

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____.

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

33-0675505
(I.R.S. Employer
Identification No.)

1950 Jamboree Road, Irvine, California 92612
(Address of principal executive offices)

(949) 475-3600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

There were 10,236,510 shares of common stock outstanding as of August 7, 2015.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	<u>(Unaudited)</u>	
ASSETS		
Cash and cash equivalents	\$ 34,152	\$ 10,073
Restricted cash	3,840	2,420
Mortgage loans held-for-sale	391,198	239,391
Finance receivables	54,313	8,358
Mortgage servicing rights	44,244	24,418
Securitized mortgage trust assets	4,998,500	5,268,531
Goodwill	104,938	352
Intangible assets, net	32,073	—
Deferred tax asset, net	24,420	—
Other assets	36,648	25,029
Total assets	<u>\$ 5,724,326</u>	<u>\$ 5,578,572</u>
LIABILITIES		
Warehouse borrowings	\$ 422,522	\$ 226,718
Short-term debt	—	6,000
Term financing	30,000	—
Convertible notes	45,000	20,000
Contingent consideration	91,407	—
Long-term debt	31,438	22,122
Securitized mortgage trust liabilities	4,980,659	5,251,307
Other liabilities	40,613	27,469

Total liabilities	5,641,639	5,553,616
Commitments and contingencies (See Note 16)		
STOCKHOLDERS' EQUITY		
Series A-1 junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, \$0.01 par value; liquidation value \$16,640; 2,000,000 shares authorized, 665,592 noncumulative shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	7	7
Series C 9.125% redeemable preferred stock, \$0.01 par value; liquidation value \$35,127; 5,500,000 shares authorized; 1,405,086 noncumulative shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	14	14
Common stock, \$0.01 par value; 200,000,000 shares authorized; 10,223,702 and 9,588,532 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	102	96
Additional paid-in capital	1,096,517	1,089,574
Net accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Retained deficit	(191,433)	(242,215)
Net accumulated deficit	(1,013,953)	(1,064,735)
Total stockholders' equity	82,687	24,956
Total liabilities and stockholders' equity	<u>\$ 5,724,326</u>	<u>\$ 5,578,572</u>

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Gain on sale of loans, net	\$ 48,346	\$ 6,293	\$ 85,744	\$ 10,866
Real estate services fees, net	2,355	4,360	5,097	8,039
Servicing income, net	1,017	1,291	1,652	2,859
Loss on mortgage servicing rights	(2,790)	(1,564)	(9,358)	(2,541)
Other	156	121	293	1,507
Total revenues	<u>49,084</u>	<u>10,501</u>	<u>83,428</u>	<u>20,730</u>
Expenses:				
Personnel expense	24,078	9,319	35,568	18,779
Business promotion	8,679	267	8,894	768
General, administrative and other	7,943	4,918	13,378	9,885
Accretion of contingent consideration	3,046	—	3,046	—
Change in fair value of contingent consideration	(11,326)	—	(11,326)	—
Total expenses	<u>32,420</u>	<u>14,504</u>	<u>49,560</u>	<u>29,432</u>
Operating income (loss):	<u>16,664</u>	<u>(4,003)</u>	<u>33,868</u>	<u>(8,702)</u>
Other income (expense):				
Interest income	67,269	68,962	139,876	140,982
Interest expense	(66,310)	(69,058)	(137,860)	(141,391)
Change in fair value of long-term debt	(1,544)	226	(8,661)	(424)
Change in fair value of net trust assets, including trust REO				
(losses) gains	802	4,711	(74)	7,749
Total other income (expense)	<u>217</u>	<u>4,841</u>	<u>(6,719)</u>	<u>6,916</u>
Earnings (loss) before income taxes	16,881	838	27,149	(1,786)
Income tax expense (benefit)	71	756	(23,633)	1,098
Net earnings (loss)	<u>\$ 16,810</u>	<u>\$ 82</u>	<u>\$ 50,782</u>	<u>\$ (2,884)</u>
Earnings (loss) per common share :				
Basic	<u>\$ 1.65</u>	<u>\$ 0.01</u>	<u>\$ 5.13</u>	<u>\$ (0.31)</u>
Diluted	<u>\$ 1.33</u>	<u>\$ 0.01</u>	<u>\$ 4.17</u>	<u>\$ (0.31)</u>

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ 50,782	\$ (2,884)
Gain on sale of mortgage servicing rights	5,722	(1,182)
Change in fair value of mortgage servicing rights	3,636	3,723
Gain on sale of AmeriHome	—	(1,208)
Gain on sale of mortgage loans	(28,551)	(8,746)
Change in fair value of mortgage loans held-for-sale	(2,352)	(2,809)
Change in fair value of derivatives lending, net	(7,800)	(85)
Provision for repurchases	1,320	514
Origination of mortgage loans held-for-sale	(5,016,473)	(814,781)
Sale and principal reduction on mortgage loans held-for-sale	4,842,835	826,917
Losses (gains) from REO	2,463	(9,024)
Change in fair value of net trust assets, excluding REO	(4,583)	(1,327)
Change in fair value of long-term debt	8,661	424
Accretion of interest income and expense	76,555	93,418
Amortization of intangible and other assets	1,192	—
Accretion of contingent consideration	3,046	—
Change in fair value of contingent consideration	(11,326)	—
Amortization of debt issuance costs and discount on note payable	137	24
Stock-based compensation	513	810
Impairment of deferred charge	633	—
Change in deferred tax assets	(24,420)	—
Change in REO impairment reserve	1,402	6,307
Net change in restricted cash	(1,420)	(440)
Net change in other assets and liabilities	9,733	(1,818)
Net cash (used in) provided by operating activities	<u>(88,295)</u>	<u>87,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	302,662	305,305
Proceeds from the sale of mortgage servicing rights	23,550	18,153
Finance receivable advances to customers	(337,468)	(19,251)
Repayments of finance receivables	291,513	15,277
Net change in mortgages held-for-investment	45	3
Purchase of premises and equipment	249	(15)
Net principal change on investment securities available-for-sale	58	46
Acquisition of CashCall Mortgage	(5,000)	—
Payment of acquisition related contingent consideration	(24,905)	—
Proceeds from the sale of REO	14,685	18,467
Proceeds from the sale of AmeriHome	—	10,200
Net cash provided by investing activities	<u>265,389</u>	<u>348,185</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of convertible notes	25,000	—
Issuance of term financing	30,000	—
Repayment of warehouse borrowings	(4,684,407)	(755,437)
Borrowings under warehouse agreement	4,880,211	747,030
Repayment of line of credit	(11,000)	(10,500)
Borrowings under line of credit	7,000	11,500
Repayment of short-term borrowing	(15,000)	—
Short-term borrowing	15,000	—
Repayment of securitized mortgage borrowings	(393,204)	(416,216)
Principal payments on short-term debt	(6,000)	—
Principal payments on capital lease	(401)	(370)
Capitalized debt issuance costs	(500)	—
Proceeds from exercise of stock options	286	32
Net cash used in financing activities	<u>(153,015)</u>	<u>(423,961)</u>
Net change in cash and cash equivalents	24,079	12,057
Cash and cash equivalents at beginning of period	10,073	9,969
Cash and cash equivalents at end of period	<u>\$ 34,152</u>	<u>\$ 22,026</u>

NON-CASH TRANSACTIONS:

	2015	2014
Transfer of securitized mortgage collateral to real estate owned	\$ 18,736	\$ 16,456
Mortgage servicing rights retained from loan sales and issuance of mortgage backed securities	52,734	8,325
Acquisition related goodwill asset related to CashCall	104,586	—
Acquisition related intangible assets related to CashCall	33,122	—
Acquisition related contingent consideration liability related to CashCall	124,592	—
Common stock issued related to CashCall acquisition	6,150	—
Common stock issued upon legal settlement	—	1,948
Acquisition of equipment purchased through capital leases	413	453

See accompanying notes to consolidated financial statements

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IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share and per share data or as otherwise indicated)

Note 1.—Summary of Business and Financial Statement Presentation

Business Summary

Impac Mortgage Holdings, Inc. (the Company or IMH) is a Maryland corporation incorporated in August 1995 and has the following wholly-owned subsidiaries: Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets) and Impac Funding Corporation (IFC).

In the first quarter of 2015, the Company settled its repurchase liability with Fannie Mae (FNMA) related to its legacy non-conforming mortgage operations. As a result of this settlement and previous resolution of other legal matters pertaining to the legacy non-conforming mortgage operations, the Company determined the legacy non-conforming mortgage operations previously reported as discontinued operations is no longer significant for reporting purposes.

The Company's operations include the mortgage lending operations and real estate services conducted by IRES and IMC and the long-term mortgage portfolio (residual interests in securitizations reflected as net trust assets and liabilities in the consolidated balance sheets) conducted by IMH. Beginning in the first quarter of 2015, the mortgage lending operations include the activities of the CashCall Mortgage operations (CCM).

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These interim period condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the United States Securities and Exchange Commission (SEC).

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current period presentation.

Management has made a number of material estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Material estimates subject to change include the fair value estimates of assets acquired and liabilities assumed in the acquisition of CCM as discussed in Note 2. — Acquisition of CashCall Mortgage. Additionally, other items affected by such estimates and assumptions include the valuation of trust assets and trust liabilities, contingencies, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, mortgage servicing rights, mortgage loans held-for-sale and interest rate lock commitments. Actual results could differ from those estimates and assumptions.

Recent Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-01, *Income Statement—Extraordinary and Unusual Items* (Subtopic 225-20). ASU 2015-01 addresses the elimination from U.S. GAAP the concept of extraordinary items. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. This amended guidance will prohibit separate disclosure of extraordinary items in the income statement. This amendment is effective for years, and interim periods within those years, beginning after December 15, 2015. Entities may apply the amendment prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the year of adoption. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

Note 2.—Acquisition of CashCall Mortgage

On January 6, 2015, the Company entered into an Asset Purchase Agreement (the Asset Purchase Agreement) with CashCall, Inc. (CashCall) pursuant to which the Company agreed to purchase certain assets of CashCall's residential mortgage operations. Upon closing, which occurred on March 31, 2015, CashCall's mortgage operations began to operate as a separate division of IMC under the name CashCall Mortgage (CCM). The transaction closed on March 31, 2015 upon meeting all closing conditions. The shares were issued April 1, 2015.

Pursuant to the Asset Purchase Agreement, and subject to the terms and conditions contained therein, the purchase price consists of a fixed component and a contingent component. The fixed component includes (i) the aggregate payment of \$10 million in cash, payable in installments through January 2016 and (ii) 494,017 newly issued unregistered shares of the Company. The contingent component consists of a three year earn-out provision beginning on the effective date (January 2, 2015) of 100% of pre-tax net earnings of CCM for January and February of 2015, 65% of the pre-tax net earnings for the next 10 months of 2015, 55% of pre-tax net earnings for the second year and 45% of pre-tax net earnings for the third year.

If, during the four years following January 2, 2015, the Company sells all or substantially all of its assets or the assets of CCM, the division of IMC, or a person acquires 50% or more of the securities of the Company or IMC, then the Company will pay additional contingent consideration, subject to adjustment, to CashCall of 15% of the enterprise value (as defined in the Asset Purchase Agreement) in excess of \$200 million plus an additional 5% of the enterprise value in excess of \$500 million (Business Appreciation Rights).

During the six months ended June 30, 2015, consideration paid to CashCall, Inc. included \$5.0 million cash and 494,017 shares of common stock of the Company valued at \$6.2 million, pursuant to the fixed component of the Asset Purchase Agreement and \$24.9 million pursuant to the earn-out provision.

The table below presents the purchase price allocation of the estimated acquisition date fair values of assets acquired and the liabilities assumed as of March 31, 2015.

Consideration paid:	
Cash	\$ 5,000
IMH common stock	6,150
Deferred payments	5,000
Contingent consideration (1)	124,592
	<u>\$ 140,742</u>
Assets acquired:	
Trademark	\$ 17,251
Customer list	10,170
Non-compete agreement	5,701
Fixed assets and software	3,034
Total assets acquired	<u>36,156</u>
Liabilities assumed:	
Total liabilities assumed	<u>—</u>
Total assets	<u>\$ 36,156</u>
Goodwill	<u>\$ 104,586</u>

(1) Included within the contingent consideration is \$1.4 million of Business Appreciation Rights, as defined above.

The CCM acquisition was accounted for under the acquisition method of accounting pursuant to FASB Accounting Standards Codification (ASC) 805, *Business Combinations*. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition date. The Company made significant estimates and exercised significant judgment in estimating fair values of the acquired assets and assumed liabilities. The application of the acquisition method of accounting resulted in tax deductible goodwill of \$104.6 million. The acquisition closed on March 31, 2015; however, the effective date of the transaction was January 2, 2015. From the effective date to the date of the close, IMC was entitled to and recognized the net earnings of the loans originated by CCM. Acquisition related costs of \$0.3 million were expensed as incurred. The expenses were comprised primarily of legal and professional fees.

The following table presents unaudited pro forma results of operations for the periods presented as if the CCM acquisition had been completed on January 1, 2014. The unaudited pro forma results of operations include the historical accounts of the Company and CCM and pro forma adjustments, including the amortization of intangibles with definite lives, depreciation of fixed assets, accretion of discount on contingent consideration and elimination of commissions and loan due diligence costs of IMC. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of the future operating results or operating results that would have occurred had the CCM acquisition been completed at the beginning of 2014. No assumptions have been applied to the pro forma results of operations regarding possible revenue enhancements, expense efficiencies or asset dispositions.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	\$ 49,084	\$ 22,342	\$ 101,828	\$ 41,754
Other (expense) income	217	5,071	(6,509)	7,431
Expenses	(37,013)	(35,151)	(77,843)	(67,757)
Pretax net earnings (loss)	\$ 12,288	\$ (7,738)	\$ 17,476	\$ (18,572)

For the three and six months ended June 30, 2015, revenues from CCM were \$33.8 million and \$79.5 million, respectively. For the three and six months ended June 30, 2015, expenses from operations were \$21.5 million and \$40.1 million, respectively. During the first quarter of 2015, expenses related to CCM were included in gain on sale of loans, net in the consolidated statements of operations.

Note 3.—Mortgage Loans Held-for-Sale

A summary of the unpaid principal balance (UPB) of mortgage loans held-for-sale by type is presented below:

	June 30,	December 31,
	2015	2014
Government (1)	\$ 150,179	\$ 156,385
Conventional (2)	201,965	72,553
Other (3)	26,249	—
Fair value adjustment (4)	12,805	10,453
Total mortgage loans held-for-sale	\$ 391,198	\$ 239,391

- (1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
- (2) Includes loans eligible for sale to Fannie Mae and Freddie Mac.
- (3) Includes ALT-QM and Jumbo loans.
- (4) Changes in fair value are included in the statements of operations.

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Gain on mortgage loans held-for-sale (LHFS) is comprised of the following for the three and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Gain on sale of mortgage loans	\$ 64,821	\$ 18,963	\$ 119,813	\$ 32,760
Premium from servicing retained loan sales	30,364	4,562	52,734	8,325
Unrealized (losses) gains from derivative financial instruments	(69)	423	7,799	85
Realized gains (losses) from derivative financial instruments	1,457	(3,972)	(1,705)	(6,143)
Mark to market (loss) gain on LHFS	(8,559)	2,270	2,352	2,809
Direct origination expenses, net	(38,921)	(15,467)	(93,929)	(26,225)
Provision for repurchases	(747)	(486)	(1,320)	(745)
Total gain on sale of loans, net	\$ 48,346	\$ 6,293	\$ 85,744	\$ 10,866

Note 4.—Mortgage Servicing Rights

The Company retains mortgage servicing rights (MSRs) from its sales of certain mortgage loans. MSRs are reported at fair value based on the income derived from the net projected cash flows associated with the servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the loans. The servicing fees are collected from the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges, nonsufficient fund fees and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments.

The following table summarizes the activity of MSRs for the six months ended June 30, 2015 and year ended December 31, 2014:

	June 30,	December 31,
	2015	2014
Balance at beginning of period	\$ 24,418	\$ 35,981
Additions from servicing retained loan sales	52,734	29,388
Reductions from bulk sales	(29,272)	(27,276)
Reduction from sale of AmeriHome	—	(7,446)
Changes in fair value (1)	(3,636)	(6,229)
Fair value of MSRs at end of period	\$ 44,244	\$ 24,418

- (1) Changes in fair value are included within loss on mortgage servicing rights in the consolidated statements of operations.

At June 30, 2015 and December 31, 2014, the outstanding principal balance of the mortgage servicing portfolio was comprised of the following:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Government insured	\$ 812,037	\$ 926,502
Conventional	3,223,667	1,333,853
Alt-QM	24,762	6,731
Total loans serviced	<u>\$ 4,060,466</u>	<u>\$ 2,267,086</u>

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The table below illustrates hypothetical changes in fair values of MSRs, caused by assumed immediate changes to key assumptions that are used to determine fair value. See Note 12.—Fair Value of Financial Instruments, for a description of the key assumptions used to determine the fair value of MSRs.

<u>Mortgage Servicing Rights Sensitivity Analysis</u>	<u>June 30,</u> <u>2015</u>
Fair value of MSRs	\$ 44,244
Prepayment Speed:	
Decrease in fair value from 100 basis point (bp) adverse change	(1,725)
Decrease in fair value from 200 bp adverse change	(3,291)
Discount Rate:	
Decrease in fair value from 100 bp adverse change	(1,673)
Decrease in fair value from 200 bp adverse change	(3,230)

Sensitivities are hypothetical changes in fair value and cannot be extrapolated because the relationship of changes in assumptions to changes in fair value may not be linear. Also, the effect of a variation in a particular assumption is calculated without changing any other assumption, whereas a change in one factor may result in changes to another. Accordingly, no assurance can be given that actual results would be consistent with the results of these estimates. As a result, actual future changes in MSR values may differ significantly from those displayed above.

Loss on mortgage servicing rights is comprised of the following for the three and six months ended June 30, 2015 and 2014:

	<u>For the Three Months</u> <u>Ended June 30,</u>		<u>For the Six Months</u> <u>Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Loss on sale of mortgage servicing rights	\$ (2,248)	\$ 1,198	\$ (5,722)	\$ 1,182
Change in fair value of mortgage servicing rights	(542)	(2,762)	(3,636)	(3,723)
Loss on mortgage servicing rights	<u>\$ (2,790)</u>	<u>\$ (1,564)</u>	<u>\$ (9,358)</u>	<u>\$ (2,541)</u>

During the three months ended June 30, 2015, the Company sold \$1.2 billion in UPB of servicing at a loss of \$2.2 million. The Company also recorded a loss of \$0.5 million for the change in fair value of mortgage servicing rights retained during the three months ended June 30, 2015.

The following is a summary of certain components of servicing income, net as reported in the Company's consolidated statements of operations for the three and six months ended June 30, 2015 and 2014:

	<u>For the Three Months</u> <u>Ended June 30,</u>		<u>For the Six Months</u> <u>Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Contractual servicing fees	\$ 1,595	\$ 1,585	\$ 2,688	\$ 3,656
Late and ancillary fees	9	34	59	80

Note 5.—Goodwill and Intangible assets

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the purchase price over the fair value of the net assets and other identifiable intangible assets acquired. Other intangible assets with definite lives include trademarks, customer relationships, and non-compete agreements. In the first quarter of 2015, the Company acquired CCM and recorded \$104.6 million of goodwill and intangible assets of \$33.1 million consisting of \$17.3 million for trademark, \$10.2 million for customer relationships and \$5.7 million for a non-compete agreement with the former owner of CCM. The purchase price allocation was prepared with the assistance of a 3rd party valuation firm.

Goodwill, trademarks and other intangible assets are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The carrying value of these intangible assets could be impaired if a significant adverse change in the use, life, or brand strategy of the asset is determined, or if a significant adverse change in the legal and regulatory environment, business or competitive climate occurs that would adversely impact the asset.

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Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization but are instead tested for impairment no less than annually. Impairment exists when the carrying value of goodwill exceeds its implied fair value. An

impairment loss, if any, is measured as the excess of carrying value of the goodwill over the implied fair value of the goodwill and would be recorded in other expense in the consolidated statements of operations. Intangible assets with definite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed.

For goodwill, the determination of fair value of a reporting unit involves, among other things, application of the income approach, which includes developing forecasts of future cash flows and determining an appropriate discount rate. Goodwill is considered a level 3 nonrecurring fair value measurement.

The methodology used to determine the fair value of trademarks includes assumptions with inherent uncertainty, including projected sales volumes and related projected revenues, long-term growth rates, royalty rates that a market participant might assume and judgments regarding the factors to develop an applied discount rate. The carrying value of intangible assets is at risk of impairment if future projected revenues or long-term growth rates are lower than those currently projected, or if factors used in the development of a discount rate result in the application of a higher discount rate. The intangible assets are considered level 3 nonrecurring fair value measurements.

The following table presents the changes in the carrying amount of goodwill for the period indicated:

Balance at December 31, 2014	\$ 352
Addition from CCM acquisition	104,586
Balance at June 30, 2015	\$ 104,938

As part of the acquisition of CCM, the purchase price of the intangible assets the Company acquired are listed below:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Life
Intangible assets:				
Trademark	\$ 17,251	\$ (292)	\$ 16,959	14.5
Customer relationships	10,170	(376)	9,794	6.5
Non-compete agreement	5,701	(381)	5,320	3.5
Total intangible assets acquired	<u>\$ 33,122</u>	<u>\$ (1,049)</u>	<u>\$ 32,073</u>	

As part of the acquisition of CCM, the purchase price of other assets the Company acquired are listed below:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Life
Other assets:				
Developed software	\$ 2,719	\$ (143)	\$ 2,576	4.5

Note 6.—Warehouse Borrowings

The Company, through its subsidiaries, enters into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities are used to fund, and are secured by, residential mortgage loans that are held for sale. In accordance with the terms of the Master Repurchase Agreements, the Company is required to maintain cash balances with the lender as additional collateral for the borrowings which are included in restricted cash in the accompanying consolidated balance sheets.

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The following table presents certain information on warehouse borrowings and related accrued interest for the periods indicated:

	Maximum Borrowing Capacity	Balance Outstanding At	
		June 30, 2015	December 31, 2014
Short-term borrowings:			
Repurchase agreement 1	\$ 150,000	\$ 99,505	\$ 64,907
Repurchase agreement 2	50,000	34,744	30,523
Repurchase agreement 3 (1)	—	—	24,012
Repurchase agreement 4 (2)	225,000	127,647	107,276
Repurchase agreement 5	150,000	77,776	—
Repurchase agreement 6	100,000	82,850	—
Total warehouse borrowings	<u>\$ 675,000</u>	<u>\$ 422,522</u>	<u>\$ 226,718</u>

(1) This line expired in April, 2015 and the Company replaced it with a \$100.0 million facility, Repurchase agreement 6.

(2) As of June 30, 2015, \$54.3 million is attributable to financing facility advances made to the Company's warehouse customers.

Note 7.—Term Financing

In June 2015, the Company and its subsidiaries, (IRES, IMC and Impac Warehouse Lending, Inc. (IWL), collectively the (Borrowers)) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of \$30.0 million (Term Financing) due and payable on December 19, 2016, which may extend to December 18, 2017 at the Lender's discretion. In connection with the Term Financing, the Borrowers issued to the Lender a Term Note dated June 19, 2015. The Lender may in its discretion make additional advances in an aggregate amount not to exceed \$50.0 million (including amounts then outstanding). The proceeds from the Term Financing were used to pay off the working capital line of credit with a national bank (approximately \$4.0 million) and amounts under an existing master repurchase agreement with the Lender (approximately \$3.2 million). The Borrowers also paid the Lender an origination fee of \$300 thousand. Interest on the Term Financing is payable monthly and accrues at a rate of LIBOR plus 8.5% per annum. Amounts under the Term Financing may be prepaid at any time without penalty or premium, provided, however, that any prepayments made within nine months of the closing date will be subject to, with certain exceptions, a prepayment premium

equal to 50% of the then applicable interest rate multiplied by the amount of the prepayment. The Borrowers are subject to mandatory prepayment on the Term Financing based on a borrowing base formula that includes amounts under outstanding warehouse facilities, market value of mortgage servicing rights and residual securities and certain mortgage loans.

The obligations of the Borrowers under the Loan Agreement are secured by assets and a pledge of all of the capital stock of the operating subsidiaries IRES, IMC and IWLII pursuant to a Security Agreement dated as of June 19, 2015 between the Borrowers and the Lender (Security Agreement).

