’ and other fees and expenses.

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

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

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

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

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

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

On May 13, 2016, we filed a motion to dismiss the Sokolowski action as to us. Subsequently, plaintiffs sought and received an extension to file their opposition to the defendants' motions to dismiss to August 19, 2016 and a further extension to September 29, 2016.

On September 13, 2016, plaintiffs, Ocwen, Mr. Erbey, Mr. Faris, and Mr. Britti requested that the court transfer the case to Magistrate Judge Snow in order to assist with settlement negotiations. The court granted the request, and counsel for plaintiffs and Ocwen appeared before Magistrate Judge Snow on October 13, 2016 for a settlement conference. At the conference, plaintiffs and Ocwen reached an agreement in principle to resolve certain claims, which Ocwen has publicly disclosed it believes will be covered in full by its applicable insurance coverage. Based on our understanding of the settlement terms, we believe the settlement agreement will include our release from any and all liability in the matter. Plaintiffs filed a Settlement Term Sheet under seal on October 18, 2016. The Stipulation of Settlement is due on or before November 18, 2016. A Final Approval Hearing will be held on January 18, 2017.

We believe the complaint against us is without merit. At this time, until the settlement agreement is finalized and approved, 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, 2015. 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, 2015 filed on February 29, 2016.

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

Issuer Purchases of Equity Securities

The Board of Directors has authorized a stock repurchase plan of up to $300.0 million of common stock. During the third quarter of 2016, we repurchased an aggregate of 49,895 shares for an aggregate purchase price of $0.7 million. As of September 30, 2016, we have remaining approximately $43.6 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 September 30, 2016 (dollars in thousands, except price paid per share):

	(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)
July 2016	—	$ —	901,202	$ 44,367
August 2016	4,151	12.93	905,353	44,313
September 2016	45,744	14.61	951,097	43,645
Quarter ended September 30, 2016	49,895	14.47	951,097	43,645

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

Item 4. Mine safety disclosures

Not applicable.

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Explanation of Responses:

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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 Commission 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 Registration Statement on Form 10 filed with the Commission on December 5, 2012).
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 Commission 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 Commission on March 19, 2014).
10.1*	Separation Agreement, dated as of October 26, 2016, between the Company and Kenneth D. Najour.
31.1*	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	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:	November 7, 2016	By:	/s/ Robin N. Lowe
			Robin N. Lowe
			Chief Financial Officer

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