The Term Financing is subject to customary affirmative and negative covenants of the Borrowers. Upon an event of default, all outstanding amounts under the Term Financing may become immediately due and payable. An event of default also occurs upon a change of control, which means acquisition of more than 25% of the common stock of the Company, more than 50% of the common stock of any other Borrower, or the ability to elect a majority of such Borrower's directors or an event that triggers a violation of a change of control provision in any of the Borrowers' warehouse facilities.

Note 8.—Convertible Notes

In April 2013, the Company entered into a Note Purchase Agreement with the purchasers named therein, whereby the Company issued \$20.0 million in original aggregate principal amount of Convertible Promissory Notes Due 2018 (Convertible Notes). Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of \$10.875 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$16.31 for 20 trading days in a 30 day consecutive period. The 2013 Convertible Notes mature on or before April 30, 2018 and accrue interest at a rate of 7.5% per annum, to be paid quarterly.

On May 8, 2015, the Company issued an additional \$25.0 million Convertible Promissory Notes (2015 Convertible Notes). The 2015 Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Note holders may convert all or a portion of the outstanding principal amount of the 2015 Convertible Notes to shares of IMH common stock at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$30.10 for 20 trading days in a 30 day consecutive period.

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Note 9.—Line of Credit Agreement

The Company had a \$4.0 million working capital line of credit agreement with a national bank that had an interest rate at a variable rate of one-month LIBOR plus 3.50%. The line of credit was unsecured. Under the terms of the agreement, the Company and its subsidiaries were required to maintain various financial and other covenants. As previously discussed, in June 2015, the Company used approximately \$4.0 million of the proceeds from the Term Financing to fully satisfy the remaining amount due on the line of credit agreement and terminated the line. At December 31, 2014, the outstanding balance under the line of credit was \$4.0 million and was included in other liabilities on the consolidated balance sheets.

Note 10.—Short-Term Debt

Structured Debt

In December 2014, the Company entered into a \$6.0 million short-term structured debt agreement using eight of the Company's residual interests (net trust assets) as collateral. The Company received proceeds of \$6.0 million and had transaction costs of approximately \$60 thousand. The agreement had an interest rate of LIBOR plus 5.75% per annum, had a final repurchase date of June 29, 2015 and the Company had the right to repurchase the securities without penalty prior to the final repurchase date. As previously discussed, in June 2015, the Company used approximately \$3.2 million of the proceeds from the Term Financing to satisfy fully the remaining amount due on the short-term structured debt agreement and the residuals held as collateral have been released to the Company.

Promissory Note

On April 27, 2015, the Company issued a \$10.0 million short-term Promissory Note with an interest rate of 15% to the former owner of CCM. The balance was repaid in May 2015.

Note 11.—Securitized Mortgage Trusts

Trust Assets

Trust assets, which are recorded at fair value, are comprised of the following at June 30, 2015 and December 31, 2014:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Securitized mortgage collateral	\$ 4,979,433	\$ 5,249,639
Real estate owned	18,986	18,800
Investment securities available-for-sale	81	92
Total securitized mortgage trust assets	<u>\$ 4,998,500</u>	<u>\$ 5,268,531</u>

Trust Liabilities

Trust liabilities, which are recorded at fair value, are comprised of the following at June 30, 2015 and December 31, 2014:

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Securitized mortgage borrowings	\$ 4,977,150	\$ 5,245,860
Derivative liabilities	3,509	5,447

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Changes in fair value of net trust assets, including trust REO gains (losses) are comprised of the following for the three and six months ended June 30, 2015 and 2014:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Change in fair value of net trust assets, excluding REO	\$ 596	\$ 1,769	\$ 2,389	\$ (1,275)
Gains (losses) from REO	206	2,942	(2,463)	9,024
Change in fair value of net trust assets, including trust REO (losses) gains	\$ 802	\$ 4,711	\$ (74)	\$ 7,749

Note 12.—Fair Value of Financial Instruments

The use of fair value to measure the Company's financial instruments is fundamental to its consolidated financial statements and is a critical accounting estimate because a substantial portion of its assets and liabilities are recorded at estimated fair value.

The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	June 30, 2015				December 31, 2014			
	Carrying Amount	Estimated Fair Value			Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	\$ 34,152	\$ 34,152	\$ —	\$ —	\$ 10,073	\$ 10,073	\$ —	\$ —
Restricted cash	3,840	3,840	—	—	2,420	2,420	—	—
Mortgage loans held-for-sale	391,198	—	391,198	—	239,391	—	239,391	—
Finance receivables	54,313	—	54,313	—	8,358	—	8,358	—
Mortgage servicing rights	44,244	—	—	44,244	24,418	—	—	24,418
Derivative assets, lending, net	9,752	—	1,346	8,406	2,884	—	—	2,884
Investment securities available-for-sale	81	—	—	81	92	—	—	92
Securitized mortgage collateral	4,979,433	—	—	4,979,433	5,249,639	—	—	5,249,639
Warrant	165	—	—	165	84	—	—	84
Liabilities								
Warehouse borrowings	\$ 422,522	\$ —	\$ 422,522	\$ —	\$ 226,718	\$ —	\$ 226,718	\$ —
Short-term structured debt	—	—	—	—	6,000	—	—	6,000
Line of credit	—	—	—	—	4,000	—	4,000	—
Term financing	30,000	—	—	30,000	—	—	—	—
Contingent consideration	91,407	—	—	91,407	—	—	—	—
Convertible notes	45,000	—	—	45,000	20,000	—	—	20,000
Long-term debt	31,438	—	—	31,438	22,122	—	—	22,122
Securitized mortgage borrowings	4,977,150	—	—	4,977,150	5,245,860	—	—	5,245,860
Derivative liabilities, securitized trusts	3,509	—	—	3,509	5,447	—	—	5,447
Derivative liabilities, lending, net	—	—	—	—	930	—	930	—

The fair value amounts above have been estimated by management using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates of fair value in both inactive and orderly markets. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

For securitized mortgage collateral and securitized mortgage borrowings, the underlying Alt-A residential and commercial loans and mortgage-backed securities market have experienced significant declines in market activity, along with a lack of orderly transactions. The Company's methodology to estimate fair value of these assets and liabilities include the use of internal pricing techniques such as the net present value of future expected cash flows (with observable market participant assumptions, where available) discounted at a rate of return based on the Company's estimates of market participant requirements. The significant assumptions utilized in these internal pricing techniques, which are based on the characteristics of the underlying collateral, include estimated credit losses, estimated prepayment speeds and appropriate discount rates.

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Refer to *Recurring Fair Value Measurements* below for a description of the valuation methods used to determine the fair value of investment securities available-for-sale, warrant, securitized mortgage collateral and borrowings, derivative assets and liabilities, contingent consideration, long-term debt, mortgage servicing rights and mortgage loans held-for-sale.

The carrying amount of cash, cash equivalents and restricted cash approximates fair value.

Finance receivables carrying amounts approximate fair value due to the short-term nature of the assets and do not present unanticipated interest rate or credit concerns.

Warehouse borrowings carrying amounts approximate fair value due to the short-term nature of the liabilities and do not present unanticipated interest rate or credit concerns.

Convertible notes are recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

Term financing is recorded at amortized cost. The estimated fair value is determined using a discounted cash flow model using estimated market rates.

Line of credit carrying amount approximates fair value due to the short-term nature of the liability and does not present unanticipated interest rate or credit concerns.

Fair Value Hierarchy

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers is unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

As a result of the lack of observable market data resulting from inactive markets, the Company has classified its investment securities available-for-sale, securitized mortgage collateral and borrowings, net derivative liabilities, securitized trusts, long-term debt, interest rate lock commitments (IRLCs), mortgage servicing rights, warrant and contingent consideration as Level 3 fair value measurements. Level 3 assets and liabilities were 93% and 99% and 96% and 99%, respectively, of total assets and total liabilities measured at estimated fair value at June 30, 2015 and December 31, 2014.

Recurring Fair Value Measurements

The Company assesses the financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and six months ended June 30, 2015.

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The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at June 30, 2015 and December 31, 2014, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	June 30, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investment securities available-for-sale	\$ —	\$ —	\$ 81	\$ —	\$ —	\$ 92
Mortgage loans held-for-sale	—	391,198	—	—	239,391	—
Derivative assets, lending, net (1)	—	1,346	8,406	—	—	2,884
Mortgage servicing rights	—	—	44,244	—	—	24,418
Warrant (2)	—	—	165	—	—	84
Securitized mortgage collateral	—	—	4,979,433	—	—	5,249,639
Total assets at fair value	\$ —	\$ 392,544	\$ 5,032,329	\$ —	\$ 239,391	\$ 5,277,117
Liabilities						
Securitized mortgage borrowings	\$ —	\$ —	\$ 4,977,150	\$ —	\$ —	\$ 5,245,860
Derivative liabilities, securitized trusts (3)	—	—	3,509	—	—	5,447
Long-term debt	—	—	31,438	—	—	22,122
Contingent consideration	—	—	91,407	—	—	—
Derivative liabilities, lending, net (4)	—	—	—	—	930	—
Total liabilities at fair value	\$ —	\$ —	\$ 5,103,504	\$ —	\$ 930	\$ 5,273,429

- (1) At June 30, 2015, derivative assets, lending, net included \$8.4 million in IRLCs and \$1.3 million in Hedging Instruments, associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets. At December 31, 2014, derivative assets, lending, net included \$3.0 million in IRLCs associated with the Company's mortgage lending operations, and is included in other assets in the accompanying consolidated balance sheets.
- (2) Included in other assets in the accompanying consolidated balance sheets.

- (3) At June 30, 2015 and December 31, 2014, derivative liabilities, securitized trusts, are included within trust liabilities in the accompanying consolidated balance sheets.
- (4) At December 31, 2014, derivative liabilities, lending, net are included in other liabilities in the accompanying consolidated balance sheets.

The following tables present reconciliations for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2015 and 2014:

	Level 3 Recurring Fair Value Measurements								
	For the three months ended June 30, 2015								
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration	Warrant
Fair value, March 31, 2015	\$ 88	\$ 5,110,983	\$ (5,109,133)	\$ (4,499)	\$ 26,656	\$ 12,769	\$ (29,646)	\$ (124,592)	\$ 91
Total gains (losses) included in earnings:									
Interest income (1)	3	13,071	—	—	—	—	—	—	—
Interest expense (1)	—	—	(50,331)	—	—	—	(248)	—	—
Change in fair value	6	22,257	(21,552)	(115)	(542)	(4,363)	(1,544)	8,280	74
Total gains (losses) included in earnings	9	35,328	(71,883)	(115)	(542)	(4,363)	(1,792)	8,280	74
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—	—
Purchases, issuances and settlements									
Purchases	—	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	30,364	—	—	—	—
Settlements	(16)	(166,878)	203,866	1,105	(12,234)	—	—	24,905	—
Fair value, June 30, 2015	\$ 81	\$ 4,979,433	\$ (4,977,150)	\$ (3,509)	\$ 44,244	\$ 8,406	\$ (31,438)	\$ (91,407)	\$ 165
Unrealized gains (losses) still held (2)	\$ 81	\$ (1,190,093)	\$ 3,327,569	\$ (3,225)	\$ 44,244	\$ 8,406	\$ 39,325	\$ (91,407)	\$ 165

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$2.1 million for the three months ended June 30, 2015. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.
- (2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2015.

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	Level 3 Recurring Fair Value Measurements							
	For the three months ended June 30, 2014							
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Warrant
Fair value, March 31, 2014	\$ 104	\$ 5,460,516	\$ (5,461,058)	\$ (9,145)	\$ 25,079	\$ 1,415	\$ (17,235)	—
Total gains (losses) included in earnings:								
Interest income (1)	6	11,140	—	—	—	—	—	—
Interest expense (1)	—	—	(54,953)	—	—	—	—	(546)
Change in fair value	16	207,509	(205,491)	(265)	(2,762)	1,658	226	—
Total gains (losses) included in earnings	22	218,649	(260,444)	(265)	(2,762)	1,658	(320)	—
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements								
Purchases	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	4,562	—	—	—
Settlements	(35)	(168,424)	213,873	1,461	(10,713)	—	—	—
Fair value, June 30, 2014	\$ 91	\$ 5,510,741	\$ (5,507,629)	\$ (7,949)	\$ 16,166	\$ 3,073	\$ (17,555)	—
Unrealized gains (losses) still held (2)	\$ 81	\$ (1,473,345)	\$ 3,618,576	\$ (7,464)	\$ 16,166	\$ 3,073	\$ 53,208	—

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$1.2 million for the three months ended June 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.
- (2) Represents the amount of unrealized gains (losses) relating to assets and liabilities classified as Level 3 that are still held and reflected in the fair values at June 30, 2014.

	Level 3 Recurring Fair Value Measurements								
	For the six months ended June 30, 2015								
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt	Contingent consideration	Warrant
Fair value, December 31, 2014	\$ 92	\$ 5,249,639	\$ (5,245,860)	\$ (5,447)	\$ 24,418	\$ 2,884	\$ (22,122)	—	\$ 84
Total gains (losses) included in earnings:									
Interest income (1)	7	30,789	—	—	—	—	—	—	—
Interest expense (1)	—	—	(106,697)	—	—	—	(656)	—	—
Change in fair value	39	20,403	(17,697)	(356)	(3,636)	5,522	(8,660)	8,280	81
Total gains (losses) included in earnings	46	51,192	(124,394)	(356)	(3,636)	5,522	(9,316)	8,280	81
Transfers in and/or out of Level 3	—	—	—	—	—	—	—	—	—
Purchases, issuances and settlements									
Purchases	—	—	—	—	—	—	—	—	—
Issuances	—	—	—	—	52,734	—	—	(124,592)	—
Settlements	(57)	(321,398)	393,104	2,294	(29,272)	—	—	24,905	—
Fair value, June 30, 2015	\$ 81	\$ 4,979,433	\$ (4,977,150)	\$ (3,509)	\$ 44,244	\$ 8,406	\$ (31,438)	\$ (91,407)	\$ 165
Unrealized gains (losses) still held (2)	\$ 81	\$ (1,190,093)	\$ 3,327,569	\$ (5,063)	\$ 44,244	\$ 8,406	\$ 39,325	\$ (91,407)	\$ 165

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$4.3 million for the six months ended June 30, 2015. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

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Level 3 Recurring Fair Value Measurements							
For the six months ended June 30, 2014							
	Investment securities available-for-sale	Securitized mortgage collateral	Securitized mortgage borrowings	Derivative liabilities, net, securitized trusts	Mortgage servicing rights	Interest rate lock commitments, net	Long-term debt
Fair value, December 31, 2013	\$ 108	\$ 5,494,152	\$ (5,492,371)	\$ (10,214)	\$ 35,981	\$ 913	\$ (15,871)
Total gains (losses) included in earnings:							
Interest income (1)	13	20,956	—	—	—	—	—
Interest expense (1)	—	—	(113,127)	—	—	—	(1,260)
Change in fair value	16	317,394	(318,259)	(426)	(3,723)	2,171	(424)
Total (losses) gains included in earnings	29	338,350	(431,386)	(426)	(3,723)	2,171	(1,684)
Transfers in and/or out of Level 3	—	—	—	—	—	—	—
Purchases, issuances and settlements	—	—	—	—	—	—	—
Purchases	—	—	—	—	—	—	—
Issuances	—	—	—	—	8,325	—	—
Settlements	(46)	(321,761)	416,128	2,691	(24,417)	(11)	—
Fair value, June 30, 2014	\$ 91	\$ 5,510,741	\$ (5,507,629)	\$ (7,949)	\$ 16,166	\$ 3,073	\$ (17,555)
Unrealized gains (losses) still held (2)	\$ 81	\$ (1,473,345)	\$ 3,618,576	\$ (7,464)	\$ 16,166	\$ 3,073	\$ 53,208

(1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities. The net interest income, including cash received and paid, was \$2.2 million for the six months ended June 30, 2014. The difference between accretion of interest income and expense and the amounts of interest income and expense recognized in the consolidated statements of operations is primarily from contractual interest on the securitized mortgage collateral and borrowings.

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis at June 30, 2015:

Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average
Assets and liabilities backed by real estate					
Investment securities available-for-sale,	\$ 81	DCF	Discount rates	3.5 - 25.0%	5.1%
Securitized mortgage collateral, and	4,979,433		Prepayment rates	2.2 - 28.1%	5.8%
Securitized mortgage borrowings	(4,977,150)		Default rates	0.6 - 10.7%	2.8%
			Loss severities	5.4 - 62.5%	39.6%
Other assets and liabilities					
Mortgage servicing rights	\$ 44,244	DCF	Discount rate	9.5 - 12.5%	9.9%
			Prepayment rates	2.8 - 60.0%	9.3%
Derivative liabilities, net, securitized trusts	(3,509)	DCF	1M forward LIBOR	0.2 - 2.9%	N/A
Derivative assets - IRLCs, net	8,406	Market pricing	Pull -through rate	38.0 - 99.0%	81.8%
Long-term debt	(31,438)	DCF	Discount rate	15.0%	15.0%
Lease liability	(1,194)	DCF	Discount rate	12.0%	12.0%
Contingent consideration	(91,407)	DCF	Discount rate	15.0%	15.0%
			Margins	2.0 - 3.0%	2.7%
			Probability of outcomes (1)	10.0 - 60.0%	31.0%

DCF = Discounted Cash Flow

1M = 1 Month

(1) Probability of outcomes is the probability of projected CCM earnings over the earn-out period based upon three scenarios (base, low and high).

For assets and liabilities backed by real estate, a significant increase in discount rates, default rates or loss severities would result in a significantly lower estimated fair value. The effect of changes in prepayment speeds would have differing effects depending on the seniority or other characteristics of the instrument. For other assets and liabilities, a significant increase in discount rates would result in a significantly lower estimated fair value. A significant increase in one-month LIBOR would result in a significantly higher estimated fair value for derivative liabilities, net, securitized trusts. The Company believes that the imprecision of an estimate could be significant.

The following tables present the changes in recurring fair value measurements included in net earnings (loss) for the three and six months ended June 30, 2015 and 2014:

Recurring Fair Value Measurements							
Change in Fair Value Included in Net Earnings							
For the three months ended June 30, 2015							
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 3	\$ —	\$ 6	\$ —	\$ —	\$ —	\$ 9
Securitized mortgage collateral	13,071	—	22,257	—	—	—	35,328
Securitized mortgage borrowings	—	(50,331)	(21,552)	—	—	—	(71,883)
Derivative liabilities, net, securitized trusts	—	—	(115)(2)	—	—	—	(115)
Long-term debt	—	(248)	—	(1,544)	—	—	(1,792)
Mortgage servicing rights (3)	—	—	—	—	(542)	—	(542)
Warrant	—	—	—	—	74	—	74
Contingent consideration	—	—	—	—	8,280	—	8,280

Mortgage loans held-for-sale	—	—	—	—	—	(8,559)	(8,559)
Derivative assets - IRLCs	—	—	—	—	—	(4,363)	(4,363)
Derivative liabilities - Hedging Instruments	—	—	—	—	—	4,294	4,294
Total	\$ 13,074	\$ (50,579)	\$ 596	\$ (1,544)	\$ 7,812	\$ (8,628)	\$ (39,269)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in this amount is \$939 thousand in changes in the fair value of derivative instruments, offset by \$1.1 million in cash payments from the securitization trusts for the three months ended June 30, 2015.
- (3) Included in loss on mortgage servicing rights in the consolidated statements of operations.

	Recurring Fair Value Measurements						
	Change in Fair Value Included in Net Loss						
	For the three months ended June 30, 2014						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 6	\$ —	\$ 16	\$ —	\$ —	\$ —	\$ 22
Securitized mortgage collateral	11,140	—	207,509	—	—	—	218,649
Securitized mortgage borrowings	—	(54,953)	(205,491)	—	—	—	(260,444)
Derivative liabilities, net, securitized trusts	—	—	(265)(2)	—	—	—	(265)
Long-term debt	—	(546)	—	226	—	—	(320)
Mortgage servicing rights (3)	—	—	—	—	(2,762)	—	(2,762)
Mortgage loans held-for-sale	—	—	—	—	—	2,270	2,270
Derivative assets - IRLCs	—	—	—	—	—	1,658	1,658
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(1,235)	(1,235)
Total	\$ 11,146	\$ (55,499)	\$ 1,769	\$ 226	\$ (2,762)	\$ 2,693	\$ (42,427)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in this amount is \$1.1 million in change in the fair value of derivative instruments, offset by \$1.4 million in cash payments from the securitization trusts for the three months ended June 30, 2014.

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	Recurring Fair Value Measurements						
	Change in Fair Value Included in Net Earnings						
	For the six months ended June 30, 2015						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 7	\$ —	\$ 39	\$ —	\$ —	\$ —	\$ 46
Securitized mortgage collateral	30,789	—	20,403	—	—	—	51,192
Securitized mortgage borrowings	—	(106,697)	(17,697)	—	—	—	(124,394)
Derivative liabilities, net, securitized trusts	—	—	(356)(2)	—	—	—	(356)
Long-term debt	—	(656)	—	(8,660)	—	—	(9,316)
Mortgage servicing rights (3)	—	—	—	—	(3,636)	—	(3,636)
Warrant	—	—	—	—	81	—	81
Contingent consideration	—	—	—	—	8,280	—	8,280
Mortgage loans held-for-sale	—	—	—	—	—	2,352	2,352
Derivative assets - IRLCs	—	—	—	—	—	5,522	5,522
Derivative liabilities - Hedging Instruments	—	—	—	—	—	2,277	2,277
Total	\$ 30,796	\$ (107,353)	\$ 2,389(4)	\$ (8,660)	\$ 4,725	\$ 10,151	\$ (67,952)

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in this amount is \$1.8 million in changes in the fair value of derivative instruments, offset by \$2.2 million in cash payments from the securitization trusts for the six months ended June 30, 2015.
- (3) Included in loss on mortgage servicing rights in the consolidated statements of operations.
- (4) For the six months ended June 30, 2015, change in the fair value of net trust assets, excluding REO was \$2.4 million. Excluded from the \$4.6 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$2.2 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

	Recurring Fair Value Measurements						
	Changes in Fair Value Included in Net Loss						
	For the six months ended June 30, 2014						
	Change in Fair Value of						
	Interest Income (1)	Interest Expense (1)	Net Trust Assets	Long-term Debt	Other Revenue	Gain on sale of loans, net	Total
Investment securities available-for-sale	\$ 13	\$ —	\$ 16	\$ —	\$ —	\$ —	\$ 29
Securitized mortgage collateral	20,956	—	317,394	—	—	—	338,350
Securitized mortgage borrowings	—	(113,127)	(318,259)	—	—	—	(431,386)
Derivative liabilities, net, securitized trusts	—	—	(426)(2)	—	—	—	(426)

Long-term debt	—	(1,260)	—	(424)	—	(1,684)
Mortgage servicing rights (3)	—	—	—	—	(3,723)	(3,723)
Mortgage loans held-for-sale	—	—	—	—	—	2,809
Derivative assets - IRLCs	—	—	—	—	—	2,171
Derivative liabilities - Hedging Instruments	—	—	—	—	—	(2,086)
Total	\$ 20,969	\$ (114,387)	\$ (1,275)⁽⁴⁾	\$ (424)	\$ (3,723)	\$ 2,894

- (1) Amounts primarily represent accretion to recognize interest income and interest expense using effective yields based on estimated fair values for trust assets and trust liabilities.
- (2) Included in this amount is \$2.2 million in changes in the fair value of derivative instruments, offset by \$2.6 million in cash payments from the securitization trusts for the six months ended June 30, 2014.
- (3) Included in loss on mortgage servicing rights in the consolidated statements of operations.
- (4) For the six months ended June 30, 2014, change in the fair value of net trust assets, excluding REO was \$(1.3) million. Excluded from the \$1.3 million change in fair value of net trust assets, excluding REO, in the accompanying consolidated statement of cash flows is \$2.6 million in cash payments from the securitization trusts related to the Company's net derivative liabilities.

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The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

Investment securities available-for-sale—Investment securities available-for-sale are carried at fair value. The investment securities consist primarily of non-investment grade mortgage-backed securities. The fair value of the investment securities is measured based upon the Company's expectation of inputs that other market participants would use. Such assumptions include judgments about the underlying collateral, prepayment speeds, future credit losses, forward interest rates and certain other factors. Given the lack of observable market data as of June 30, 2015 and December 31, 2014 relating to these securities, the estimated fair value of the investment securities available-for-sale was measured using significant internal expectations of market participants' assumptions. Investment securities available-for-sale is considered a Level 3 measurement at June 30, 2015.

Mortgage servicing rights—The Company elected to carry its entire mortgage servicing rights arising from its mortgage loan origination operation at estimated fair value. The fair value of mortgage servicing rights is based upon market prices for similar instruments and a discounted cash flow model. The valuation model incorporates assumptions that market participants would use in estimating the fair value of servicing. These assumptions include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Mortgage servicing rights are considered a Level 3 measurement at June 30, 2015.

Mortgage loans held-for-sale—The Company elected to carry its mortgage loans held-for-sale originated or acquired at estimated fair value. Fair value is based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. Given the meaningful level of secondary market activity for mortgage loans, active pricing is available for similar assets and accordingly, the Company classifies its mortgage loans held-for-sale as a Level 2 measurement at June 30, 2015.

Securitized mortgage collateral—The Company elected to carry all of its securitized mortgage collateral at fair value. These assets consist primarily of non-conforming mortgage loans securitized between 2002 and 2007. Fair value measurements are based on the Company's internal models used to compute the net present value of future expected cash flows with observable market participant assumptions, where available. The Company's assumptions include its expectations of inputs that other market participants would use in pricing these assets. These assumptions include judgments about the underlying collateral, prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of June 30, 2015, securitized mortgage collateral had UPB of \$6.2 billion, compared to an estimated fair value on the Company's balance sheet of \$5.0 billion. The aggregate UPB exceeds the fair value by \$1.2 billion at June 30, 2015. As of June 30, 2015, the UPB of loans 90 days or more past due was \$0.9 billion compared to an estimated fair value of \$0.4 billion. The aggregate UPB of loans 90 days or more past due exceeded the fair value by \$0.5 billion at June 30, 2015. Securitized mortgage collateral is considered a Level 3 measurement at June 30, 2015.

Securitized mortgage borrowings—The Company elected to carry all of its securitized mortgage borrowings at fair value. These borrowings consist of individual tranches of bonds issued by securitization trusts and are primarily backed by non-conforming mortgage loans. Fair value measurements include the Company's judgments about the underlying collateral and assumptions such as prepayment speeds, estimated future credit losses, forward interest rates, investor yield requirements and certain other factors. As of June 30, 2015, securitized mortgage borrowings had an outstanding principal balance of \$6.1 billion, net of \$2.2 billion in bond losses, compared to an estimated fair value of \$5.0 billion. The aggregate outstanding principal balance exceeds the fair value by \$1.1 billion at June 30, 2015. Securitized mortgage borrowings are considered a Level 3 measurement at June 30, 2015.

Contingent consideration—Contingent consideration is estimated and recorded at fair value at the acquisition date as part of purchase price consideration. Additionally, each reporting period, the Company estimates the change in fair value of the contingent consideration and any change in fair value is recognized in the Company's consolidated statements of operations if it is determined to not be a measurement period adjustment. The estimate of the fair value of contingent consideration requires significant judgment and assumptions to be made about future operating results, discount rates and probabilities of various projected operating result scenarios. Future revisions to these assumptions could materially change the estimated fair value of contingent consideration and materially affect the Company's financial results. Contingent consideration is considered a Level 3 measurement at June 30, 2015.

Long-term debt—The Company elected to carry all of its long-term debt (consisting of trust preferred securities and junior subordinated notes) at fair value. These securities are measured based upon an analysis prepared by management, which considered the Company's own credit risk, including settlements with trust preferred debt holders and discounted cash flow analysis. As of June 30, 2015, long-term debt had UPB of \$70.5 million compared to an estimated fair value of \$31.4 million. The aggregate UPB exceeds the fair value by \$39.1 million at June 30, 2015. The long-term debt is considered a Level 3 measurement at June 30, 2015.

Derivative assets and liabilities, Securitized trusts—For non-exchange traded contracts, fair value is based on the amounts that would be required to settle the positions with the related counterparties as of the valuation date. Valuations of derivative assets and liabilities are based on observable market inputs, if available. To the extent observable market inputs are not available, fair values measurements include the Company's judgments about future cash

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the valuation of the derivative instrument includes the estimated value of the net credit differential between the counterparties to the derivative contract. As of June 30, 2015, the notional balance of derivative assets and liabilities, securitized trusts was \$80.8 million. These derivatives are included in the consolidated securitization trusts, which are nonrecourse to the Company, and thus the economic risk from these derivatives is limited to the Company's residual interests in the securitization trusts. Derivative assets and liabilities, securitized trusts are considered a Level 3 measurement at June 30, 2015.

Derivative assets and liabilities, Lending—The Company's derivative assets and liabilities are carried at fair value as required by GAAP and are accounted for as free standing derivatives. IRLCs and hedging instruments can be either assets or liabilities depending on interest rate fluctuations subsequent to entering into the commitments. IRLCs are entered into with prospective residential mortgage borrowers whereby the interest rate on the loan is determined prior to funding and the borrowers have locked in that interest rate. These commitments are determined to be derivative instruments in accordance with GAAP. Hedging instruments (typically TBA MBS) are used to hedge the fair value changes associated with changes in interest rates relating to its mortgage lending operations. The Company hedges the period from the interest rate lock (assuming a fall-out factor) to the date the loan is committed for sale. The estimated fair value of IRLCs are based on underlying loan types with similar characteristics using the TBA MBS market, which is actively quoted and easily validated through external sources. The data inputs used in this valuation include, but are not limited to, loan type, underlying loan amount, note rate, loan program, and expected sale date of the loan, adjusted for current market conditions. These valuations are adjusted at the loan level to consider the servicing release premium and loan pricing adjustments specific to each loan. For all IRLCs, the base value is then adjusted for the anticipated Pull-through Rate. The anticipated Pull-through Rate is an unobservable input based on historical experience, which results in classification of IRLCs as a Level 3 measurement at June 30, 2015.

The fair value of the hedging instruments is based on the actively quoted TBA MBS market using observable inputs related to characteristics of the underlying MBS stratified by product, coupon and settlement date. Therefore, the hedging instruments are classified as a Level 2 measurement at June 30, 2015.

The following table includes information for the derivative assets and liabilities, lending for the periods presented:

	Notional Amount		Total Gains (Losses) (1)			
	June 30,	June 30,	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014	2015	2014
Derivative - IRLC's	\$ 680,077	\$ 170,058	\$ (4,363)	\$ 1,658	\$ 5,522	\$ 2,171
Derivative - TBA MBS	473,555	201,848	5,751	(5,207)	572	(8,229)

(1) Amounts included in gain on sale of loans, net within the accompanying consolidated statements of operations.

Warrant— Upon entering an arrangement to facilitate the Company's ability to offer Non-QM mortgage products, a warrant to purchase up to 9.9% of Impac Mortgage Corp. was issued. The warrant can only be exercised if the Company chooses not to continue with the agreement to facilitate Non-QM mortgage products and has a 60 day expiration window after the termination of the agreement. The exercise price of the warrant is an agreed upon multiple times the book value of the subsidiary Impac Mortgage Corp. at the time of exercise plus up to an additional 0.2 times the book value at the exercise date based off of the net income of Impac Mortgage Corp. for the following 12 months. Additionally, if upon exercise of the warrant, the Company does not receive regulatory approval for the sale of the 9.9% as a result of actions of the Company, the Company will have to pay the holder of the warrant a redemption price, equal to the value of the warrant, in cash within 30 days. The estimated fair value of the warrant was based on a model incorporating various assumptions including expected future book value of Impac Mortgage Corp., the probability of the warrant being exercised, volatility, expected term and certain other factors. As part of the Term Financing previously discussed, the warrant has been amended and restated to reduce the term of the warrant to August 2015. Warrant is considered a Level 3 measurement at June 30, 2015.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10.

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The following tables present financial and non-financial assets and liabilities measured using nonrecurring fair value measurements at June 30, 2015 and 2014, respectively:

	Nonrecurring Fair Value Measurements			Total Gains (Losses) (1)	
	June 30, 2015			For the Three Months Ended	For the Six Months Ended
	Level 1	Level 2	Level 3	June 30, 2015	June 30, 2015
REO (2)	\$ —	\$ 11,070	\$ —	\$ 207	\$ (2,463)
Lease liability (3)	—	—	(1,194)	(16)	(39)
Deferred charge (4)	—	—	10,888	(324)	(633)
Goodwill	—	—	104,938	—	—
Intangible assets	—	—	31,914	—	—

- (1) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.
- (2) Balance represents REO at June 30, 2015 which has been impaired subsequent to foreclosure. For the three months ended June 30, 2015, the \$207 thousand gain represents recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV. For the six months ended June 30, 2015, the \$2.5 million loss represents additional impairment write-downs attributable to higher expected loss severities on properties held during the period which resulted in a decrease to the net realizable value (NRV).
- (3) For the three and six months ended June 30, 2015, the Company recorded \$16 thousand and \$39 thousand expense, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.
- (4) For the three and six months ended June 30, 2015, the Company recorded \$324 thousand and \$633 thousand in income tax expense resulting from impairment write-downs of deferred charge based on changes in estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral.

	Nonrecurring Fair Value Measurements			Total Gains (Losses) (1)	
	June 30, 2014			For the Three Months Ended	For the Six Months Ended
	Level 1	Level 2	Level 3	June 30, 2014	June 30, 2014
REO (2)	\$ —	\$ 1,430	\$ —	\$ 2,942	\$ 9,024
Lease liability (3)	—	—	(1,889)	(59)	(628)

- (1) Total gains (losses) reflect gains and losses from all nonrecurring measurements during the period.
- (2) Balance represents REO at June 30, 2014 which has been impaired subsequent to foreclosure. For the three and six months ended June 30, 2014, the \$2.9 million and \$9.0 million gains represent recovery of the net realizable value (NRV) attributable to an improvement in state specific loss severities on properties held during the period which resulted in an increase to NRV.
- (3) For the three and six months ended June 30, 2014, the Company recorded \$59 thousand and \$628 thousand expense, resulting from changes in lease liabilities as a result of changes in our expected minimum future lease payments.

Real estate owned—REO consists of residential real estate acquired in satisfaction of loans. Upon foreclosure, REO is adjusted to the estimated fair value of the residential real estate less estimated selling and holding costs, offset by expected contractual mortgage insurance proceeds to be received, if any. Subsequently, REO is recorded at the lower of carrying value or estimated fair value less costs to sell. REO balance representing REOs which have been impaired subsequent to foreclosure are subject to nonrecurring fair value measurement and included in the nonrecurring fair value measurements tables. Fair values of REO are generally based on observable market inputs, and considered Level 2 measurements at June 30, 2015.

Lease liability—In connection with the discontinuation of our non-conforming lending and commercial operations in 2007, a significant amount of office space that was previously occupied is no longer being used by the Company. The Company has subleased a significant amount of this office space. Additionally, the Company has office space that is no longer occupied by the Company and we intend to sublease it. The Company has recorded a liability representing the present value of the minimum lease payments over the remaining life of the lease, offset by the expected proceeds from sublet revenue related to this office space. This liability is based on present value techniques that incorporate the Company's judgments about estimated sublet revenue and discount rates. Therefore, this liability is considered a Level 3 measurement at June 30, 2015.

Deferred charge—Deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH in prior years. The Company evaluates the deferred charge for impairment quarterly using internal estimates of estimated cash flows and lives of the related mortgages retained in the securitized mortgage collateral. If the deferred charge is determined to be impaired, it is recognized as a component of income tax expense. For the three and six months ended June 30, 2015, the Company recorded \$324 thousand and \$633 thousand in income tax expense resulting from deferred charge impairment write-downs based on changes in estimated fair value of securitized mortgage collateral. There was no impairment of the deferred charge in the three and six months ended June 30, 2014. Deferred charge is considered a Level 3 measurement at June 30, 2015.

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Note 13.—Income Taxes

The Company calculates its quarterly tax provision pursuant to the guidelines in ASC 740 Income Taxes. ASC 740 requires companies to estimate the annual effective tax rate for current year ordinary income. In calculating the effective tax rate, permanent differences between financial reporting and taxable income are factored into the calculation, but temporary differences are not. The estimated annual effective tax rate represents the best estimate of the tax provision in relation to the best estimate of pre-tax ordinary income or loss. The estimated annual effective tax rate is then applied to year-to-date ordinary income or loss to calculate the year-to-date interim tax provision.

The Company recorded income tax expense (benefit) of \$71 thousand and (\$23.6) million for the three and six months ended June 30, 2015. For the three months ended June 30, 2015, the Company recorded amortization of the deferred charge partially offset by a reduction in current income tax provision based upon an estimated reduction in federal alternative minimum tax (AMT) and state income taxes. For the six months ended June 30, 2015, the Company recorded a benefit of \$24.4 million primarily the result of a reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where the Company does not have net operating loss carryforwards or state minimum taxes, including AMT. The deferred charge represents the deferral of income tax expense on inter-company profits that resulted from the sale of mortgages from taxable subsidiaries to IMH prior to 2008. The deferred charge is amortized and/or impaired, which does not result in any tax liability to be paid. The deferred charge is included in other assets in the accompanying consolidated balance sheets and is amortized as a component of income tax expense in the accompanying consolidated statements of operations. For the three and six months ended June 30, 2014, the Company recorded expense of \$756 thousand and \$1.1 million, respectively, primarily related to federal and state AMT associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights.

Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not". A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. As of each reporting date, the Company considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. Significant

judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectation of future performance.

The Company's deferred tax assets are primarily the result of net operating losses and other fair value write downs of financial assets and liabilities. As of December 31, 2014, the Company had net deferred tax assets of approximately \$163.2 million which the Company recorded a full valuation allowance against. During the first quarter of 2015, with the aforementioned acquisition of CCM, the Company significantly expanded its mortgage lending operations and profitability. As of March 31, 2015, in part because of the earnings of CCM during the first quarter of 2015, current year projected earnings, future projected earnings as well as the historical earnings of CCM, management determined that sufficient positive evidence exists to conclude that it is more likely than not that deferred taxes of \$24.4 million are realizable in future years, and therefore, reduced the valuation allowance accordingly. Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of \$24.4 million at June 30, 2015 is more likely than not based on future forecasted net earnings.

The Company has recorded a valuation allowance against its remaining net deferred tax assets at June 30, 2015 as it is more likely than not that not all of the deferred tax assets will be realized. The valuation allowance is based on the management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence that the Company would not generate sufficient taxable income to realize the deferred tax assets.

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Note 14.—Reconciliation of Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available to common stockholders (numerator) by the weighted average number of vested, common shares outstanding during the period (denominator). Diluted net earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the if-converted method. Dilutive potential common shares include shares issuable upon conversion of Convertible Notes, dilutive effect of outstanding stock options and deferred stock units (DSUs).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator for basic earnings (loss) per share:				
Net earnings (loss)	\$ 16,810	\$ 82	\$ 50,782	\$ (2,884)
Numerator for diluted earnings (loss) per share:				
Net earnings (loss)	\$ 16,810	\$ 82	\$ 50,782	\$ (2,884)
Interest expense attributable to convertible notes	656	—	1,031	—
Net earnings (loss) plus interest expense attributable to convertible notes	\$ 17,466	\$ 82	\$ 51,813	\$ (2,884)
Denominator for basic earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	10,199	9,254	9,906	9,158
Denominator for diluted earnings (loss) per share (1):				
Basic weighted average common shares outstanding during the year	10,199	9,254	9,906	9,158
Net effect of dilutive convertible notes	2,529	—	2,185	—
Net effect of dilutive stock options and DSU's	383	202	345	—
Diluted weighted average common shares	13,111	9,456	12,436	9,158
Net earnings (loss) per common share:				
Basic	\$ 1.65	\$ 0.01	\$ 5.13	\$ (0.31)
Diluted	\$ 1.33	\$ 0.01	\$ 4.17	\$ (0.31)

(1) Number of shares presented in thousands.

For the three and six months ended June 30, 2015 there was no anti-dilutive stock options outstanding. The anti-dilutive stock options outstanding for the three and six months ended June 30, 2014 were 2.1 million and 2.6 million shares, respectively. Included in the anti-dilutive shares for the three and six months ended June 30, 2014 was 1.8 million shares attributable to the 2013 Convertible Notes.

Note 15.—Segment Reporting

The Company has three primary reporting segments which include mortgage lending, real estate services and long-term mortgage portfolio. Unallocated corporate and other administrative costs, including the costs associated with being a public company, are presented in Corporate and other.

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Statement of Operations Items for the three months ended June 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 48,346	\$ —	\$ —	\$ —	\$ 48,346
Real estate services fees, net	—	2,355	—	—	2,355

Servicing income, net	1,017	—	—	—	1,017
Loss on mortgage servicing rights	(2,790)	—	—	—	(2,790)
Other revenue	104	—	63	(11)	156
Other income (expense)	648	—	447	(878)	217
Total expense (income)	(35,767)	(1,320)	(236)	4,903	(32,420)
Net earnings before income taxes	\$ 11,558	\$ 1,035	\$ 274	\$ 4,014	16,881
Income tax expense					71
Net earnings					\$ 16,810

Statement of Operations Items for the three months ended June 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 6,293	\$ —	\$ —	\$ —	\$ 6,293
Real estate services fees, net	—	4,360	—	—	4,360
Servicing income, net	1,291	—	—	—	1,291
Loss on mortgage servicing rights	(1,564)	—	—	—	(1,564)
Other revenue	43	—	42	36	121
Other income (expense)	215	—	5,031	(405)	4,841
Total expense	(8,608)	(1,534)	(265)	(4,097)	(14,504)
Net (loss) earnings before income taxes	\$ (2,330)	\$ 2,826	\$ 4,808	\$ (4,466)	838
Income tax expense					756
Net earnings					\$ 82

Statement of Operations Items for the six months ended June 30, 2015:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 85,744	\$ —	\$ —	\$ —	\$ 85,744
Real estate services fees, net	—	5,097	—	—	5,097
Servicing income, net	1,652	—	—	—	1,652
Loss on mortgage servicing rights	(9,358)	—	—	—	(9,358)
Other revenue	121	—	125	47	293
Other income (expense)	1,016	—	(6,345)	(1,390)	(6,719)
Total expense (income)	(49,082)	(2,975)	(348)	2,845	(49,560)
Net earnings (loss) before income taxes	\$ 30,093	\$ 2,122	\$ (6,568)	\$ 1,502	27,149
Income tax benefit					(23,633)
Net earnings					\$ 50,782

Statement of Operations Items for the six months ended June 30, 2014:	Mortgage Lending	Real Estate Services	Long-term Portfolio	Corporate and other	Consolidated
Gain on sale of loans, net	\$ 10,866	\$ —	\$ —	\$ —	\$ 10,866
Real estate services fees, net	—	8,039	—	—	8,039
Servicing income, net	2,859	—	—	—	2,859
Gain on mortgage servicing rights	(2,541)	—	—	—	(2,541)
Other revenue	1,257	—	211	39	1,507
Other income (expense)	371	—	7,351	(806)	6,916
Total expense	(17,575)	(3,056)	(506)	(8,295)	(29,432)
Net earnings (loss) before income taxes	\$ (4,763)	\$ 4,983	\$ 7,056	\$ (9,062)	(1,786)
Income tax expense					1,098
Net loss					\$ (2,884)

Balance Sheet Items as of:	Mortgage Lending	Real Estate Services	Long-term Mortgage Portfolio	Corporate and other	Consolidated
Total Assets at June 30, 2015 (1)	\$ 543,053	\$ 3,474	\$ 5,009,607	\$ 168,192	\$ 5,724,326
Total Assets at December 31, 2014 (1)	\$ 291,829	\$ 2,672	\$ 5,280,274	\$ 3,797	\$ 5,578,572

(1) All segment asset balances exclude intercompany balances.

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Note 16.—Commitments and Contingencies

Legal Proceedings

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate.

Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure.

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The legal matters summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

On October 28, 2014, an action was filed in the Superior Court of the State of California in Orange County entitled Mallory Hill v. Impac Mortgage Holdings, Inc., Impac Mortgage Corporation et al. In the action Mr. Hill seeks compensatory damages, general damages, treble damages, exemplary damages, an accounting, injunctive relief, attorney's fees and costs for claims based upon a consulting agreement entered into with Mr. Hill, a purported employment relationship entered into with Mr. Hill and other purported claims. The matter was removed to the US District Court and the Company filed a motion to dismiss. The plaintiff filed an amended complaint removing all federal question claims and the matter was thereafter remanded back to Orange County Superior Court. The Company filed a demurrer, which remains pending.

The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the above claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2014 and subsequent Form 10-Q filings for a description of litigation and claims.

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Repurchase Reserve

When the Company sells mortgage loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan such as the origination and underwriting guidelines, including but not limited to the validity of the lien securing the loan, property eligibility, borrower credit, income and asset requirements, and compliance with applicable federal, state and local law. The Company's whole loan sale agreements generally require it to repurchase loans if the Company breached a representation or warranty given to the loan purchaser.

In the first quarter of 2015, the Company settled its repurchase liability with FNMA related to its legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA \$1.0 million during the first quarter with a final payment of \$228 thousand paid in April 2015.

During the three months ended June 30, 2015, an additional \$747 thousand was added to the general repurchase reserve. The Company had approximately \$5.9 million at June 30, 2015 and \$5.7 million at December 31, 2014, in repurchase reserves related to the loans sold since early 2011 by the mortgage lending operation.

Short-Term Loan Commitments

The Company uses a portion of its warehouse borrowing capacity to provide secured short-term revolving financing to small and medium-size mortgage originators to finance mortgage loans from the closing of the mortgage loans until sold to investors (Finance Receivables). As of June 30, 2015, the warehouse lending operations had warehouse lines to non-affiliated customers totaling \$112.0 million, of which there was an outstanding balance of \$54.3 million in finance receivables compared to \$8.4 million as of December 31, 2014. The finance receivables are secured by residential mortgage loans as well as personal guarantees.

Note 17.—Share Based Payments

The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant with the following weighted average assumptions:

	June 30, 2015	
Risk-free interest rate	1.54%	
Expected lives (in years)	5.73	
Expected volatility (1)	79.56%	
Expected dividend yield	0.00%	
Fair value per share	\$ 6.74	

(1) Expected volatilities are based on the volatility of the Company's stock over the expected option term, adjusted for expected mean reversion.

The following table summarizes activity, pricing and other information for the Company's stock options for the six months ended June 30, 2015:

**For the six months ended June 30,
2015**

**Weighted-
Average**

	Number of Shares	Exercise Price
Options outstanding at beginning of period	1,078,230	\$ 6.88
Options granted	35,000	10.00
Options exercised	(146,086)	1.99
Options forfeited/cancelled	(72,432)	9.00
Options outstanding at end of period	<u>894,712</u>	<u>\$ 7.63</u>
Options exercisable at end of period	<u>369,888</u>	<u>\$ 8.27</u>

As of June 30, 2015, there was approximately \$1.5 million of total unrecognized compensation cost related to stock option compensation arrangements granted under the plan, net of estimated forfeitures. That cost is expected to be recognized over the remaining weighted average period of 1.7 years.

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There were 35,000 and 5,000 options granted during the six months ended June 30, 2015 and 2014, respectively. For the six months ended June 30, 2015 and 2014, the aggregate grant-date fair value of stock options granted was approximately \$236 thousand and \$22 thousand, respectively.

The following table summarizes activity, pricing and other information for the Company's DSU's, also referred to as deferred stock units as the issuance of the stock is deferred until termination of service, for the six months ended June 30, 2015:

	Number of Shares	Weighted- Average Grant Date Fair Value
DSU's outstanding at beginning of period	75,750	\$ 8.63
DSU's granted	—	—
DSU's exercised	—	—
DSU's forfeited/cancelled	—	—
DSU's outstanding at end of period	<u>75,750</u>	<u>\$ 8.63</u>

As of June 30, 2015, there was approximately \$114 thousand of total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 1.1 years.

Note 18.—Related Party Transactions

In January 2015, the Company entered into a \$5.0 million short-term borrowing secured by Ginnie Mae servicing rights with an interest rate of 15%, transaction costs of \$50 thousand, and was provided by a related party of the Company. The balance was repaid in March 2015.

Note 19.—Sale of AmeriHome

In March 2014, the Company sold AmeriHome for \$10.2 million in cash, recording a gain of approximately \$1.2 million, net of a deferred tax adjustment. In conjunction with the transaction, as required by Fannie Mae, the Company used \$3.0 million of the proceeds to reduce the legacy repurchase liability with Fannie Mae.

Note 20.—Subsequent Events

On July 21, 2015, the stockholders of the Company approved an amendment to the Company's 2010 Omnibus Incentive Plan, as amended (Plan), increasing the number of shares available under the Plan by 300,000 shares. Awards under the Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares of common stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. The increase in shares available under the Plan is designed to enhance the flexibility in granting stock options and other awards to officers, employees, non-employee directors and other key persons and to ensure that the Company can continue to grant stock options and other awards to such persons at levels determined to be appropriate by the Company's compensation committee.

Subsequent events have been evaluated through the date of this filing.

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except per share data or as otherwise indicated)

Unless the context otherwise requires, the terms "Company," "we," "us," and "our" refer to Impac Mortgage Holdings, Inc. (the Company or IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, Integrated Real Estate Service Corporation (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets), and Impac Funding Corporation (IFC).

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will,"

“believe,” “expect,” “likely,” “should,” “could,” “seem to,” “anticipate,” “plan,” “intend,” “project,” “assume,” or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on current management expectations. Actual results may differ materially as a result of several factors, including, but not limited to the following: failure to achieve the benefits expected from the acquisition of the CashCall Mortgage operations; costs and difficulties related to the integration of the business and operations with the Company’s operations, unexpected costs, liabilities, charges or expenses resulting from the transaction, successful development, marketing, sale and financing of new mortgage products, including the non-Qualified Mortgage and conventional and government loan programs; ability to increase our market share in the various residential mortgage businesses; volatility in the mortgage industry; unexpected interest rate fluctuations and margin compression; our ability to manage personnel expenses in relation to mortgage production levels; our ability to successfully use warehousing capacity; increased competition in the mortgage lending industry by larger or more efficient companies; issues and system risks related to our technology; more than expected increases in default rates or loss severities and mortgage related losses; ability to obtain additional financing, through lending and repurchase facilities, debt or equity funding, strategic relationships or otherwise; the terms of any financing, whether debt or equity, that we do obtain and our expected use of proceeds from any financing; increase in loan repurchase requests and ability to adequately settle repurchase obligations; failure to create brand awareness; the outcome, including any settlements, of litigation or regulatory actions pending against us or other legal contingencies; and our compliance with applicable local, state and federal laws and regulations and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the period ended December 31, 2014, and other reports we file under the Securities Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to release publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Industry and Discussion of Relevant Fiscal Periods

The mortgage industry is subject to current events that occur in the financial services industry including changes to regulations and compliance requirements that result in uncertainty surrounding the actions of states, municipalities and new government agencies, including the Consumer Financial Protection Bureau (CFPB) and Federal Housing Finance Agency (FHFA). These events can also include changes in economic indicators, interest rates, price competition, geographic shifts, disposable income, housing prices, market liquidity, market anticipation, and customer perception, as well as others. The factors that affect the industry change rapidly and can be unforeseeable making it difficult to predict and manage an operation in the financial services industry.

Current events can diminish the relevance of “quarter over quarter” and “year-to-date over year-to-date” comparisons of financial information. In such instances, the Company attempts to present financial information in its Management’s Discussion and Analysis of Financial Condition and Results of Operations that is the most relevant to its financial information.

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Selected Financial Results

	For the Three Months Ended			For the Six Months Ended	
	June 30, 2015	March 31, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues:					
Gain on sale of loans, net	\$ 48,346	\$ 37,398	\$ 6,293	\$ 85,744	\$ 10,866
Real estate services fees, net	2,355	2,742	4,360	5,097	8,039
Servicing income, net	1,017	635	1,291	1,652	2,859
Loss on mortgage servicing rights	(2,790)	(6,568)	(1,564)	(9,358)	(2,541)
Other	156	136	121	293	1,507
Total revenues	49,084	34,343	10,501	83,428	20,730
Expenses:					
Personnel expense	24,078	11,490	9,319	35,568	18,779
Business promotion	8,679	215	267	8,894	768
General, administrative and other	7,943	5,436	4,918	13,378	9,885
Accretion of contingent consideration	3,046	—	—	3,046	—
Change in fair value of contingent consideration	(11,326)	—	—	(11,326)	—
Total expenses	32,420	17,141	14,504	49,560	29,432
Operating income (loss):	16,664	17,202	(4,003)	33,868	(8,702)
Other income (expense):					
Net interest income (expense)	959	1,058	(96)	2,016	(409)
Change in fair value of long-term debt	(1,544)	(7,116)	226	(8,661)	(424)
Change in fair value of net trust assets	802	(876)	4,711	(74)	7,749
Total other income (expense)	217	(6,934)	4,841	(6,719)	6,916
Net earnings (loss) before income taxes	16,881	10,268	838	27,149	(1,786)
Income tax expense (benefit)	71	(23,704)	756	(23,633)	1,098
Net earnings (loss)	\$ 16,810	\$ 33,972	\$ 82	\$ 50,782	\$ (2,884)
Diluted earnings (loss) per share	\$ 1.33	\$ 2.94	\$ 0.01	\$ 4.17	\$ (0.31)

Status of Operations

Summary Highlights

- Mortgage lending volumes increased in the second quarter of 2015 to \$2.6 billion from \$2.4 billion in the first quarter of 2015 and \$465.2 million in the second quarter of 2014.
- Mortgage lending revenues increased in the second quarter of 2015 to \$48.3 million from \$37.4 million in the first quarter of 2015 and \$6.3 million in the second quarter of 2014.
- Mortgage servicing portfolio increased to \$4.1 billion at June 30, 2015 from \$2.6 billion at March 31, 2015 and \$2.3 billion at December 31, 2014.
- Completed two financing transactions during the second quarter of 2015 totaling \$55.0 million.

During the second quarter of 2015, the Company recorded a change to the estimated contingent consideration liability to the seller of CashCall Mortgage (“CCM”) reducing the liability by \$11.3 million. The change in the contingent consideration is primarily due to lower estimated payments resulting from changes in assumptions based on current market conditions.

At March 31, 2015, as a result of structuring the purchase price of CCM with a significant portion related to contingent consideration, an estimated contingent consideration liability of \$124.6 million was recorded on the balance sheet at the close of the CCM acquisition. The contingent consideration liability primarily consists of a three year earn-out provision and was based on certain assumptions of the future performance of the CCM division including origination volumes and gain on sale margins. If any of these assumptions should change, GAAP requires us to update the contingent consideration liability to its estimated fair value at each reporting period and record any fair value changes as a component of operating income. During the second quarter of 2015, with the expectation of ongoing volatility in gain on sale margins in the future, we updated certain assumptions resulting in lower future expected gain on sale revenue. This resulted in lower expected future earn-out payments reducing the contingent consideration liability by \$11.3 million over the remaining earn-out period of 2 ½ years. The mortgage market is extremely volatile with respect to interest rates, which makes projections of origination volume and margins extremely difficult.

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Beginning in the second quarter of 2015, we are required by GAAP to record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in 2017. The accretion represents the time value of money or the “borrowing cost” of the liability during the earn-out period. In the second quarter of 2015, accretion was recorded, thereby increasing the contingent consideration liability by \$3.0 million. We were not required to record accretion in the first quarter of 2015 as the acquisition transaction did not close until March 31, 2015, however the accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period.

Both the change in the contingent consideration and related accretion are non-cash expenses and are not related to current operating results, but are required to be presented as components of operating income in accordance with GAAP.

Excluding the \$11.3 million change in contingent consideration and the \$3.0 million in accretion of the contingent consideration liability, net earnings before taxes for the second quarter of 2015 was \$8.6 million as compared to net earnings before taxes of \$10.3 million in the first quarter of 2015 primarily due to a decline in overall gain on sale margins.

For the second quarter of 2015, gain on sale of loans was \$48.3 million as compared to \$6.3 million in the second quarter of 2014 and \$37.4 million in the first quarter of 2015. As previously disclosed, the gain on sale revenue in the first quarter was reduced by the operating expenses of CCM as required in accordance with GAAP. However, in the second quarter the operating expenses of CCM did not reduce gain on sale, and were recorded as expenses, as normally presented. This is also why there was a dramatic increase in personnel expense and business promotion expense in the second quarter. After adjusting for this difference in operating expenses, gain on sale margins declined to 186 bps from 230 bps in the first quarter. The declines in gain on sale margin were predominantly in the CCM consumer direct channel, while in the business to business channels, wholesale and correspondent channels, saw a slight expansion of margins in the second quarter of 2015. During the first quarter of 2015, mortgage interest rates were the lowest they have been since 2013 and during this low rate environment we earned higher margins. However, in the second quarter of 2015 our overall gain on sale margins declined 19% or 44 bps primarily as a result of an increase of approximately 40 bps in mortgage interest rates resulting in reduced margins in the CCM consumer direct channel.

CCM uses a pricing and hedging strategy that focuses on creating long-term profitability, but sometimes results in short term volatility. The hedging and pricing strategy could produce higher margins in a decreasing rate environment, but may result in short term volatility in gain on sale margins in an increasing rate environment as we saw in second quarter of 2015. As a result of this pricing and hedging strategy, as interest rates fluctuate, we expect to continue to see this fluctuation in margins in the CCM consumer direct channel. However, we are also taking steps to reduce this volatility including the introduction of different loan products and geographic expansion, and the establishment of a 3rd party retention program which will create an additional source of revenue within the CCM channel. Over time, we expect this approach to produce less volatile longer term profitability for the Company.

The CCM consumer direct channel’s marketing strategy is to offer attractive mortgage loan interest rates through television and radio advertising to create lead generation for the call center. In the second quarter of 2015, advertising costs included in business promotion on the statement of operations increased as part of our efforts to develop a national advertising campaign to better leverage the “CashCall Mortgage” brand name, as we continue to expand our geographic marketing programs from CCM’s original 11 licensed states to 45 licensed states.

For the three months ended June 30, 2015, we originated and sold \$2.6 billion and \$2.7 billion of loans, respectively, as compared to \$465.2 million and \$449.5 million of loans originated and sold, respectively, during the same period in 2014, and \$2.4 billion and \$2.1 billion of loans originated and sold, respectively, during the first quarter of 2015.

The increase in net earnings before taxes in the first half of 2015 as compared to the first half of 2014 was primarily due to an increase in operating income from additional volumes and net earnings of the acquired CCM division.

During the second quarter, CCM continued to be the main driver of total originations representing approximately 59% or \$1.5 billion of the \$2.6 billion in total originations. The wholesale channel increased 48% over the first quarter, representing approximately 16% or \$416.4 million of total originations. The correspondent division also had increased originations from the first quarter, representing \$640.1 million or 25% of total originations. Refinance originations were flat from the first quarter, however, in the wholesale and correspondent channels, purchase money volumes increased over 60% from the first quarter. Subject to interest rates, we anticipate continued growth in wholesale and correspondent channels through the remainder of 2015. The growth of CCM originations, which is more dependent on the refinance market, will be more reliant on geographic and product expansion, as well as interest rates.

During the second quarter of 2015, we successfully completed two financing transactions totalling \$55.0 million. The additional financing will be used to support warehouse haircut requirements associated with higher volumes of other products, and contingent consideration payments associated with the acquisition of CCM. As a result of the financing transactions completed in the second quarter of 2015, the Company's cash position increased to \$34.2 million at June 30, 2015, from \$5.6 million at March 31, 2015. The Company's current capital position allows for the continued growth of the mortgage lending platform, as well as providing the ability to selectively retain mortgage servicing rights.

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As of June 30, 2015, the Company's mortgage servicing portfolio increased to \$4.1 billion, a 58% increase from March 31, 2015, which correspondingly increased our retained mortgage servicing rights to \$44.2 million at June 30, 2015 as compared to \$26.7 million at March 31, 2015.

Our warehouse lending division continues to grow and finance receivables, representing warehouse lending advances to our warehouse customers, increased to \$54.3 million at June 30, 2015 as compared to \$53.3 million at March 31, 2015. During the second quarter of 2015, the warehouse lending division had \$213.3 million in fundings as compared to \$124.2 million in the first quarter of 2015.

Originations

(in millions)

(in millions)	For the three months ended				
	June 30, 2015	March 31, 2015	% Change	June 30, 2014	% Change
Originations	\$ 2,604.3	\$ 2,412.8	8%	\$ 465.2	460%

Origination volume increased 8% in the second quarter of 2015 over the first quarter of 2015 to \$2.6 billion as compared to \$2.4 billion, respectively. Of the \$2.6 billion in total originations, approximately \$1.5 billion, or 59%, was originated through the CCM retail channel. In contrast, during the second quarter of 2014, our retail originations contributed only 3% to our total origination volume. However, in the fourth quarter of 2014, the Company purchased mortgage loans from CashCall (prior to their acquisition by the Company), as a correspondent customer.

Originations by Channel:

(in millions)	June 30, 2015	March 31, 2015	% Change	June 30, 2014	% Change
Wholesale	\$ 416.5	\$ 281.7	48%	\$ 180.6	131%
Correspondent	640.2	596.4	7%	271.4	136%
Retail	1,547.6	1,534.7	1%	13.2	11624%
Total originations	\$ 2,604.3	\$ 2,412.8	8%	\$ 465.2	460%

During the second quarter of 2015, correspondent volume increased 136% as compared to the second quarter of 2014 and 7% as compared to the first quarter of 2015. Our correspondent channel's three key metrics have all continued to improve. These key metrics include, total clients, submitting clients and funding clients. We continued to add customers in the second quarter, increase submissions and increase our percentage of funding clients as compared to the first quarter.

In the second quarter of 2015, wholesale originations increased 131% as compared to the second quarter of 2014 and 48% as compared to the first quarter of 2015. This increase was primarily a result of adding new sales personnel in the second quarter of 2015. We expect to maintain this volume for the near term as we anticipate a gain in market share from the expansion of our sales coverage. In addition, the percentage of our wholesale customers delivering multiple loans per month continues to increase month over month. We continue to focus on increasing deliveries by our top tier brokers to increase the channel's production volumes and quality, which is expected to create more stable production in this channel moving forward.

We believe the retail call center will complement our wholesale and correspondent channels by lowering overall costs for mortgage lending. We anticipate that these channels will continue to see growth month over month, as a result of the increased pipeline growth that both channels have recently enjoyed due to market share expansion. The growth of CCM originations, which is more dependent on the refinance market, will be more reliant on geographic and product expansion. We believe our expanded national lending footprint, combined with access to our Impac loan products, will unlock significant opportunities to greatly diversify CCM's retail loan production and increase our mortgage lending divisions total production.

As of June 30, 2015, our total pipeline was approximately \$1.7 billion with a locked pipeline of \$660 million, as compared to a total pipeline of \$1.3 billion and a locked pipeline of \$650 million at the March 31, 2015.

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Our loan products primarily include conventional loans eligible for sale to Fannie Mae and Freddie Mac, loans eligible for government insurance (government loan) by FHA, VA and USDA and AltQM.

Originations by Loan Type:

(in millions)	For the three months ended June 30,		
	2015	2014	% Change
Government (1)	\$ 518.5	\$ 191.7	170%
Conventional	2,045.0	254.4	704%
Other (2)	40.8	19.1	114%
Total originations	\$ 2,604.3	\$ 465.2	460%

- (1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
- (2) Includes \$22.3 million of AltQM mortgages originated during the second quarter of 2015.

(in millions)	For the six months ended June 30,		
	2015	2014	% Change
Government (1)	\$ 894.2	\$ 309.5	189%
Conventional	4,059.5	481.8	743%
Other (2)	63.4	27.0	135%
Total originations	\$ 5,017.1	\$ 818.3	513%

- (1) Includes all government-insured loans including Federal Housing Administration (FHA), Veterans Affairs (VA) and United States Department of Agriculture (USDA).
- (2) Includes \$33.6 million of AltQM mortgages originated during the six months ended June 30, 2015.

We believe there is an underserved mortgage market for borrowers with good credit who may not meet the new qualified mortgage (QM) guidelines set out by the CFPB. In our opinion, as the demand by consumers for the non-QM product grows we expect the investor appetite will increase for the non-QM mortgages. During the third quarter of 2014, we rolled out and began originating non-qualified mortgage (non-QM) loans, marketed under our 'AltQM' label. The predominant amount of the early originations came through our wholesale lending channel. Our correspondent customers began delivering loans that meet our AltQM program guidelines during the second quarter of 2015. We have established strict lending guidelines, including determining the prospective borrowers' ability to repay the mortgage, which we believe will keep delinquencies and foreclosures at acceptable. In conjunction with launching these new AltQM products, we established a strategic investor relationship which provides balance sheet capacity to fund these non-conforming loans.

Refinance originations were flat from the first quarter, however, in the wholesale and correspondent channels, purchase money volumes increased over 60% from the first quarter.

Originations by Purpose:

(in millions)	For the three months ended June 30,			
	2015	%	2014	%
Refinance	\$ 2,140.1	82%	\$ 220.2	47%
Purchase	464.2	18%	245.0	53%
Total originations	\$ 2,604.3	100%	\$ 465.2	100%

(in millions)	For the six months ended June 30,			
	2015	%	2014	%
Refinance	\$ 4,268.0	85%	\$ 424.4	52%
Purchase	749.1	15%	393.9	48%
Total originations	\$ 5,017.1	100%	\$ 818.3	100%

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Mortgage servicing portfolio

(in millions)	June 30, 2015	December 31, 2014	% Change	June 30, 2014	% Change
Mortgage servicing portfolio	\$ 4,060.5	\$ 2,267.1	79%	\$ 2,239.6	81%

The mortgage servicing portfolio increased to \$4.1 billion at June 30, 2015 as compared to \$2.3 billion at December 31, 2014. The increase was due to servicing retained loan sales of \$4.8 billion, partially offset by bulk sales of servicing rights totaling \$2.8 billion in unpaid principal balance (UPB).

To manage our liquidity, we have continued to sell mortgage servicing rights (MSRs) to generate cash needed to fund warehouse haircuts as well as other operating needs. During the six months ended June 30, 2015, we sold MSRs representing \$2.8 billion in UPB of loans serviced, which have generated approximately \$25.0 million in cash.

The following table includes information about our mortgage servicing portfolio:

(in millions)	At June 30, 2015	% 60+ days delinquent (1)	At December 31, 2014	% 60+ days delinquent (1)
Fannie Mae	\$ 2,395.4	0.14%	\$ 496.1	0.71%
Freddie Mac	828.3	0.11%	837.8	0.16%
Ginnie Mae	812.0	0.21%	926.5	1.23%
Other	24.8	0.00%	6.7	0.00%
Total servicing portfolio	\$ 4,060.5	0.15%	\$ 2,267.1	0.72%

(1) Based on loan count.

Our warehouse lending division continues to grow and the outstanding balance of finance receivables, representing warehouse lending advances to our warehouse customers, increased slightly to \$54.3 million at June 30, 2015 as compared to \$53.3 million at March 31, 2015. Despite the slight increase in the finance receivables balance, funding's from this division increased to \$213.3 million for the three months ended June 30, 2015 as compared to \$124.2 for

the three months ended March 31, 2015. As of June 30, 2015, the warehouse lending operations had extended warehouse lines to non-affiliated customers totaling \$112.0 million as compared to \$94.0 million at March 31, 2015.

For the second quarter of 2015, real estate services fees were \$2.4 million as compared to \$2.7 million in the first quarter of 2015 and \$4.4 million in the second quarter of 2014. While the Company continues to generate real estate service fees, the decrease in fees was due to the anticipated runoff of our long-term mortgage portfolio.

In our long-term mortgage portfolio, despite the decline in the outstanding balance of the portfolio, the residuals have generated cash flows of \$1.6 million in the second quarter of 2015 as compared to \$1.9 million in the first quarter of 2015. The estimated fair value of the residual interest increased \$1.3 million in the second quarter of 2015 to \$17.8 million at June 30, 2015, as a result of improving performance of the portfolio.

In the first quarter of 2015, we settled our repurchase liability with Fannie Mae related to our legacy non-conforming mortgage operations. As a result of this settlement and previous resolution of other legal matters pertaining to the legacy non-conforming mortgage operations, the discontinued segment is not expected to have any significant effect on our consolidated operations and financial results. Therefore, we determined that we will no longer report the legacy non-conforming mortgage operations as discontinued operations.

For additional information regarding the long-term mortgage portfolio refer to Financial Condition and Results of Operations below.

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Liquidity and Capital Resources

During the six months ended June 30, 2015, we funded our operations primarily from mortgage lending revenues and real estate services fees, net, which include gains on sale of loans, net, and other mortgage related income, portfolio loss mitigation and real estate services fees, net, primarily generated from our long-term mortgage portfolio, and cash flows from our residual interests in securitizations. Additionally, we funded mortgage loan originations using warehouse facilities which are repaid once the loan is sold. As previously discussed, during the second quarter of 2015, we raised approximately \$55.0 million of debt to provide the liquidity needed to fund warehouse facility haircuts, retain mortgage servicing rights and working capital to fund the growth of origination volumes. Furthermore, we utilized the sale of mortgage servicing rights, borrowings under the \$4.0 million line of credit, \$6.0 million short-term structured debt and \$10.0 million short-term Promissory Note as additional sources of liquidity. These three borrowings have all been repaid.

The CCM acquisition contingent consideration payment for the first earn-out quarter was approximately \$24.9 million and was paid on May 15, 2015. Over time, these contingent consideration payments are based on the performance of the CCM division and are expected to decline for the remaining earn-out periods in 2015 since the earn-out percentage decreases to 65% beginning in March 2015, from 100% for January and February 2015. Additionally, the contingent consideration payment due in August 2015 for the second earn-out quarter is approximately \$8.0 million.

In April 2015, the Company issued a \$10.0 million short term Promissory Note with an interest rate of 15%. The balance was repaid in May 2015.

In May 2015, the Company issued \$25.0 million in original aggregate principal amount of Convertible Promissory Notes (Convertible Notes). The Convertible Notes mature on or before May 9, 2020 and accrue interest at a rate of 7.5% per annum, to be paid quarterly. Note holders may convert all or a portion of the outstanding principal amount of the Convertible Notes to shares of IMH common stock at a rate of \$21.50 per share, subject to adjustment for stock splits and dividends. The Company has the right to force a conversion if the stock price of IMH common stock reaches \$30.10 for 20 trading days in a 30 day consecutive period.

In June 2015, the Company and its subsidiaries, (IRES, IMC and Impac Warehouse Lending, Inc. (IWLI), collectively the (Borrowers)) entered into a Loan Agreement (Loan Agreement) with a lender (Lender) pursuant to which the Lender provided to the Borrowers a term loan in the aggregate principal amount of \$30.0 million (Term Financing) due and payable on December 19, 2016, which may be extended up to December 18, 2017 at the Lender's discretion. In connection with the Term Financing, the Borrowers issued to the Lender a Term Note dated June 19, 2015. The Lender may in its discretion make additional advances in an aggregate amount not to exceed \$50.0 million (including amounts then outstanding). The proceeds from the Term Financing were used to pay off the working capital line of credit with a national bank (approximately \$4.0 million) and amounts under an existing master repurchase agreement with the Lender (approximately \$3.2 million). The Borrowers also paid the Lender an origination fee of \$300 thousand. The Term Financing is payable monthly and accrues interest at the rate per annum equal to LIBOR plus 8.5%. Amounts under the Term Financing may be prepaid at any time without penalty or premium, provided, however, that any prepayments made within nine months of the closing date will be subject to, with certain exceptions, a prepayment premium equal to 50% of the then applicable interest rate multiplied by the amount of the prepayment. The Borrowers are subject to mandatory prepayment on the Term Financing based on a borrowing base formula that includes amounts under outstanding warehouse facilities, market value of mortgage servicing rights and residual securities and certain mortgage loans.

Our results of operations and liquidity are materially affected by conditions in the markets for mortgages and mortgage-related assets, as well as the broader financial markets and the general economy. Concerns over economic recession, geopolitical issues, unemployment, the availability and cost of financing, the mortgage market and real estate market conditions contribute to increased volatility and diminished expectations for the economy and markets. Volatility and uncertainty in the marketplace may make it more difficult for us to obtain financing on favorable terms or at all. Our operations and profitability may be adversely affected if we are unable to obtain cost-effective financing.

We believe that current cash balances, cash flows from our mortgage lending operations, the sale of mortgage servicing rights, real estate services fees generated from our long-term mortgage portfolio, and residual interest cash flows from our long-term mortgage portfolio are adequate for our current operating needs. However, due to the acquisition of CCM, we raise \$55.0 million in debt to finance the growth and operations of our mortgage lending segment. We believe the mortgage and real estate services market is volatile, highly competitive and subject to increased regulation. Competition in mortgage lending comes primarily from mortgage bankers, commercial banks, credit unions and other finance companies which have offices in our market area as well as operations throughout the United States. We compete for loans principally on the basis of the interest rates and loan fees we charge, the types of loans we originate and the quality of services we provide to borrowers. Additionally, competition for loss mitigation servicing, loan modification services and other portfolio services has increased. Our competitors include mega mortgage servicers, established subprime loan servicers, and newer entrants to the specialty servicing and recovery collections business. Efforts to market our ability

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to provide mortgage and real estate services for others is more difficult than many of our competitors because we have not historically provided such services to unrelated third parties, and we are not a rated primary or special servicer of residential mortgage loans as designated by a rating agency. Additionally, performance of the long-term mortgage portfolio is subject to the current real estate market and economic conditions. Cash flows from our residual interests in securitizations are sensitive to delinquencies, defaults and credit losses associated with the securitized loans. Losses in excess of current estimates will reduce the residual interest cash receipts from our long-term mortgage portfolio.

While we continue to pay our obligations as they become due, the ability to continue to meet our current and long-term obligations is dependent upon many factors, particularly our ability to successfully operate our mortgage lending segment, real estate services segment and realizing cash flows from the long-term mortgage portfolio. Our future financial performance and profitability are dependent in large part upon the ability to successfully integrate the CCM division and expand our mortgage lending platform.

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations. Our critical accounting policies require management to make difficult and complex judgments that rely on estimates about the effect of matters that are inherently uncertain due to the effect of changing market conditions and/or consumer behavior. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include those issues included in Management's Discussion and Analysis of Results of Operations in IMH's report on Form 10-K for the year ended December 31, 2014. Such policies have not changed during 2014 other than what is outlined below:

Income Taxes

Provision for income taxes is calculated using the asset and liability method, which requires the recognition of deferred income taxes. Deferred tax assets and liabilities are recognized and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain changes in the valuation allowance. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. We provide a valuation allowance against deferred tax assets if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the adequacy of the valuation allowance, we consider all forms of evidence, including: (1) historic earnings or losses; (2) the ability to realize deferred tax assets through carry back to prior periods; (3) anticipated taxable income resulting from the reversal of taxable temporary differences; (4) tax planning strategies; and (5) anticipated future earnings exclusive of the reversal of taxable temporary differences.

Goodwill and Intangible Assets

We account for business combinations using the acquisition method, under which the total consideration transferred (including contingent consideration) is allocated to the fair value of the assets acquired (including identifiable intangible assets) and liabilities assumed. The excess of the consideration transferred over the fair value of the assets acquired and liabilities assumed results in goodwill.

We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill and other intangible assets with an indefinite useful life are not subject to amortization but are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying amount of an intangible asset may not be recoverable. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated primarily through the use of a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. If we determine that it is more likely than not that the intangible assets are impaired, a quantitative impairment test is performed. For the quantitative impairment test, we estimate and compare the fair value of indefinite-lived intangible asset with its carrying amount. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, the amount of the impairment is measured as the difference between the carrying amount of the asset and its fair value. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value.

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Intangible assets with finite lives are amortized over their estimated lives using an amortization method that reflects the pattern in which the economic benefits of the asset are consumed. We review intangible assets for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable, in which case any impairment charge would be recorded to earnings.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with ASC Topic 805, "Business Combinations." Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the acquired assets and assumed liabilities, regardless of the percentage owned, at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceeds the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed which involve contingencies must also be recognized at their estimated fair value, provided such fair value can be determined during the measurement period. Acquisition-related costs, including severance,

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Financial Condition and Results of Operations

Financial Condition

As of June 30, 2015 compared to December 31, 2014

The following table shows the condensed consolidated balance sheets for the following periods:

	June 30, 2015 (Unaudited)	December 31, 2014	Increase (Decrease)	% Change
ASSETS				
Cash	\$ 34,152	\$ 10,073	\$ 24,079	239%
Restricted cash	3,840	2,420	1,420	59
Mortgage loans held-for-sale	391,198	239,391	151,807	63
Finance receivables	54,313	8,358	45,955	550
Mortgage servicing rights	44,244	24,418	19,826	81
Securitized mortgage trust assets	4,998,500	5,268,531	(270,031)	(5)
Goodwill	104,938	352	104,586	29,712
Intangibles	32,073	—	32,073	n/a
Deferred tax asset	24,420	—	24,420	n/a
Other assets	36,648	25,029	11,619	46
Total assets	<u>\$ 5,724,326</u>	<u>\$ 5,578,572</u>	<u>\$ 145,754</u>	<u>3%</u>
LIABILITIES & EQUITY				
Warehouse borrowings	\$ 422,522	\$ 226,718	\$ 195,804	86%
Short-term debt	—	6,000	(6,000)	(100)
Term financing	30,000	—	30,000	n/a
Convertible notes	45,000	20,000	25,000	125
Long-term debt (\$71,120 par)	31,438	22,122	9,316	42
Repurchase reserve	5,897	5,714	183	3
Securitized mortgage trust liabilities	4,980,659	5,251,307	(270,648)	(5)
Contingent consideration	91,407	—	91,407	n/a
Other liabilities	34,716	21,755	12,961	60
Total liabilities	<u>5,641,639</u>	<u>5,553,616</u>	<u>88,023</u>	<u>2</u>
Total equity	<u>82,687</u>	<u>24,956</u>	<u>57,731</u>	<u>231</u>
Total liabilities and stockholders' equity	<u>\$ 5,724,326</u>	<u>\$ 5,578,572</u>	<u>\$ 145,754</u>	<u>3%</u>

As a result of the net earnings in the second quarter of 2015 primarily attributed to the net earnings from our mortgage lending division, book value per share increased 210% to \$8.07 at June 30, 2015 as compared to \$2.60 at December 31, 2014.

In the second quarter of 2015, cash balances increased, primarily due to the issuance of \$30.0 million Term Financing as well as the issuance of an additional \$25.0 million of Convertible Notes. In our long-term mortgage portfolio, the residuals generated cash flows of \$3.5 million during the six months ended June 30, 2015. Additionally, during the second quarter of 2015, we paid an earn-out payment to CashCall Inc. of \$24.9 million based upon CCM earnings for the first quarter of 2015.

At June 30, 2015, cash increased to \$34.2 million from \$10.1 million at December 31, 2014. The primary sources of cash between periods were \$30.0 million issuance of Term Financing, approximately \$25.0 million from the sale of mortgage servicing rights, \$25.0 million from the issuance of the Convertible Notes and \$24.2 million from the gain on sale of mortgage loans (net of non-cash premiums, mark-to-market adjustments, unrealized gains from derivatives instruments and provision for repurchases). Offsetting the sources of cash were operating expenses totaling \$55.5 million (net of non-cash depreciation expense), a \$24.9 million earn out payment to CashCall Inc., \$6.0 million payoff of the short-term borrowings, \$5.0 million payment as part of the consideration for the acquisition of CCM and \$4.0 million payoff of the line of credit.

Mortgage loans held-for-sale increased \$151.8 million to \$391.2 million at June 30, 2015 as compared to \$239.4 million at December 31, 2014. The increase was due to \$5.0 billion in originations offset by \$4.9 billion in loan sales primarily associated with the acquisition of CCM. As a normal course of our origination and sales cycle, loans held-for-sale at the end of any period are generally sold within one or two subsequent months.

Finance receivables increased \$46.0 million to \$54.3 million at June 30, 2015 as compared to \$8.4 million at December 31, 2014. The increase was due to \$337.5 million in fundings offset by \$291.5 million in settlements.

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MSRs increased \$19.8 million to \$44.2 million at June 30, 2015 as compared to \$24.4 million at December 31, 2014. The increase was due to servicing retained loan sales of \$4.8 billion. Partially offsetting the increase were bulk sales of MSRs totaling \$2.8 billion in UPB and a mark-to-market reduction in fair value of \$3.6 million. At June 30, 2015, we serviced \$4.1 billion in UPB for others as compared to \$2.3 billion at December 31, 2014.

Warehouse borrowings increased \$195.8 million to \$422.5 million at June 30, 2015 as compared to \$226.7 million at December 31, 2014. The increase was due to an increase in mortgage loans held-for-sale attributable to the increased loan volume and finance receivables at June 30, 2015. During the six months ended June 30, 2015, we increased our total borrowing capacity to \$675.0 million as compared to \$415.0 million at December 31, 2014.

In the fourth quarter of 2014, we entered into a \$6.0 million short-term structured debt agreement collateralized by the residual interests in securitizations. The agreement had an interest rate of LIBOR plus 5.75% per annum and had a maturity date of June 29, 2015. The holder received monthly principal and interest payments which were equal to the distributions from the residual interest underlying collateral with a minimum payment of \$500,000. During the six months ended June 30, 2015, cash flows from the collateralized residual interests were \$2.9 million which were \$384 thousand greater than the minimum payments. In June, we used approximately \$3.2 million of the proceeds from the Term Financing to pay of the short-term structured debt.

Long-term debt increased \$9.3 million to \$31.4 million at June 30, 2015 as compared to \$22.1 at December 31, 2014. The increase was primarily due to a mark-to-market adjustment of \$8.7 million as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, an improvement in our financial condition and results of operations as well as an increase in the forward LIBOR curve.

Repurchase reserve liability increased to \$5.9 million at June 30, 2015 as compared to \$5.7 million at December 31, 2014. As previously reported, in the first quarter of 2015, we settled our repurchase liability with FNMA related to our legacy non-conforming mortgage operations. As part of the agreement, the Company paid FNMA \$1.0 million during the first quarter with a final payment of \$228 thousand paid in April 2015. We have received a minimal amount of repurchase requests for loans sold by IMC's mortgage lending operation.

The changes in total assets and liabilities, at fair market value, are primarily attributable to decreases in our trust assets and trust liabilities as summarized below.

	June 30, 2015	December 31, 2014	Increase (Decrease)	% Change
Securitized mortgage collateral	\$ 4,979,433	\$ 5,249,639	\$ (270,206)	(5)%
Other trust assets	19,067	18,892	175	1
Total trust assets	4,998,500	5,268,531	(270,031)	(5)
Securitized mortgage borrowings	\$ 4,977,150	\$ 5,245,860	\$ (268,710)	(5)%
Other trust liabilities	3,509	5,447	(1,938)	(36)
Total trust liabilities	4,980,659	5,251,307	(270,648)	(5)
Residual interests in securitizations	\$ 17,841	\$ 17,224	\$ 617	4%

Since the consolidated and unconsolidated securitization trusts are nonrecourse to the Company, trust assets and liabilities have been netted to present our interest in these trusts more simply, which are considered the residual interests in securitizations. For unconsolidated securitizations the residual interests represent the fair value of investment securities available-for-sale. For consolidated securitizations, the residual interests are represented by the fair value of securitized mortgage collateral and real estate owned, offset by the fair value of securitized mortgage borrowings and derivative liabilities. We receive cash flows from our residual interests in securitizations to the extent they are available after required distributions to bondholders and maintaining specified overcollateralization levels and other specified parameters (such as maximum delinquency and cumulative default) within the trusts. The estimated fair value of the residual interests, represented by the difference in the fair value of total trust assets and total trust liabilities, was \$17.8 million at June 30, 2015, compared to \$17.2 million at December 31, 2014.

We update our collateral assumptions quarterly based on recent delinquency, default, prepayment and loss experience. Additionally, we update the forward interest rates and investor yield (discount rate) assumptions based on information derived from market participants. During the six months ended June 30, 2015, we decreased the investor yield requirements for certain securitized mortgage collateral and borrowings as estimated bond prices have continued to improve and corresponding yields have decreased. Additionally, during the second quarter of 2015 we lowered the discount rate on certain residual interest vintages. The decrease in investor yield assumptions on securitized mortgage collateral and securitized mortgage borrowings as well as decreased discount rates resulted in an increase in the value of these trust assets and liabilities resulting in an increase in the value of our residual interests.

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However, offsetting the increase was principal payments and liquidations of securitized mortgage collateral and securitized mortgage borrowings.

- The estimated fair value of securitized mortgage collateral decreased \$270.2 million during the six months ended June 30, 2015, primarily due to reductions in principal from borrower payments and transfers of loans to REO for single-family and multi-family collateral. Additionally, other trust assets increased \$175 thousand during the six months ended June 30, 2015, primarily due to \$17.3 million in REO foreclosures. Partially offsetting the increase was decreases in REO from liquidations of \$14.7 million plus a \$2.5 million decrease in the net realizable value (NRV) of REO.
- The estimated fair value of securitized mortgage borrowings decreased \$268.7 million during the first six months ended June 30, 2015, primarily due to reductions in principal balances from principal payments during the period for single-family and multi-family collateral as well as a decrease in loss assumptions. The \$1.9 million reduction in other trust liabilities during the first six months ended June 30, 2015, was primarily due to \$2.2 million in derivative cash payments from the securitization trusts, and a \$356 thousand increase in derivative fair value resulting from changes in forward LIBOR interest rates.

Prior to 2008, we securitized mortgage loans by transferring originated and acquired residential single-family mortgage loans and multi-family commercial loans (the "transferred assets") into non-recourse bankruptcy remote trusts which in turn issued tranches of bonds to investors supported only by the cash flows of the transferred assets. Because the assets and liabilities in the securitizations are nonrecourse to us, the bondholders cannot look to us for repayment of their bonds in the event of a shortfall. These securitizations were structured to include interest rate derivatives. We retained the residual interest in each trust, and in most cases would perform the master servicing function. A trustee and sub-servicer, unrelated to us, was utilized for each securitization. Cash flows from the loans (the loan payments as well as liquidation of foreclosed real estate properties) collected by the loan sub-servicer are remitted to us,

the master servicer. The master servicer remits payments to the trustee who remits payments to the bondholders (investors). The sub-servicer collects loan payments and performs loss mitigation activities for defaulted loans. These activities include foreclosing on properties securing defaulted loans, which results in REO. Our real estate services segment also performs mitigation activities for loans within the portfolio.

To estimate fair value of the assets and liabilities within the securitization trusts each reporting period, management uses an industry standard valuation and analytical model that is updated monthly with current collateral, real estate, derivative, bond and cost (servicer, trustee, etc.) information for each securitization trust. We employ an internal process to validate the accuracy of the model as well as the data within this model. Forecasted assumptions sometimes referred to as “curves,” for defaults, loss severity, interest rates (LIBOR) and prepayments are inputted into the valuation model for each securitization trust. We hire third-party market participants to provide forecasted curves for the aforementioned assumptions for each of the securitizations. Before inputting this information into the model, management employs a process to qualitatively and quantitatively review the assumption curves for reasonableness using other information gathered from the mortgage and real estate market (*i.e.*, third party home price indices, published industry reports discussing regional mortgage and commercial loan performance and delinquency) as well as actual default and foreclosure information for each trust from the respective trustees.

We use the valuation model to generate the expected cash flows to be collected from the trust assets and the expected required bondholder distribution (trust liabilities). To the extent that the trusts are over collateralized, we may receive the excess interest as the holder of the residual interest. The information above provides us with the future expected cash flows for the securitized mortgage collateral, real estate owned, securitized mortgage borrowings, derivative assets/liabilities, and the residual interests.

To determine the discount rates to apply to these cash flows, we gather information from the bond pricing services and other market participants regarding estimated investor required yields for each bond tranche. Based on that information and the collateral type and vintage, we determine an acceptable range of expected yields an investor would require including an appropriate risk premium for each bond tranche. We use the blended yield of the bond tranches together with the residual interests to determine an appropriate yield for the securitized mortgage collateral in each securitization (after taking into consideration any derivatives in the securitization). As previously discussed, during the second quarter of 2015, we adjusted the acceptable range of expected yields and discount rates for some of our earlier vintage securitizations. Based on improving bond prices and declining yields in the Company’s securitization trusts as well as conversations with market participants, the Company lowered certain residual discount rates during the second quarter of 2015.

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The following table presents changes in the trust assets and trust liabilities for the six months ended June 30, 2015:

	TRUST ASSETS				TRUST LIABILITIES			
	Level 3 Recurring Fair Value Measurements		NRV (1)		Level 3 Recurring Fair Value Measurements			
	Investment securities available-for-sale	Securitized mortgage collateral	Real estate owned	Total trust assets	Securitized mortgage borrowings	Derivative liabilities	Total trust liabilities	Net trust assets
Recorded book value at December 31, 2014	\$ 92	\$ 5,249,639	\$ 18,800	\$ 5,268,531	\$ (5,245,860)	\$ (5,447)	\$ (5,251,307)	\$ 17,224
Total gains/(losses) included in earnings:								
Interest income	7	30,789	—	30,796	—	—	—	30,796
Interest expense	—	—	—	—	(106,697)	—	(106,697)	(106,697)
Change in FV of net trust assets, excluding REO	39	20,403	—	20,442(2)	(17,697)	(356)	(18,053)(2)	2,389
Losses from REO - not at FV but at NRV	—	—	(2,463)	(2,463)(2)	—	—	—	(2,463)
Total gains (losses) included in earnings	46	51,192	(2,463)	48,775	(124,394)	(356)	(124,750)	(75,975)
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
Purchases, issuances and settlements	(57)	(321,398)	2,649	(318,806)	393,104	2,294	395,398	76,592
Recorded book value at June 30, 2015	\$ 81	\$ 4,979,433	\$ 18,986	\$ 4,998,500	\$ (4,977,150)	\$ (3,509)	\$ (4,980,659)	\$ 17,841

(1) Accounted for at net realizable value.

(2) Represents non-interest income-net trust assets in the consolidated statements of operations for the six months ended June 30, 2015.

Inclusive of gains from REO, total trust assets above reflect a net gain of \$18.0 million as a result of an increase in fair value of securitized mortgage collateral of \$20.4 million, increases from other trust assets of \$40 thousand offset by losses from REO of \$2.5 million. Net losses on trust liabilities were \$18.1 million as a result of \$17.7 million in losses from the decrease in fair value of securitized mortgage borrowings and losses from derivative liabilities of \$356 thousand. As a result, non-interest income—net trust assets totaled a loss of \$73 thousand for the six months ended June 30, 2015.

The table below reflects the net trust assets as a percentage of total trust assets (residual interests in securitizations):

	June 30, 2015	December 31, 2014
Net trust assets	\$ 17,841	\$ 17,224
Total trust assets	4,998,500	5,268,531
Net trust assets as a percentage of total trust assets	0.36%	0.33%

For the six months ended June 30, 2015, the estimated fair value of the net trust assets increased as a percentage of total trust assets. The increase was primarily due to the decrease in discount rate assumptions for residual interests as discussed above.

Since the consolidated and unconsolidated securitization trusts are nonrecourse to us, our economic risk is limited to our residual interests in these securitization trusts. Therefore, in the following table we have netted trust assets and trust liabilities to present these residual interests more simply. Our residual interests in securitizations are segregated between our single-family (SF) residential and multi-family (MF) residential portfolios and are represented by the difference between trust assets and trust liabilities.

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The following tables present the estimated fair value of our residual interests, including investment securities available for sale, by securitization vintage year and other related assumptions used to derive these values at June 30, 2015 and December 31, 2014:

Origination Year		Estimated Fair Value of Residual Interests by Vintage Year at June 30, 2015			Estimated Fair Value of Residual Interests by Vintage Year at December 31, 2014		
		SF	MF	Total	SF	MF	Total
		2002-2003	(1)	\$ 12,272	\$ 1,796	\$ 14,068	\$ 10,826
2004		1,755	826	2,581	1,846	1,506	3,352
2005	(2)	—	67	67	11	209	220
2006	(2)	—	1,125	1,125	—	851	851
2007	(2)	—	—	—	—	—	—
Total		\$ 14,027	\$ 3,814	\$ 17,841	\$ 12,683	\$ 4,541	\$ 17,224
Weighted avg. prepayment rate		4.4%	12.2%	4.9%	4.3%	12.4%	4.9%
Weighted avg. discount rate		16.3%	14.4%	15.9%	19.0%	16.2%	18.3%

- (1) 2002-2003 vintage year includes CMO 2007-A, since the majority of the mortgages collateralized in this securitization were originated during this period.
- (2) The estimated fair values of residual interests in vintage years 2005 through 2007 is reflective of higher estimated future losses and investor yield requirements compared to earlier vintage years.

We utilize a number of assumptions to value securitized mortgage collateral, securitized mortgage borrowings and residual interests. These assumptions include estimated collateral default rates and loss severities (credit losses), collateral prepayment rates, forward interest rates and investor yields (discount rates). We use the same collateral assumptions for securitized mortgage collateral and securitized mortgage borrowings as the collateral assumptions determine collateral cash flows which are used to pay interest and principal for securitized mortgage borrowings and excess spread, if any, to the residual interests. However, we use different investor yield (discount rate) assumptions for securitized mortgage collateral and securitized mortgage borrowings and the discount rate used for residual interests based on underlying collateral characteristics, vintage year, assumed risk and market participant assumptions. As previously discussed, during the second quarter of 2015, the single-family (SF) vintages were lowered to a range of 15% to 35% (16.3% weighted average) from 18% to 35% (19.0% weighted average) and the multi-family (MF) vintages were lowered to a range of 12% to 20% (14.4% weighted average) from 15% to 20% (16.2% weighted average). The combined SF and MF weighted average discount rate for the quarter ended June 30, 2015 dropped to 15.9% from 18.3% at December 31, 2014.

The table below reflects the estimated future credit losses and investor yield requirements for trust assets by product (SF and MF) and securitization vintage at June 30, 2015:

	Estimated Future Losses (1)		Investor Yield Requirement (2)	
	SF	MF	SF	MF
2002-2003	6%	*(3)	5%	7%
2004	12%	*(3)	5%	5%
2005	14%	2%	5%	4%
2006	18%	5%	6%	4%
2007	24%	2%	5%	4%

- (1) Estimated future losses derived by dividing future projected losses by UPB at June 30, 2015.
- (2) Investor yield requirements represent our estimate of the yield third-party market participants would require to price our trust assets and liabilities given our prepayment, credit loss and forward interest rate assumptions.
- (3) Represents less than 1%.

Despite the increase in housing prices through June 30, 2015, housing prices in many parts of the country are still at levels which have significantly reduced or eliminated equity for loans originated after 2003. Future loss estimates are significantly higher for mortgage loans included in securitization vintages after 2004 which reflect severe home price deterioration and defaults experienced with mortgages originated during these periods.

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Long-Term Mortgage Portfolio Credit Quality

We use the Mortgage Bankers Association (MBA) method to define delinquency as a contractually required payment being 30 or more days past due. We measure delinquencies from the date of the last payment due date in which a payment was received. Delinquencies for loans 60 days delinquent or greater, foreclosures and delinquent bankruptcies were \$1.2 billion or 18.9% of the long-term mortgage portfolio as of June 30, 2015.

The following table summarizes the gross UPB of loans in our mortgage portfolio, included in securitized mortgage collateral, that were 60 or more days delinquent (utilizing the MBA method) as of the periods indicated:

	June 30, 2015	Total Collateral %	December 31, 2014	Total Collateral %
<u>Securitized mortgage collateral</u>				
60 - 89 days delinquent	\$ 109,338	1.7%	\$ 137,913	2.0%
90 or more days delinquent	385,487	6.1%	503,849	7.5%
Foreclosures (1)	452,171	7.1%	443,751	6.6%
Delinquent bankruptcies (2)	254,418	4.0%	281,936	4.2%

Total 60 or more days delinquent	\$ 1,201,414	18.9%	\$ 1,367,449	20.3%
Total collateral	\$ 6,343,915	100%	\$ 6,745,411	100%

- (1) Represents properties in the process of foreclosure.
(2) Represents bankruptcies that are 30 days or more delinquent.

The following table summarizes the gross securitized mortgage collateral and REO (at NRV), that were non-performing as of the dates indicated (excludes 60-89 days delinquent):

	June 30, 2015	Total Collateral %	December 31, 2014	Total Collateral %
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 1,092,076	17.2%	\$ 1,229,536	18.2%
Real estate owned	18,986	0.3%	18,800	0.3%
Total non-performing assets	\$ 1,111,062	17.5%	\$ 1,248,336	18.5%

Non-performing assets consist of non-performing loans (mortgages that are 90 or more days delinquent, including loans in foreclosure and delinquent bankruptcies) plus REO. It is the Company's policy to place a mortgage on nonaccrual status when it becomes 90 days delinquent and to reverse from revenue any accrued interest, except for interest income on securitized mortgage collateral when the scheduled payment is received from the servicer. The servicers are required to advance principal and interest on loans within the securitization trusts to the extent the advances are considered recoverable. IFC, a subsidiary of IMH and master servicer, may be required to advance funds, or in most cases cause the loan servicers to advance funds, to cover principal and interest payments not received from borrowers depending on the status of their mortgages. As of June 30, 2015, non-performing assets (UPB of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) as a percentage of the total collateral was 17.5%. At December 31, 2014, non-performing assets to total collateral was 18.5%. Non-performing assets decreased by approximately \$137.3 million at June 30, 2015 as compared to December 31, 2014. At June 30, 2015, the estimated fair value of non-performing assets (representing the fair value of loans 90 or more days delinquent, foreclosures and delinquent bankruptcies plus REO) was \$412.1 million or 7.2% of total assets. At December 31, 2014, the estimated fair value of non-performing assets was \$410.3 million or 7.3% of total assets.

REO, which consists of residential real estate acquired in satisfaction of loans, is carried at the lower of cost or net realizable value less estimated selling costs. Adjustments to the loan carrying value required at the time of foreclosure are included in the change in the fair value of net trust assets. Changes in our estimates of net realizable value subsequent to the time of foreclosure and through the time of ultimate disposition are recorded as gains or losses from real estate owned in the consolidated statements of operations.

The increase in REO at June 30, 2015 was the result of a decrease in REO liquidations as compared to the fourth quarter of 2014. Additionally, for the three and six months ended June 30, 2015, we recorded an increase and decrease in net realizable value of the REO in the amount of \$206 thousand and \$2.5 million, respectively, compared to an increases of \$2.9 million and \$9.0 million for the comparable 2014 period. Increases and write-downs of the net realizable value reflect increases or declines in value of the REO subsequent to foreclosure date, but prior to the date of sale.

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The following table presents the balances of REO:

	June 30, 2015	December 31, 2014
REO	\$ 23,323	\$ 20,674
Impairment (1)	(4,337)	(1,874)
Ending balance	\$ 18,986	\$ 18,800
REO inside trusts	\$ 18,986	\$ 18,800
REO outside trusts	—	—
Total	\$ 18,986	\$ 18,800

- (1) Impairment represents the cumulative write-downs of net realizable value subsequent to foreclosure.

In calculating the cash flows to assess the fair value of the securitized mortgage collateral, we estimate the future losses embedded in our loan portfolio. In evaluating the adequacy of these losses, management takes many factors into consideration. For instance, a detailed analysis of historical loan performance data is accumulated and reviewed. This data is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The data is also broken down by collection status. Our estimate of losses for these loans is developed by estimating both the rate of default of the loans and the amount of loss severity in the event of default. The rate of default is assigned to the loans based on their attributes (e.g., original loan-to-value, borrower credit score, documentation type, geographic location, etc.) and collection status. The rate of default is based on analysis of migration of loans from each aging category. The loss severity is determined by estimating the net proceeds from the ultimate sale of the foreclosed property. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. We believe that pooling of mortgages with similar characteristics is an appropriate methodology in which to evaluate the future loan losses.

Management recognizes that there are qualitative factors that must be taken into consideration when evaluating and measuring losses in the loan portfolios. These items include, but are not limited to, economic indicators that may affect the borrower's ability to pay, changes in value of collateral, political factors, employment and market conditions, competitor's performance, market perception, historical losses, and industry statistics. The assessment for losses is based on delinquency trends and prior loss experience and management's judgment and assumptions regarding various matters, including general economic conditions and loan portfolio composition. Management continually evaluates these assumptions and various relevant factors affecting credit quality and inherent losses.

Results of Operations

For the Three and Six Months Ended June 30, 2015 compared to the Three and Six Months Ended June 30, 2014

	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Revenues	\$ 49,084	\$ 10,501	\$ 38,583	367%
Expenses	(32,420)	(14,504)	(17,916)	(124)
Net interest income (expense)	959	(96)	1,055	1,099
Change in fair value of long-term debt	(1,544)	226	(1,770)	(783)
Change in fair value of net trust assets, including trust REO gains	802	4,711	(3,909)	(83)
Income tax expense	(71)	(756)	685	91
Net earnings	<u>16,810</u>	<u>82</u>	<u>16,728</u>	20,400
Earnings per share available to common stockholders - basic	<u>\$ 1.65</u>	<u>\$ 0.01</u>	<u>\$ 1.64</u>	16,400%
Earnings per share available to common stockholders - diluted	<u>\$ 1.33</u>	<u>\$ 0.01</u>	<u>\$ 1.32</u>	13,200%

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	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Revenues	\$ 83,428	\$ 20,730	\$ 62,698	302%
Expenses	(49,560)	(29,432)	20,128	68
Net interest income (expense)	2,016	(409)	2,425	593
Change in fair value of long-term debt	(8,661)	(424)	(8,237)	(1,943)
Change in fair value of net trust assets, including trust REO (losses) gains	(74)	7,749	(7,823)	(101)
Income tax benefit (expense)	23,633	(1,098)	24,731	2,252
Net earnings (loss)	<u>50,782</u>	<u>(2,884)</u>	<u>53,666</u>	1,861
Earnings (loss) per share available to common stockholders - basic	<u>\$ 5.13</u>	<u>\$ (0.31)</u>	<u>\$ 5.44</u>	1,755%
Earnings (loss) per share available to common stockholders - diluted	<u>\$ 4.17</u>	<u>\$ (0.31)</u>	<u>\$ 4.48</u>	1,445%

Revenues

	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 48,346	\$ 6,293	\$ 42,053	668%
Real estate services fees, net	2,355	4,360	(2,005)	(46)
Servicing income, net	1,017	1,291	(274)	(21)
Loss on mortgage servicing rights	(2,790)	(1,564)	(1,226)	(78)
Other revenues	156	121	35	29
Total revenues	<u>\$ 49,084</u>	<u>\$ 10,501</u>	<u>\$ 38,583</u>	367%

Gain on sale of loans, net. For the three months ended June 30, 2015, gain on sale of loans, net were \$48.3 million compared to \$6.3 million in the comparable 2014 period. The \$42.1 million increase is primarily related to a \$45.9 million increase in premiums received from the sale of mortgage loans, a \$25.8 million increase in premiums from servicing retained loan sales, and a \$4.9 million increase in realized and unrealized net gains on derivative financial instruments, partially offset by \$23.5 million increase in net direct loan origination expenses, a \$10.8 million increase in mark-to-market losses on loans held-for-sale (LHFS) and a \$261 thousand increase in provision for repurchases.

The overall increase in gain on sale of loans, net was due to increased volumes and gain on sale margins predominantly due to the first quarter acquisition of CCM. For the three months ended June 30, 2015, we originated and sold \$2.6 billion and \$2.7 billion of loans, respectively, as compared to \$465.2 million and \$449.5 million of loans originated and sold, respectively, during the same period in 2014. Margins increased to approximately 186 bps for the three months ended June 30, 2015 as compared to 135 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins.

Real estate services fees, net. For the three months ended June 30, 2015, real estate services fees, net were \$2.4 million compared to \$4.4 million in the comparable 2014 period. The 2.0 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio.

Servicing income, net. For the three months ended June 30, 2015, servicing income, net was \$1.0 million compared to \$1.3 million in the comparable 2014 period. The increase in average balance of our servicing portfolio led to an increase in contractual servicing fees for the three months ended June 30, 2015 compared to the 2014 period. Despite the increase in contractual servicing fees, the decrease in servicing income, net was the result of the servicing sales in the second quarter of 2015 of approximately \$1.2 billion which led to increased transaction costs associated with transfers of servicing. Additionally, despite a higher average balance of the servicing portfolio in the second quarter of 2015 then 2014, with the addition of CCM, the predominance of our originated mortgage servicing rights occur at the end of the month. This timing can delay the first payment received from the borrower typically between 30-45 days.

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Loss on mortgage servicing rights. For the three months ended June 30, 2015, loss on MSR was \$2.8 million compared to \$1.6 million in the comparable 2014 period. For the three months ended June 30, 2015, loss on MSR was primarily the result of a \$542 thousand loss from a change in fair value of MSR coupled with a \$2.2 million loss on sale of servicing primarily due to a decline in the pricing for MSR as a result of an increase in supply of MSR available for sale during the second quarter of 2015. The estimated fair value of MSR are based on assumptions that assume stable market conditions. The sale of MSR can occur at times when volatile market conditions exist which may result in a gain or loss at the time of sale. For the three months ended June 30, 2014, loss on MSR was primarily the result of a \$2.8 million loss from a change in fair value of MSR partially offset by a \$1.2 million gain on sale of servicing.

	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 85,744	\$ 10,866	\$ 74,878	689%
Real estate services fees, net	5,097	8,039	(2,942)	(37)
Servicing income, net	1,652	2,859	(1,207)	(42)
Loss on mortgage servicing rights	(9,358)	(2,541)	(6,817)	(268)
Other revenues	293	1,507	(1,214)	(81)
Total revenues	<u>\$ 83,428</u>	<u>\$ 20,730</u>	<u>\$ 62,698</u>	302%

Gain on sale of loans, net. For the six months ended June 30, 2015, gain on sale of loans, net were \$85.7 million compared to \$10.9 million in the comparable 2014 period. The \$74.9 million increase is primarily related to an \$87.1 million increase in premiums received from the sale of mortgage loans, a \$44.4 million increase in premiums from servicing retained loan sales and a \$12.2 million increase in realized and unrealized net gains on derivative financial instruments, partially offset by \$67.7 million increase in net direct loan origination expenses, a \$575 thousand increase in provision for repurchases and a \$457 thousand increase in mark-to-market losses on LHFS.

The overall increase in gain on sale of loans, net was due to increased volumes and gain on sale margins predominantly due to the first quarter acquisition of CCM. For the six months ended June 30, 2015, we originated and sold \$5.0 billion and \$4.9 billion of loans, respectively, as compared to \$818.3 million and \$828.4 million of loans originated and sold, respectively, during the same period in 2014. Margins increased to approximately 171bps for the six months ended June 30, 2015 as compared to 133 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins. In the first quarter of 2015, gain on sale of loans, net included increased loan origination costs related to the acquisition of CCM. Beginning in the second quarter of 2015, the operations of CCM were consolidated with our mortgage lending segment, therefore, the operating expenses of CCM were included in personnel and general, administrative, and other expense.

Real estate services fees, net. For the six months ended June 30, 2015, real estate services fees, net were \$5.1 million compared to \$8.0 million in the comparable 2014 period. The \$2.9 million decrease was primarily the result of a decrease in transactions related to the decline in the number of loans and the UPB of the long-term mortgage portfolio.

Servicing income, net. For the six months ended June 30, 2015, servicing income, net was \$1.7 million compared to \$2.9 million in the comparable 2014 period. The decrease in servicing income, net was the result of the servicing sales in the six months ended June 30, 2015 of approximately \$2.8 billion which led to increased transaction costs associated with transfers of servicing. Additionally, despite a flat average balance of the servicing portfolio during the six months ended June 30, 2015 as compared to 2014, with the addition of CCM, the predominance of our originated mortgage servicing rights occur at the end of the month. This timing can delay the first payment received from the borrower typically between 30-45 days.

Loss on mortgage servicing rights. For the six months ended June 30, 2015, loss on MSR was \$9.4 million compared to \$2.5 million in the comparable 2014 period. For the six months ended June 30, 2015, loss on MSR was primarily the result of a \$5.7 million loss on sale of servicing primarily due to FHA dropping its required mortgage insurance premium by 0.50% in January 2015 coupled with a \$3.6 million loss from a change in fair value of MSR predominately during the first quarter of 2015 related to a decrease in interest rates as compared to a gain of \$1.2 million for the same period in 2014.

Other revenues. For the six months ended June 30, 2015, other revenue was \$293 thousand compared to \$1.5 million for the comparable 2014 period. The decrease in other revenue was primarily due to the sale of AmeriHome during the first quarter of 2014 resulting in a \$1.2 million gain.

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	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Personnel expense	\$ 24,078	\$ 9,319	\$ 14,759	158%
Business promotion	8,679	267	8,412	3151
General, administrative and other	7,943	4,918	3,025	62
Accretion of contingent consideration	3,046	—	3,046	n/a
Change in fair value of contingent consideration	(11,326)	—	(11,326)	n/a
Total expenses	<u>\$ 32,420</u>	<u>\$ 14,504</u>	<u>\$ 17,916</u>	124%

Total expenses were \$32.4 million for the three months ended June 30, 2015, compared to \$14.5 million for the comparable period of 2014. Personnel expense increased \$14.8 million to \$24.1 million for the three months ended June 30, 2015. The increase is primarily due to the acquisition of CCM during the first quarter of 2015 which contributed an additional \$11.6 million in personnel expense during the three months ended June 30, 2015 as well as the addition of new sales personnel in the wholesale and correspondent division as compared to the second quarter of 2014.

Business promotion was \$8.7 million for the three months ended June 30, 2015, compared to \$267 thousand for the comparable period of 2014. The increase is due to the acquisition of CCM during the first quarter of 2015. This division operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. Our centralized call center purchases leads and promotes its business through radio and television advertisements. In addition to the ongoing advertising expense associated with CCM, the increase is part of our strategic goal to leverage the marketing platform to expand the national footprint of our retail call center volumes as well as offering new AltQM products.

General, administrative and other expenses increased to \$7.9 million for the three months ended June 30, 2015, compared to \$4.9 million for the same period in 2014. The increase was primarily related to a \$1.4 million increase in amortization of intangible and other assets, a \$516 thousand increase in legal and professional fees, a \$439 thousand increase in data processing and information technology support and a \$376 thousand increase in additional occupancy expense related to the acquisition of CCM during the first quarter of 2015.

We recorded a contingent consideration liability related to the acquisition of CCM during the first quarter of 2015. The contingent component consists of a three year earn-out provision beginning on the effective date January 2, 2015. Each quarter we update our estimated fair value of contingent consideration by revising our forecast of CCM pre-tax earnings which include actual experience to date. During the second quarter of 2015, we updated assumptions which included reductions in loan margins based on recent experience in the second quarter of 2015. Based on these changes, we recorded an \$11.3 million change in fair value associated with a reduction in the contingent consideration liability at June 30, 2015. The change in fair value of contingent consideration was related to the estimated reduction in future pre-tax earnings of CCM over the expected earn-out period, primarily due to margin compression. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM.

Beginning in the second quarter of 2015, we are required by GAAP to record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in 2017. The accretion represents the time value of money of the liability during the earn-out period. In the second quarter of 2015, accretion was recorded, thereby increasing the contingent consideration liability by \$3.0 million. We were not required to record accretion in the first quarter of 2015 as the acquisition transaction did not close until March 31, 2015, however the accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period.

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	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Personnel expense	\$ 35,568	\$ 18,779	\$ 16,789	89%
Business promotion	8,894	768	8,126	1058
General, administrative and other	13,378	9,885	3,493	35
Accretion of contingent consideration	3,046	—	3,046	n/a
Change in fair value of contingent consideration	(11,326)	—	(11,326)	n/a
Total expenses	\$ 49,560	\$ 29,432	\$ 20,128	68%

Expenses for the six months ended June 30, 2015 include CCM expenses beginning April 1, 2015 as the transaction closed March 31, 2015. As a result, total expenses for the six months ended June 30, 2015 may not be representative of our expenses for the remainder of the year.

Total expenses were \$49.6 million for the six months ended June 30, 2015, compared to \$29.4 million for the comparable period of 2014. Personnel expense increased \$16.8 million to \$35.6 million for the six months ended June 30, 2015. The increase is primarily due to the acquisition and consolidation of CCM on March 31, 2015 which contributed an additional \$11.6 million in personnel expense since the acquisition date as well as the addition of new sales personnel in the wholesale and correspondent division as compared to the second quarter of 2014.

Business promotion was \$8.9 million for the six months ended June 30, 2015, compared to \$768 thousand for the comparable period of 2014. The increase is due to the acquisition of CCM during the first quarter of 2015. This division operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. Our centralized call center purchases leads and promotes its business through radio and television advertisements. This increase is part of our strategic goal to leverage the marketing platform to expand the national footprint of our retail call center volumes as well as volumes of our new AltQM products.

General, administrative and other expenses increased to \$13.4 million for the six months ended June 30, 2015, compared to \$9.9 million for the same period in 2014. The increase was primarily related to a \$1.2 million increase in amortization of intangible and other assets, a \$1.3 million increase in legal and professional fees, a \$668 thousand increase in data processing and information technology support and a \$376 thousand increase in additional occupancy expense related to the acquisition of CCM during the first quarter of 2015.

We recorded a contingent consideration liability related to the acquisition of CCM during the first quarter of 2015. The contingent component consists of a three year earn-out provision beginning on the effective date January 2, 2015. Each quarter we update our estimated fair value of contingent consideration by revising our forecast of CCM pre-tax earnings which include actual experience to date. During the second quarter of 2015, we updated assumptions which included reductions in loan margins based on recent experience in the second quarter of 2015. Based on these changes, we recorded an \$11.3 million change in fair value associated with a reduction in the contingent consideration liability at June 30, 2015. The change in fair value of contingent consideration was related to the estimated reduction in future pre-tax earnings of CCM over the expected earn-out period, primarily due to margin compression. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM.

Beginning in the second quarter of 2015, we are required by GAAP to record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in 2017. The accretion represents the time value of money of the liability during the earn-out period. In the second quarter of 2015, accretion was recorded, thereby increasing the contingent consideration liability by \$3.0 million. We were not required to record accretion in the first quarter of 2015 as the acquisition transaction did not close until March 31, 2015, however the accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period.

We earn net interest income primarily from mortgage assets which include securitized mortgage collateral, loans held-for-sale, finance receivables and investment securities available-for-sale, or collectively, "mortgage assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings secured by mortgage assets, which include securitized mortgage borrowings and warehouse borrowings and to a lesser extent, interest expense paid on long-term debt, Convertible Notes, short-term debt, Term Financing and line of credit. Interest income and interest expense during the period primarily represents the effective yield, based on the fair value of the trust assets and liabilities.

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The following tables summarize average balance, interest and weighted average yield on interest-earning assets and interest-bearing liabilities, for the periods indicated. Cash receipts and payments on derivative instruments hedging interest rate risk related to our securitized mortgage borrowings are not included in the results below. These cash receipts and payments are included as a component of the change in fair value of net trust assets.

	For the Three Months Ended June 30,					
	2015			2014		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	\$ 5,045,208	\$ 63,444	5.03%	\$ 5,485,629	\$ 67,784	4.94%
Mortgage loans held-for-sale	377,005	3,219	3.42%	110,643	1,141	4.12%
Finance receivables	53,765	591	4.40%	2,310	25	4.33%
Other	23,512	15	0.26%	8,711	12	0.55%
Total interest-earning assets	<u>\$ 5,499,490</u>	<u>\$ 67,269</u>	4.89%	<u>\$ 5,607,293</u>	<u>\$ 68,962</u>	4.92%
LIABILITIES						
Securitized mortgage borrowings	\$ 5,043,142	\$ 61,326	4.86%	\$ 5,484,344	\$ 66,623	4.86%
Warehouse borrowings (1)	390,820	3,101	3.17%	106,993	953	3.56%
Long-term debt	30,542	933	12.22%	17,395	1,074	24.70%
Convertible Notes	34,835	671	7.70%	20,000	387	7.74%
Short-term debt	3,185	79	9.92%	—	—	0.00%
Short-term borrowing	5,275	152	11.53%	—	—	0.00%
Other	3,473	48	5.53%	2,841	21	2.96%
Total interest-bearing liabilities	<u>\$ 5,511,272</u>	<u>\$ 66,310</u>	4.81%	<u>\$ 5,631,573</u>	<u>\$ 69,058</u>	4.91%
Net Interest Spread (2)		\$ 959	0.08%		\$ (96)	0.01%
Net Interest Margin (3)			0.07%			-0.01%

- (1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables.
- (2) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.
- (3) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread increased \$1.1 million for the quarter ended June 30, 2015 primarily attributable to an increase in the net interest spread on the long-term mortgage portfolio due to increases in yields between periods on securitized mortgage collateral and securitized mortgage borrowings, an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings and a decrease in interest expense on the long-term debt. Offsetting the increase in net spread was an increase in interest expense from the issuance of the additional Convertible Note, short-term structured debt and short-term borrowing. As a result, net interest margin increased to 0.07% for the three months ended June 30, 2015 from (0.01%) for the three months ended June 30, 2014.

During the quarter ended June 30, 2015, the yield on interest-earning assets decreased to 4.89% from 4.92% in the comparable 2014 period. The yield on interest-bearing liabilities decreased to 4.81% for the quarter ended June 30, 2015 from 4.91% for the comparable 2014 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The increase in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to a slight deterioration in the 2006 and 2007 vintage as compared to the previous period. The decrease in prices for these vintages caused the overall yields to increase. Partially offsetting the increase in overall yields was improved pricing and lower yields on the earlier vintages. The result was an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests.

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	For the Six Months Ended June 30,					
	2015			2014		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
ASSETS						
Securitized mortgage collateral	\$ 5,113,352	\$ 132,726	5.19%	\$ 5,488,470	\$ 138,867	5.06%
Mortgage loans held-for-sale	344,410	5,849	3.40%	97,912	2,064	4.22%
Finance receivables	68,824	1,278	3.71%	1,297	28	4.32%
Other	16,123	23	0.29%	8,399	23	0.55%

Total interest-earning assets	\$ 5,542,709	\$ 139,876	5.05%	\$ 5,596,078	\$ 140,982	5.04%
LIABILITIES						
Securitized mortgage borrowings	\$ 5,110,714	\$ 128,450	5.03%	\$ 5,487,020	\$ 136,670	4.98%
Warehouse borrowings (1)	375,783	5,850	3.11%	93,644	1,699	3.63%
Long-term debt	27,735	1,893	13.65%	16,887	2,185	25.88%
Convertible notes	27,459	1,058	7.71%	20,000	774	7.74%
Short-term debt	4,195	184	8.77%	—	—	#DIV/0!
Short-term borrowing	4,834	325	13.45%	—	—	#DIV/0!
Other	3,326	100	6.01%	3,338	63	3.77%
Total interest-bearing liabilities	\$ 5,554,046	\$ 137,860	4.96%	\$ 5,620,889	\$ 141,391	5.03%
Net Interest Spread (2)		\$ 2,016	0.08%		\$ (409)	0.01%
Net Interest Margin (3)			0.07%			-0.01%

- (1) Warehouse borrowings include the borrowings from mortgage loans held-for-sale and finance receivables.
- (2) Net interest spread is calculated by subtracting the weighted average yield on interest-bearing liabilities from the weighted average yield on interest-earning assets.
- (3) Net interest margin is calculated by dividing net interest spread by total average interest-earning assets.

Net interest spread increased \$2.4 million for the six months ended June 30, 2015 primarily attributable to an increase in the net interest spread on the long-term mortgage portfolio due to increases in yields between periods on securitized mortgage collateral and securitized mortgage borrowings, an increase in the net interest spread between loans held-for-sale and finance receivables and their related warehouse borrowings and a decrease in interest expense on the long-term debt. Offsetting the increase in net spread was an increase in interest expense from the issuance of the additional Convertible Note, short-term structured debt and short-term borrowing. As a result, net interest margin increased to 0.07% for the six months ended June 30, 2015 from (0.01%) for the six months ended June 30, 2014.

During the six months ended June 30, 2015, the yield on interest-earning assets increased to 5.05% from 5.04% in the comparable 2014 period. The yield on interest-bearing liabilities decreased to 4.96% for the six months ended June 30, 2015 from 5.03% for the comparable 2014 period. In connection with the fair value accounting for investment securities available-for-sale, securitized mortgage collateral and borrowings and long-term debt, interest income and interest expense is recognized using effective yields based on estimated fair values for these instruments. The increase in yield for securitized mortgage collateral and securitized mortgage borrowings is primarily related to a slight deterioration in the 2006 and 2007 vintage as compared to the previous period. The decrease in prices for these vintages caused the overall yields to increase. Partially offsetting the increase in overall yields was improved pricing and lower yields on the earlier vintages. The result was an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests.

Change in the fair value of long-term debt.

Change in the fair value of long-term debt resulted in a loss of \$1.5 million for the three months ended June 30, 2015, compared to a gain of \$226 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of an increase in forward LIBOR interest rates during the second quarter of 2015 as compared to 2014. Long-term debt (consisting of trust preferred securities and junior subordinated notes) is measured based upon an analysis prepared by the Company, which considers the Company's own credit risk and discounted cash flow analyses. Improvements in financial results and financial condition of the Company in the future could result in additional increases in the estimated fair value of the long-term debt, while deterioration in financial results and financial condition could result in a decrease in the estimated fair value of the long-term debt.

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Change in the fair value of long-term debt resulted in a loss of \$8.7 million for the six months ended June 30, 2015, compared to a loss of \$424 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, improvement in our financial condition and results of operations from the mortgage lending segment including the acquisition of CCM during the first quarter of 2015 as well as an increase in forward LIBOR interest rates during the second quarter of 2015 as compared to 2014.

Change in fair value of net trust assets, including trust REO gains (losses)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Change in fair value of net trust assets, excluding REO	\$ 596	\$ 1,769	\$ 2,389	\$ (1,275)
Gains (losses) from REO	206	2,942	(2,463)	9,024
Change in fair value of net trust assets, including trust REO (losses) gains	\$ 802	\$ 4,711	\$ (74)	\$ 7,749

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$802 thousand for the quarter ended June 30, 2015, compared to a gain of \$4.7 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to \$596 thousand in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updated assumptions of decreased collateral losses. Additionally, the NRV of REO increased \$206 thousand during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$4.7 million for the quarter ended June 30, 2014. The change in fair value of net trust assets, including REO was due to \$1.8 million in gains from changes in fair value of securitized mortgage

borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of decreased collateral losses in the future and lower interest rates. Additionally, a \$2.9 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$74 thousand for the six months ended June 30, 2015, compared to a gain of \$7.7 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to \$2.4 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with lower interest rates during the first quarter of 2015 and updated assumptions of decreased collateral losses during the second quarter of 2015. Additionally, the NRV of REO decreased \$2.5 million during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio primarily during the first quarter of 2015.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$7.7 million for the quarter ended June 30, 2014. The change in fair value of net trust assets, including REO was due to a \$9.0 million increase in NRV of REO during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period. Partially offsetting the gain was \$1.3 million in losses from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updating assumptions of increased collateral losses in the future and higher interest rates.

Income Taxes

We recorded tax expense (benefit) of \$71 thousand and (\$23.6) million for the three and six months ended June 30, 2015, respectively. Income tax expense for the three months ended June 30, 2015 is primarily the result of amortization of the deferred charge partially offset by a reduction in current income tax provision based upon an estimated reduction in federal alternative minimum tax (AMT) and state income taxes. Income tax benefit for the six months ended June 30, 2015 is primarily the result of reversal of valuation allowance partially offset by federal alternative minimum tax (AMT), amortization of the deferred charge and state income taxes from states where we do not have net operating loss carryforwards or state minimum taxes, including AMT. For the three and six months ended June 30, 2014, we recorded an expense of \$756 thousand and \$1.1 million primarily related to alternative minimum taxes associated with taxable income generated from the sale of AmeriHome and mortgage servicing rights.

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As of December 31, 2014, we had estimated federal and California net operating loss (NOL) carryforwards of approximately \$495.9 million and \$427.3 million, respectively. Federal and state net operating loss carryforwards begin to expire in 2027 and 2018, respectively.

Based on pretax income of \$27.1 million for the six months ended June 30, 2015, the expected tax expense would be \$10.9 million at an effective rate of 40%. However, we utilized \$10.7 million in available NOL's by offsetting tax expense for the period with a reversal of the valuation allowance. Additionally, based on the weight of available evidence at June 30, 2015, we determined that it was more likely than not that we would generate sufficient taxable income in future periods to utilize a portion of our net deferred tax asset.

As of December 31, 2014, we had deferred tax assets of \$163.2 million which we recorded a full valuation allowance against. During the first quarter of 2015, with the aforementioned acquisition of CCM, we significantly expanded our mortgage lending operations and profitability. As of June 30, 2015, in part because of the earnings recognition during the first six months of 2015, current year projected earnings, future projected earnings as well as the historical earnings of CCM, management determined that sufficient positive evidence exists to conclude that it is more likely than not that deferred taxes of \$24.4 million are realizable, and therefore, reduced the valuation allowance accordingly. Although realization is not assured, the Company believes that the realization of the recognized deferred tax asset of \$24.4 million at June 30, 2015 is more likely than not based on future forecasted net earnings. The Company estimates that it would need to generate approximately \$61.0 million of taxable income during the applicable carryforward periods to fully realize the federal and state deferred tax assets. However, to the extent the Company is unable to generate sufficient taxable income, the ability to realize the deferred tax asset may become uncertain and an additional charge to increase the valuation allowance may be recorded.

Results of Operations by Business Segment

We have three primary operating segments: Mortgage Lending, Real Estate Services and Long-Term Mortgage Portfolio. Unallocated corporate and other administrative costs, including the cost associated with being a public company, are presented in Corporate. Segment operating results are as follows:

Mortgage Lending

	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 48,346	\$ 6,293	\$ 42,053	668%
Servicing income, net	1,017	1,291	(274)	(21)
Loss on mortgage servicing rights	(2,790)	(1,564)	(1,226)	(78)
Other	104	43	61	142
Total revenues	46,677	6,063	40,614	670
Other income	648	215	433	201
Personnel expense	(23,566)	(6,741)	16,825	250
Business promotion	(8,630)	(241)	8,389	3,481
General, administrative and other	(3,571)	(1,626)	1,945	120
Net earnings (loss) before income taxes	\$ 11,558	\$ (2,330)	\$ 13,888	596%

For the quarter ended June 30, 2015, gain on sale of loans, net were \$48.3 million or 186 bps compared to \$6.3 million or 135 bps in the comparable 2014 period. The \$42.1 million increase is primarily related to a \$45.9 million increase in premiums received from the sale of mortgage loans, a \$25.8 million increase in premiums from servicing retained loan sales, and a \$4.9 million increase in realized and unrealized net gains on derivative financial instruments,

partially offset by \$23.5 million increase in net direct loan origination expenses, a \$10.8 million increase in mark-to-market losses on LHFS and a \$261 thousand increase in provision for repurchases.

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The overall increase in gain on sale of loans, net was due to increased volumes and gain on sale margins predominantly due to the first quarter acquisition of CCM. For the three months ended June 30, 2015, we originated and sold \$2.6 billion and \$2.7 billion of loans, respectively, as compared to \$465.2 million and \$449.5 million of loans originated and sold, respectively, during the same period in 2014. Margins increased to approximately 186 bps for the three months ended June 30, 2015 as compared to 135 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins.

For the three months ended June 30, 2015, servicing income, net was \$1.0 million compared to \$1.3 million in the comparable 2014 period. The increase in average balance of our servicing portfolio led to an increase in contractual servicing fees for the three months ended June 30, 2015 compared to the 2014 period. Despite the increase in contractual servicing fees, the decrease in servicing income, net was the result of the servicing sales in the second quarter of 2015 of approximately \$1.2 billion which led to increased transaction costs associated with transfers of servicing. Additionally, despite a higher average balance of the servicing portfolio in the second quarter of 2015 than 2014, with the addition of CCM, the predominance of our originated mortgage servicing rights occur at the end of the month. This timing can delay the first payment received from the borrower typically between 30-45 days.

For the three months ended June 30, 2015, loss on MSR was \$2.8 million compared to \$1.6 million in the comparable 2014 period. For the three months ended June 30, 2015, loss on MSR was primarily the result of a \$542 thousand loss from a change in fair value of MSR coupled with a \$2.2 million loss on sale of servicing primarily due to a decline in the pricing for MSR as a result of an increase in supply of MSR available for sale in during the second quarter of 2015. For the three months ended June 30, 2014, loss on MSR was primarily the result of a \$2.8 million loss from a change in fair value of MSR partially offset by a \$1.2 million gain on sale of servicing.

Personnel expense increased \$16.8 million to \$23.6 million for the three months ended June 30, 2015. The increase is primarily due to the acquisition of CCM during the first quarter of 2015 which contributed an additional \$11.6 million in personnel expense during the three months ended June 30, 2015 as well as the addition of new sales personnel in the wholesale and correspondent division as compared to the second quarter of 2014. Additionally, the growth of the mortgage lending division resulted in increased allocations of certain corporate costs.

Business promotion was \$8.7 million for the three months ended June 30, 2015, compared to \$241 thousand for the comparable period of 2014. The increase is due to the acquisition of CCM during the first quarter of 2015. This division operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. Our centralized call center purchases leads and promotes its business through radio and television advertisements. In addition to the ongoing advertising expense associated with CCM, the increase is part of our strategic goal to leverage the marketing platform to expand the national footprint of our retail call center volumes as well as offering new AltQM products.

General, administrative and other expenses increased to \$3.6 million for the three months ended June 30, 2015, compared to \$1.6 million for the same period in 2014. The increase in general administrative and other expense was primarily related to the acquisition of CCM which contributed \$1.5 million of the \$1.9 million increase. The \$1.9 million increase was primarily related to a \$611 thousand increase in general administrative expense related to the increase in mortgage loan origination volume, \$246 thousand increase in legal and professional fees, a \$346 thousand increase in data processing and information technology support and a \$463 thousand increase in additional occupancy expense, of which \$376 thousand was related to the acquisition of CCM during the first quarter of 2015.

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	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Gain on sale of loans, net	\$ 85,744	\$ 10,866	\$ 74,878	689%
Servicing income, net	1,652	2,859	(1,207)	(42)
Loss on mortgage servicing rights	(9,358)	(2,541)	(6,817)	(268)
Other	121	1,257	(1,136)	(90)
Total revenues	78,159	12,441	65,718	528
Other income	1,016	371	645	174
Personnel expense	(34,621)	(13,543)	21,078	156
Business promotion	(8,794)	(712)	8,082	1,135
General, administrative and other	(5,667)	(3,320)	2,347	71
Net earnings (loss) before income taxes	<u>\$ 30,093</u>	<u>\$ (4,763)</u>	<u>\$ 34,856</u>	732%

For the six months ended June 30, 2015, gain on sale of loans, net were \$85.7 million or 171 bps compared to \$10.9 million or 133 bps in the comparable 2014 period. The \$74.9 million increase is primarily related to an \$87.1 million increase in premiums received from the sale of mortgage loans, a \$44.4 million increase in premiums from servicing retained loan sales and a \$12.2 million increase in realized and unrealized net gains on derivative financial instruments, partially offset by \$67.7 million increase in net direct loan origination expenses, a \$575 thousand increase in provision for repurchases and a \$457 thousand increase in mark-to-market losses on LHFS.

The overall increase in gain on sale of loans, net was due to increased volumes and gain on sale margins predominantly due to the first quarter acquisition of CCM. For the six months ended June 30, 2015, we originated and sold \$5.0 billion and \$4.9 billion of loans, respectively, as compared to \$818.3 million and \$828.4 million of loans originated and sold, respectively, during the same period in 2014. Margins increased to approximately 171 bps for

the six months ended June 30, 2015 as compared to 133 bps for the same period in 2014 due to the acquisition of CCM and a higher concentration of retail loans which have higher margins.

For the six months ended June 30, 2015, servicing income, net was \$1.7 million compared to \$2.9 million in the comparable 2014 period. The decrease in servicing income, net was the result of the servicing sales in the six months ended June 30, 2015 of approximately \$2.8 billion which led to increased transaction costs associated with transfers of servicing. Additionally, despite a flat average balance of the servicing portfolio during the six months ended June 30, 2015 as compared to 2014, with the addition of CCM, the predominance of our originated mortgage servicing rights occur at the end of the month. This timing can delay the first payment received from the borrower typically between 30-45 days.

For the six months ended June 30, 2015, loss on MSR was \$9.4 million compared to \$2.5 million in the comparable 2014 period. For the six months ended June 30, 2015, loss on MSR was primarily the result of a \$5.7 million loss on sale of servicing primarily due to FHA dropping its required mortgage insurance premium by 0.50% in January 2015 coupled with a \$3.6 million loss from a change in fair value of MSR predominately during the first quarter of 2015 related to a decrease in interest rates as compared to a gain of \$1.2 million for the same period in 2014.

For the six months ended June 30, 2015, other revenue was \$121 thousand compared to \$1.3 million for the comparable 2014 period. The decrease in other revenue was primarily due to the sale of AmeriHome during the first quarter of 2014 resulting in a \$1.2 million gain.

Personnel expense increased \$21.1 million to \$34.6 million for the six months ended June 30, 2015. The increase is primarily due to the acquisition and consolidation of CCM on March 31, 2015 resulting in an additional \$11.6 million in personnel expense since the acquisition date as well as the addition of new sales personnel in the wholesale and correspondent division as compared to the second quarter of 2014. Additionally, the growth of the mortgage lending division resulted in increased allocations of certain corporate costs. As previously described, beginning in the second quarter of 2015, personnel related costs from CCM were recorded within their respective expense line and as a result total expenses for the six months ended June 30, 2015 might not be an accurate representation of our expenses for the remainder of the year.

Business promotion was \$8.8 million for the six months ended June 30, 2015, compared to \$712 thousand for the comparable period of 2014. The increase is due to the acquisition of CCM during the first quarter of 2015. This division operates as a centralized call center that utilizes a marketing platform to generate customer leads through the internet and call center loan agents. Our centralized call center purchases leads and promotes its business through radio and television advertisements. This increase is part of our strategic goal to leverage the marketing platform to expand the national footprint of our retail call center volumes as well as volumes of our new AltQM products.

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General, administrative and other expenses increased to \$5.7 million for the six months ended June 30, 2015, compared to \$3.3 million for the same period in 2014. The increase in general administrative and other expense was primarily related to the acquisition of CCM which contributed \$1.5 million of the \$2.3 million increase. The \$2.3 million increase was primarily related to a \$623 thousand increase in general administrative expense related to the increase in mortgage loan origination volume, \$544 thousand increase in legal and professional fees, a \$532 thousand increase in data processing and information technology support and a \$465 thousand increase in additional occupancy expense, of which \$376 thousand was related to the acquisition of CCM during the first quarter of 2015.

Real Estate Services

	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Real estate services fees, net	\$ 2,355	\$ 4,360	\$ (2,005)	(46)%
Personnel expense	(1,178)	(1,357)	179	13
General, administrative and other	(142)	(177)	35	20
Net earnings before income taxes	<u>\$ 1,035</u>	<u>\$ 2,826</u>	<u>\$ (1,791)</u>	<u>(63)%</u>

For the three months ended June 30, 2015, real estate services fees, net were \$2.4 million compared to \$4.4 million in the comparable 2014 period. The \$2.0 million decrease in real estate services fees, net was the result of a \$921 thousand decrease in real estate and recovery fees, a \$774 thousand decrease in loss mitigation fees and a \$310 thousand decrease in real estate services.

For the three months ended June 30, 2015, personnel expense decreased to \$1.2 million as compared to \$1.4 million for the comparable 2014 period. The \$179 thousand decrease is primarily related to a reduction in personnel as well as a reduction in commissions associated with reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.

	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Real estate services fees, net	\$ 5,097	\$ 8,039	\$ (2,942)	(37)%
Personnel expense	(2,631)	(2,574)	(57)	(2)
General, administrative and other	(344)	(482)	138	29
Net earnings before income taxes	<u>\$ 2,122</u>	<u>\$ 4,983</u>	<u>\$ (2,861)</u>	<u>(57)%</u>

For the six months ended June 30, 2015, real estate services fees, net were \$5.1 million compared to \$8.0 million in the comparable 2014 period. The \$2.9 million decrease in real estate services fees, net was the result of a \$1.2 million decrease in loss mitigation fees, a \$1.1 million decrease in real estate and recovery fees and a \$620 thousand decrease in real estate services.

For the six months ended June 30, 2015, general, administrative and other expense decreased to \$344 thousand as compared to \$482 thousand for the comparable 2014 period. The \$138 thousand decrease is primarily related to a reduction in reduced transactions and the decline in loans and balance of the long-term mortgage portfolio.

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	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Other revenue	\$ 63	\$ 42	21	50%
Personnel expense	(73)	(64)	9	14
General, administrative and other	(163)	(201)	(38)	(19)
Total expenses	(236)	(265)	29	11
Net interest income	1,189	94	1,095	1165
Change in fair value of long-term debt	(1,544)	226	(1,770)	(783)
Change in fair value of net trust assets, including trust REO (losses) gains	802	4,711	(3,909)	(83)
Total other income	447	5,031	(4,584)	(91)
Net earnings before income taxes	\$ 274	\$ 4,808	\$ (4,534)	(94)%

For the three months ended June 30, 2015, net interest income totaled \$1.2 million as compared to \$94 thousand for the comparable 2014 period. Net interest income increased \$1.1 million for the quarter ended June 30, 2015 primarily attributable to a \$956 thousand increase in net interest spread on the long-term mortgage portfolio due to an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests. Additionally, net interest income increased \$141 thousand due to a decrease in interest expense on the long-term debt.

Change in the fair value of long-term debt resulted in a loss of \$1.5 million for the three months ended June 30, 2015, compared to a gain of \$226 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of an increase in forward LIBOR interest rates during the second quarter of 2015 as compared to 2014.

The change in fair value related to our net trust assets (residual interests in securitizations) was a gain of \$802 thousand for the quarter ended June 30, 2015, compared to a gain of \$4.7 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to \$596 thousand in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with updated assumptions of decreased collateral losses. Additionally, the NRV of REO increased \$206 thousand during the period attributed to lower expected loss severities on properties held in the long-term mortgage portfolio during the period.

	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Other revenue	\$ 125	\$ 211	(86)	(41)%
Personnel expense	(80)	(155)	(75)	(48)
General, administrative and other	(268)	(351)	(83)	(24)
Total expenses	(348)	(506)	158	31
Net interest income	2,390	26	2,364	9092
Change in fair value of long-term debt	(8,661)	(424)	(8,237)	(1943)
Change in fair value of net trust assets, including trust REO gains (losses)	(74)	7,749	(7,823)	(101)
Total other (expense) income	(6,345)	7,351	(13,696)	(186)
Net (loss) earnings before income taxes	\$ (6,568)	\$ 7,056	\$ (13,624)	(193)%

For the six months ended June 30, 2015, other revenue totaled \$125 thousand as compared to \$211 thousand for the comparable 2014 period. The \$86 thousand decrease is primarily due to a \$64 thousand decrease in master servicing revenue earned on the long-term mortgage portfolio.

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For the six months ended June 30, 2015, total expenses were \$348 thousand as compared to \$506 thousand for the comparable 2014 period. The \$158 thousand decrease in total expense was primarily due to a decrease in ongoing activities in the long-term mortgage portfolio associated with a decline in loans and balances of the long-term mortgage portfolio.

For the six months ended June 30, 2015, net interest income totaled \$2.4 million as compared to \$26 thousand for the comparable 2014 period. Net interest income increased \$2.4 million for the six months ended June 30, 2015 primarily attributable to a \$2.1 million increase in net interest spread on the long-term mortgage portfolio due to an improvement in net interest income and cash flows in the earlier vintage trusts which include our residual interests. Additionally, net interest income increased \$292 thousand due to a decrease in interest expense on the long-term debt.

Change in the fair value of long-term debt resulted in a loss of \$8.7 million for the six months ended June 30, 2015, compared to a loss of \$424 thousand for the comparable 2014 period as a result of the increase in the estimated fair value of long-term debt. The increase in the estimated fair value of long-term debt was primarily the result of a decrease in the discount rate attributable to an improvement in our own credit risk profile, improvement in our

financial condition and results of operations from the mortgage lending segment including the acquisition of CCM during the first quarter of 2015 as well as an increase in forward LIBOR interest rates during the second quarter of 2015 as compared to 2014.

The change in fair value related to our net trust assets (residual interests in securitizations) was a loss of \$74 thousand for the six months ended June 30, 2015, compared to a gain of \$7.7 million in the comparable 2014 period. The change in fair value of net trust assets, including REO was due to \$2.4 million in gains from changes in fair value of securitized mortgage borrowings, securitized mortgage collateral and investment securities available-for-sale primarily associated with lower interest rates during the first quarter of 2015 and updated assumptions of decreased collateral losses during the second quarter of 2015. Additionally, the NRV of REO decreased \$2.5 million during the period attributed to higher expected loss severities on properties held in the long-term mortgage portfolio primarily during the first quarter of 2015.

Corporate

The corporate segment includes all compensation applicable to the corporate services groups, public company costs, unused office space as well as debt expense related to the Convertible Notes, Term Financing and capital leases. This corporate services group supports all operating segments. A portion of the corporate services costs is allocated to the operating segments. The costs associated with being a public company, unused space as well as the interest expense related to the Convertible Notes and capital leases are not allocated to our other segments and remain in this segment.

	For the Three Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Interest expense	\$ (878)	\$ (405)	(473)	(117)
Other revenue	(11)	36	(47)	(131)%
General, administrative and other	(3,377)	(4,097)	720	18
Accretion of contingent consideration	(3,046)	—	(3,046)	n/a
Change in fair value of contingent consideration	11,326	—	11,326	n/a
Other income (expense)	4,903	(4,097)	9,000	220
Net earnings (loss) before income taxes	<u>\$ 4,014</u>	<u>\$ (4,466)</u>	<u>\$ 8,480</u>	190%

For the three months ended June 30, 2015, interest expense increased to \$878 thousand as compared to \$405 thousand for the comparable 2014 period. The increase was primarily due to a \$473 thousand increase in interest expense from the issuance of an additional \$25.0 million of convertible notes in May 2015, the \$6.0 million short-term structured debt agreement entered into in December 2014 (which was repaid in June 2015) and \$10.0 million short term promissory note entered into in April 2015 and repaid in May 2015.

For the three months ended June 30, 2015, general, administrative and other expenses decreased to \$3.4 million as compared to \$4.1 million for the comparable 2014 period. The decrease was primarily due to a \$1.9 million increase in allocated corporate expenses. The growth of the mortgage lending division resulted in increased allocations of certain corporate costs due to increased headcount. Partially offsetting the decrease was a \$1.2 million increase in amortization of intangible and other assets as a result of the assets acquired as part of the acquisition of CCM in the first quarter of 2015 as well as a \$380 thousand increase in legal and professional fees.

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We recorded a contingent consideration liability related to the acquisition of CCM during the first quarter of 2015. The contingent component consists of a three year earn-out provision beginning on the effective date January 2, 2015. Each quarter we update our estimated fair value of contingent consideration by revising our forecast of CCM pre-tax earnings which include actual experience to date. During the second quarter of 2015, we updated assumptions which included reductions in loan margins based on recent experience in the second quarter of 2015. Based on these changes, we recorded an \$11.3 million change in fair value associated with a reduction in the contingent consideration liability at June 30, 2015. The change in fair value of contingent consideration was related to the estimated reduction in future pre-tax earnings of CCM over the expected earn-out period, primarily due to margin compression. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM.

Beginning in the second quarter of 2015, we are required by GAAP to record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in 2017. The accretion represents the time value of money of the liability during the earn-out period. In the second quarter of 2015, accretion was recorded, thereby increasing the contingent consideration liability by \$3.0 million. We were not required to record accretion in the first quarter of 2015 as the acquisition transaction did not close until March 31, 2015, however the accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period

	For the Six Months Ended June 30,			
	2015	2014	Increase (Decrease)	% Change
Interest expense	\$ (1,390)	\$ (806)	(584)	(72)
Other revenue	47	39	8	21%
General, administrative and other	(5,435)	(8,295)	2,860	34
Accretion of contingent consideration	(3,046)	—	(3,046)	n/a
Change in fair value of contingent consideration	11,326	—	11,326	n/a
Other income (expense)	2,845	(8,295)	11,140	134
Net earnings (loss) before income taxes	<u>\$ 1,502</u>	<u>\$ (9,062)</u>	<u>\$ 10,564</u>	117%

For the six months ended June 30, 2015, interest expense increased to \$1.4 million as compared to \$806 thousand for the comparable 2014 period. The increase was primarily due to a \$584 thousand increase in interest expense from the issuance of an additional \$25.0 million of convertible notes in

May 2015, the \$6.0 million short-term structured debt agreement entered into in December 2014 (which was repaid in June 2015) and \$10.0 million short term promissory note entered into in April 2015 and repaid in May 2015.

For the six months ended June 30, 2015, expenses decreased to \$5.4 million as compared to \$8.3 million for the comparable 2014 period. The decrease was primarily due to a \$4.3 million increase in allocated corporate expenses. The growth of the mortgage lending division resulted in increased allocations of certain corporate costs due to increased headcount. Partially offsetting the decrease was a \$1.2 million increase in amortization of intangible and other assets as a result of the assets acquired as part of the acquisition of CCM in the first quarter of 2015 as well as an \$879 thousand increase in legal and professional fees.

We recorded a contingent consideration liability related to the acquisition of CCM during the first quarter of 2015. The contingent component consists of a three year earn-out provision beginning on the effective date January 2, 2015. Each quarter we update our estimated fair value of contingent consideration by revising our forecast of CCM pre-tax earnings which include actual experience to date. During the second quarter of 2015, we updated assumptions which included reductions in loan margins based on recent experience in the second quarter of 2015. Based on these changes, we recorded an \$11.3 million change in fair value associated with a reduction in the contingent consideration liability at June 30, 2015. The change in fair value of contingent consideration was related to the estimated reduction in future pre-tax earnings of CCM over the expected earn-out period, primarily due to margin compression. The fair value of contingent consideration may change from quarter to quarter based upon actual experience and updated assumptions used to forecast pre-tax earnings for CCM.

Beginning in the second quarter of 2015, we are required by GAAP to record accretion of the contingent consideration liability from the close of the transaction in March 2015 through the end of the earn-out period in 2017. The accretion represents the time value of money of the liability during the earn-out period. In the second quarter of 2015, accretion was recorded, thereby increasing the contingent consideration liability by \$3.0 million. We were not required to record accretion in the first quarter of 2015 as the acquisition transaction did not close until March 31, 2015, however the accretion will continue to be a charge against earnings in future quarters until the end of the earn-out period

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, the Company is not required to provide the information required by this Item.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company's chief executive officer and chief financial officer concluded that, as of that date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the Company's quarter ended June 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting with the exception of the following:

- Beginning in the first quarter of 2015, the Company has incorporated the financial results of CCM into the Company's consolidated financial statements. The Company is in the process of documenting the control environment of the CCM division as part of the assessment of the overall effectiveness of the internal control over financial reporting by the end of 2015.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any cases, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure.

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial

position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

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The legal matters summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

On October 28, 2014, an action was filed in the Superior Court of the State of California in Orange County entitled Mallory Hill v. Impac Mortgage Holdings, Inc., Impac Mortgage Corporation et al. In the action Mr. Hill seeks compensatory damages, general damages, treble damages, exemplary damages, an accounting, injunctive relief, attorney's fees and costs for claims based upon a consulting agreement entered into with Mr. Hill, a purported employment relationship entered into with Mr. Hill and other purported claims. The matter was removed to the US District Court and the Company filed a motion to dismiss. The plaintiff filed an amended complaint removing all federal question claims and the matter was thereafter remanded back to Orange County Superior Court. The Company filed a demurrer, which remains pending.

The Company is a party to other litigation and claims which are normal in the course of our operations. While the results of such other litigation and claims cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial condition or results of operations. The Company believes that it has meritorious defenses to the above claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2014 and subsequent Form 10-Q filings for a description of litigation and claims.

ITEM 1A: RISK FACTORS

None.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

None.

ITEM 5: OTHER INFORMATION

None.

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ITEM 6: EXHIBITS

(a)	Exhibits:
10.1	Note Purchase Agreement dated as of May 8, 2015 by and among Impac Mortgage Holdings, Inc. and the Purchasers, and Registration Rights Agreement (included as Exhibit B thereto).
10.1(a)	Form of Convertible Promissory Note Due 2020.
10.2*	Loan Agreement dated as of June 19, 2015 among Impac Mortgage Holdings, Inc., Impac Mortgage Corp, Impac Warehouse Lending, Inc., Integrated Real Estate Service Corp. and Macquarie Alpine Inc.
10.3*	Term Note dated as of June 19, 2015 issued by Impac Mortgage Holdings, Inc., Impac Mortgage Corp, Impac Warehouse Lending, Inc., and Integrated Real Estate Service Corp. to Macquarie Alpine Inc.
31.1	Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Impac Mortgage Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Operations, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2015.

** This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

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SIGNATURES

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, thereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

/s/ TODD R. TAYLOR

Todd R. Taylor

Chief Financial Officer

(authorized officer of registrant and principal financial officer)

August 12, 2015

NOTE PURCHASE AGREEMENT

Dated as of May 8, 2015,

by and among

IMPAC MORTGAGE HOLDINGS, INC.

and

THE PURCHASERS PARTY HERETO

Relating to:

**\$25,000,000 Aggregate Principal Amount of
Convertible Promissory Notes Due 2020 of Impac Mortgage Holdings, Inc.**

NOTE PURCHASE AGREEMENT

This NOTE PURCHASE AGREEMENT (this “**Agreement**”) is dated as of May 8, 2015, by and among IMPAC MORTGAGE HOLDINGS, INC., a Maryland corporation (the “**Company**”), and the purchasers listed on Schedule A hereto (the “**Purchasers**”).

WITNESSETH:

WHEREAS, upon the terms and subject to the conditions set forth herein, the Company agrees to sell to the Purchasers, and the Purchasers, acting severally and not jointly, agree to purchase from the Company, \$25,000,000 in original aggregate principal amount of the Company’s Convertible Promissory Notes Due 2020 in the form of Exhibit A hereto (collectively, the “**Notes**”, individually, a “**Note**”).

WHEREAS, the holders of the Conversion Shares are and will be entitled to the benefits of the Registration Rights Agreement in the form of Exhibit B hereto (the “**Registration Rights Agreement**”).

WHEREAS, the Company has duly authorized the creation and issuance of the Notes and the execution and delivery of this Agreement and the other Financing Documents.

WHEREAS, all things necessary to make this Agreement, the Notes (when issued and delivered hereunder), and each other Financing Document valid and binding obligations of the Company in accordance with their respective terms have been done.

AGREEMENT:

NOW, THEREFORE, the parties hereto, in consideration of the premises and the covenants and agreements made herein, and of the mutual benefits intended to be derived herefrom, intending to be legally bound hereby, hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

“**Accredited Investor**” shall mean any person that is an “accredited investor” within the meaning of Rule 501(a) under the Securities Act.

“**Advisors**” shall have the meaning assigned to such term in Section 11.3(a).

“**Affiliate**” shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified. No Purchaser shall be considered an “Affiliate” of the Company or any of its Subsidiaries for purposes of this Agreement.

“**Agreement**” shall have the meaning assigned to such term in the preamble hereto.

“**Anti-Terrorism Laws**” shall have the meaning assigned to such term in Section 3.22.

“**Bankruptcy Law**” means Title 11 of the United States Code or any similar federal, state or foreign bankruptcy, insolvency, reorganization or other law for the relief of debtors.

“**Board of Directors**” shall mean, with respect to any person, (i) in the case of any corporation, the board of directors of such person, (ii) in the case of any limited liability company, the board of managers of such person, (iii) in the case of any partnership, the Board of Directors of the general partner of such person and (iv) in any other case, the functional equivalent of the foregoing.

“**Business Day**” shall mean any day other than a Saturday, Sunday or other day on which banks in California are authorized or required by law to close.

“**Capital Lease Obligations**” of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“**Cash Equivalents**” shall mean, as to any person, (a) securities issued, or directly, unconditionally and fully guaranteed or insured, by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than one year from the date of acquisition by such person; (b) time deposits and certificates of deposit of any commercial bank having, or which is the principal banking subsidiary of a bank holding company organized under the laws of the United States, any state thereof or the District of Columbia having, capital and surplus aggregating in excess of \$500,000,000 and a rating of “A” (or such other similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436(g)(2) under the Securities Act) with maturities of not more than one year from the date of acquisition by such person; (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with any bank meeting the qualifications specified in clause (b) above, which repurchase obligations are secured by a valid perfected security interest in the underlying securities; (d) commercial paper issued by any person incorporated in the United States rated at least A-1 or the equivalent thereof by Standard & Poor’s Rating Service or at least P-1 or the equivalent thereof by Moody’s Investors Service Inc., and in each case maturing not more than one year after the date of acquisition by such person; (e) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (a) through (d) above; and (f) demand deposit accounts maintained in the ordinary course of business.

“**Casualty Event**” shall mean any involuntary loss of title, any involuntary loss of, damage to or any destruction of, or any condemnation or other taking (including by any Governmental Authority) of, any property of the Company or any of its Subsidiaries. “Casualty Event” shall include but not be limited to any taking of all or any part of any Real Property of any person or any part thereof, in or by condemnation or other eminent domain proceedings pursuant to any Requirement of Law, or by reason of the temporary requisition of the use or occupancy of all or any part of any Real Property of any person or any part thereof by any Governmental Authority, civil or military, or any settlement in lieu thereof.

“**CERCLA**” shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. § 9601 et seq. and all implementing regulations.

A “**Change in Control**” shall be deemed to have occurred if:

- (a) at any time, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Purchasers and their Related Parties and Immediate Family Members, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause such person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of Voting Stock of the Company representing more than 50% of the voting power of the total outstanding Voting Stock of the Company;
- (b) the existing members of the Board of Directors of the Company for any reason cease to constitute a majority of such Board of Directors; or
- (c) all or substantially all of the assets of the Company are sold, conveyed, transferred, leased or licensed to, or the Company merges or consolidates with, another corporation, entity or other Person, other than, in each case, pursuant to a transaction the primary purpose of which is to effect an internal reorganization of the Company and its Subsidiaries.

For purposes of this definition, a person shall not be deemed to have beneficial ownership of Voting Stock subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement, and a holder of Voting Stock shall not be deemed a member of a “group” solely by virtue of being a party to a registration rights agreement.

“**Charges**” shall have the meaning assigned to such term in Section 11.16.

“**Closing Date**” shall have the meaning assigned to such term in Section 2.3.

“**Code**” shall mean the Internal Revenue Code of 1986, as amended.

“**Commission**” shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act or, if at any time after the execution of this Agreement such Commission is not existing and performing the duties now assigned to it under the Exchange Act, the body performing such duties at such time.

“**Common Stock**” shall mean the Company’s Common Stock, par value \$0.01 per share.

“**Company**” shall have the meaning assigned to such term in the preamble hereto.

“**Competing Transactions**” shall have the meaning assigned to such term in Section 10.1.

“**Contingent Obligation**” shall mean, as to any person, any obligation, agreement, understanding or arrangement of such person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations (“**primary obligations**”) of any other person (the “**primary obligor**”) in any manner, whether directly or indirectly, including any obligation of such person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor; (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation; (d) with respect to bankers’ acceptances, letters of credit and similar credit arrangements, until a reimbursement obligation arises (which reimbursement obligation shall constitute Indebtedness); or (e) otherwise to assure or hold harmless the holder of such primary

obligation against loss in respect thereof; provided, however, that the term “Contingent Obligation” shall not include endorsements of instruments for deposit or collection in the ordinary course of business or any product warranties. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated

or determinable amount of the primary obligation in respect of which such Contingent Obligation is made (or, if less, the maximum amount of such primary obligation for which such person may be liable, whether singly or jointly, pursuant to the terms of the instrument evidencing such Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such person is required to perform thereunder) as determined by such person in good faith.

“**Control**” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and the terms “**Controlling**” and “**Controlled**” shall have meanings correlative thereto.

“**Conversion Share**” shall mean a share of the Common Stock issuable upon conversion of a Note pursuant to the provisions of Section 5 or Section 6 thereof, and “**Conversion Shares**” shall mean all such shares collectively.

“**Default**” shall mean any event, occurrence or condition which is, or upon notice, lapse of time or both would constitute, an Event of Default.

“**Disclosure Schedule**” means, collectively, the Schedules attached to this Agreement by the Company modifying or qualifying the representations and warranties made by the Company in Article 3 hereof.

“**Dollars**” or “**\$**” shall mean lawful money of the United States.

“**Environment**” shall mean ambient air, indoor air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, natural resources, the workplace or as otherwise defined in any Environmental Law.

“**Environmental Claim**” shall mean any claim, notice, demand, order, action, suit, proceeding or other communication alleging liability for or obligation with respect to any investigation, remediation, removal, cleanup, response, corrective action, damages to natural resources, personal injury, property damage, fines, penalties or other costs resulting from, related to or arising out of (i) the presence, Release or threatened Release in or into the Environment of Hazardous Material at any location or (ii) any violation or alleged violation of any Environmental Law, and shall include any claim seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from, related to or arising out of the presence, Release or threatened Release of Hazardous Material or alleged injury or threat of injury to health, safety or the Environment.

“**Environmental Law**” shall mean any and all present and future treaties, laws, statutes, ordinances, regulations, rules, decrees, orders, judgments, consent orders, consent decrees, code or other binding requirements, and the common law, relating to protection of public health or the Environment, the Release or threatened Release of Hazardous Material, natural resources or natural resource damages, or occupational safety or health, and any and all Environmental Permits.

“**Environmental Permit**” shall mean any permit, license, approval, registration, notification, exemption, consent or other authorization required by or from a Governmental Authority under Environmental Law.

“**Equity Interest**” shall mean, with respect to any person, any and all shares, interests, participations or other equivalents, including membership interests (however designated, whether voting or nonvoting), of equity of such person, including, if such person is a partnership, partnership interests (whether general or limited) and any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of property of, such partnership, whether outstanding on the Closing Date or issued after the Closing Date, but excluding debt securities convertible or exchangeable into such equity.

“**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

“**ERISA Affiliate**” shall mean, with respect to any person, any trade or business (whether or not incorporated) that, together with such person, is treated as a single employer under Section 414 of the Code.

“**ERISA Event**” shall mean (a) any “reportable event,” as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Plan (other than an event for which the thirty (30) day notice period is waived by regulation); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the failure to make by its due date a required installment under Section 412(m) of the Code with respect to any Plan or the failure to make any required contribution to a Multiemployer Plan; (d) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (e) the incurrence by the Company or any of its Subsidiaries or any ERISA Affiliate thereof of any liability under Title IV of ERISA with respect to the termination of any Plan; (f) the receipt by the Company or any of its Subsidiaries or any ERISA Affiliate thereof from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan, or the occurrence of any event or condition which could reasonably be expected to constitute grounds under ERISA for the termination of, or the appointment of a trustee to administer, any Plan; (g) the incurrence by the Company or any of its Subsidiaries or any ERISA Affiliate thereof of any liability with respect to the withdrawal from any Plan or Multiemployer Plan; (h) the receipt by the Company or any of its Subsidiaries or its ERISA Affiliates of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (i) the “substantial cessation of operations” within the meaning of Section 4062(e) of ERISA with respect to a Plan; (j) the making of any amendment to any Plan which could result in the imposition of a lien or the posting of a bond or other security; and (k) the occurrence of a nonexempt prohibited transaction (within the meaning of Section 4975 of the Code or Section 406 of ERISA) which could reasonably be expected to result in liability to the Company or any of its Subsidiaries.

“**Event of Default**” shall have the meaning assigned to such term in Section 8.1.

“**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended.

“**Exclusivity Date**” shall have the meaning assigned to such term in Section 10.1.

“**Executive Order**” shall have the meaning assigned to such term in Section 3.22.

“**Financial Officer**” of any person shall mean the chief financial officer, principal accounting officer, treasurer or controller of such person.

“**Financing Documents**” shall mean, collectively, this Agreement, the Notes, the Registration Rights Agreement, and all certificates, instruments, financial and other statements and other documents made or delivered in connection herewith and therewith.

“**FINRA**” shall have the meaning assigned to such term in Section 4.8.

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“**GAAP**” shall mean generally accepted accounting principles in the United States applied on a consistent basis.

“**Governmental Authority**” shall mean the government of the United States or any other nation, or of any political subdivision thereof, whether state, provincial or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supranational bodies such as the European Union or the European Central Bank).

“**Governmental Real Property Disclosure Requirements**” shall mean any Requirement of Law of any Governmental Authority requiring notification of the buyer, lessee, mortgagee, assignee or other transferee of any Real Property, facility, establishment or business, or notification, registration or filing to or with any Governmental Authority, in connection with the sale, lease, mortgage, assignment or other transfer (including any transfer of control) of any Real Property, facility, establishment or business, of the actual or threatened presence or Release in or into the Environment, or the use, disposal or handling of Hazardous Material on, at, under or near the Real Property, facility, establishment or business to be sold, leased, mortgaged, assigned or transferred.

“**Hazardous Materials**” shall mean the following: hazardous substances; hazardous wastes; polychlorinated biphenyls (“**PCBs**”) or any substance or compound containing PCBs; asbestos or any asbestos-containing materials in any form or condition; radon or any other radioactive materials including any source, special nuclear or by-product material; petroleum, crude oil or any fraction thereof; and any other pollutant or contaminant or chemicals, wastes, materials, compounds, constituents or substances, subject to regulation or which can give rise to liability under any Environmental Laws.

“**Hedging Agreement**” shall mean any swap, cap, collar, forward purchase or similar agreements or arrangements dealing with interest rates, currency exchange rates or commodity prices, either generally or under specific contingencies.

“**Hedging Obligations**” shall mean obligations under or with respect to Hedging Agreements.

“**Immediate Family Member**”, with respect to a natural person, shall mean any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of such person, and any other person (other than a tenant or employee) sharing the household of such person.

“**Indebtedness**” of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or advances; (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments; (c) all obligations of such person upon which interest charges are customarily paid or accrued; (d) all obligations of such person under conditional sale or other title retention agreements relating to property purchased by such person; (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business on normal trade terms); (f) all Indebtedness of others secured by any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, but limited to the fair market value of such property; (g) all Capital Lease Obligations, Purchase Money Obligations and synthetic lease obligations of such person; (h) all Hedging Obligations to the extent required to be reflected on a balance sheet of such person; (i) all obligations of such person for the reimbursement of any obligor in respect of letters of credit, letters of guaranty, bankers’ acceptances and similar credit transactions; and (j) all Contingent Obligations of such person in respect of Indebtedness or obligations of others of the kinds referred to in clauses (a) through (i) above. The Indebtedness of any

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person shall include the Indebtedness of any other entity (including any partnership in which such person is a general partner) to the extent such person is liable therefor as a result of such person’s ownership interest in or other relationship with such entity, except (other than in the case of general partner liability) to the extent that terms of such Indebtedness expressly provide that such person is not liable therefor.

“**Information**” shall have the meaning assigned to such term in Section 11.11.

“**Intellectual Property**” shall have the meaning assigned to such term in Section 3.6.

“**Interest Payment Date**” shall have the meaning assigned to such term in Exhibit A hereto.

“**Issuer Indemnitee**” shall have the meaning assigned to such term in Section 11.3(c).

“**Leases**” shall mean any and all leases, subleases, tenancies, options, concession agreements, rental agreements, occupancy agreements, franchise agreements, access agreements and any other agreements (including all amendments, extensions, replacements, renewals, modifications and/or guarantees thereof), whether or not of record and whether now in existence or hereafter entered into, affecting the use or occupancy of all or any portion of any Real Property.

“**Lien**” shall mean, with respect to any property, (a) any mortgage, deed of trust, lien, pledge, encumbrance, claim, charge, assignment, hypothecation, security interest or encumbrance of any kind or any arrangement to provide priority or preference or any filing of any financing statement under the UCC or any other similar notice of lien under any similar notice or recording statute of any Governmental Authority, including any easement, right-of-way or other encumbrance on title to Real Property, in each of the foregoing cases whether voluntary or imposed by law, and any agreement to give any of the foregoing; (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such property; and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“**Material Adverse Effect**” shall mean (a) a material adverse effect on the business, property, results of operations, prospects or condition, financial or otherwise, or material agreements of, (x) as such term is used in Article 6, the Company on a stand-alone basis, and (y) as such term is used elsewhere in this Agreement, the Company and its Subsidiaries, taken as a whole; (b) material impairment of the ability of the Company to fully and timely perform any of its obligations under any Financing Document; or (c) material impairment of the rights of or benefits or remedies available to the Purchasers or any Noteholder under any Financing Document, taken as a whole.

“**Material Indebtedness**” shall mean any Indebtedness (other than the Notes) of the Company in an outstanding principal amount exceeding \$3,000,000. For purposes of determining Material Indebtedness, the “principal amount” in respect of any Hedging Obligations of any person at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Person would be required to pay if the related Hedging Agreement were terminated at such time.

“**Maturity**,” when used with respect to any Note, shall mean the date on which the principal of such Note or portion thereof becomes due and payable as therein or herein provided, whether at the Stated Maturity Date or by declaration of acceleration, call for redemption or otherwise.

“**Maximum Rate**” shall have the meaning assigned to such term in Section 11.16.

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“**Multiemployer Plan**” shall mean a multiemployer plan within the meaning of Section 4001(a)(3) or Section 3(37) of ERISA (a) to which the Company or any of its Subsidiaries or any ERISA Affiliate thereof is then making or accruing an obligation to make contributions; (b) to which the Company or any of its Subsidiaries or any ERISA Affiliate thereof has within the preceding five plan years made contributions; or (c) with respect to which the Company or any of its Subsidiaries could incur liability.

“**Noteholder**” shall mean a person in whose name a Note is registered on the Security Register.

“**Note**” and “**Notes**” shall have the meanings assigned to such terms in the recitals hereto.

“**Obligations**” shall mean (a) obligations of the Company from time to time arising under or in respect of the due and punctual payment of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Notes, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Company under this Agreement and the other Financing Documents, and (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Company under or pursuant to this Agreement and the other Financing Documents.

“**OFAC**” shall have the meaning assigned to such term in Section 3.22.

“**Organizational Documents**” shall mean, with respect to any person, (i) in the case of any corporation, the certificate of incorporation, articles of incorporation or charter and bylaws (or similar documents) of such person, (ii) in the case of any limited liability company, the certificate of formation and operating agreement (or similar documents) of such person, (iii) in the case of any limited partnership, the certificate of formation and limited partnership agreement (or similar documents) of such person, (iv) in the case of any general partnership, the partnership agreement (or similar document) of such person and (v) in any other case, the functional equivalent of the foregoing.

“**outstanding**,” when used with respect to the Notes, shall mean, as of the date of determination, all Notes theretofore executed and delivered under this Agreement, except:

(a) Notes theretofore cancelled by the Company or delivered to the Company for cancellation;

(b) Notes for whose payment money in the necessary amount has been theretofore set aside by the Company with a third party in trust for the Noteholders; and

(c) Notes which have been paid pursuant to Section 9.11 or in exchange for or in lieu of which other Notes have been executed and delivered pursuant to this Agreement, other than any such Notes in respect of which there shall have been presented to the Company proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands such Notes are valid obligations of the Company;

provided, however, that in determining whether the Noteholders of the requisite principal amount of the outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company or any other obligor upon the Notes or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be outstanding. Notes so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the reasonable satisfaction of the Required Holders the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or of such other obligor.

“**PBGC**” shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

“**Permitted Liens**” shall have the meaning assigned to such term in Section 7.2.

“**Person**” shall mean any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“**Plan**” shall mean any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA which is maintained or contributed to by the Company or any of its Subsidiaries or any ERISA Affiliate thereof or with respect to which the Company or any of its Subsidiaries could incur liability (including under Section 4069 of ERISA).

“**Predecessor Note**” of any particular Note shall mean every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note.

“**preferred stock**” shall mean, with respect to any person, any and all preferred or preference Equity Interests (however designated) of such person whether now outstanding or issued after the Closing Date.

“**property**” shall mean any right, title or interest in or to property or assets of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible and including Equity Interests or other ownership interests of any person and whether now in existence or owned or hereafter entered into or acquired, including all Real Property.

“**Purchase Money Obligation**” shall mean, for any person, the obligations of such person in respect of Indebtedness (including Capital Lease Obligations) incurred for the purpose of financing all or any part of the purchase price of any property (including Equity Interests of any person) or the cost of installation, construction or improvement of any property and any refinancing thereof; provided, however, that (i) such Indebtedness is incurred within one year after such acquisition, installation, construction or improvement of such property by such person and (ii) the amount of such Indebtedness does not exceed 100% of the cost of such acquisition, installation, construction or improvement, as the case may be.

“**Purchase Price**” shall have the meaning assigned to such term in Section 2.2.

“**Purchaser Indemnitee**” shall have the meaning assigned to such term in Section 11.3(b).

“**Purchasers**” shall have the meaning assigned to such term in the preamble hereto.

“**Real Property**” shall mean, collectively, all right, title and interest (including any leasehold, mineral or other estate) in and to any and all parcels of or interests in real property owned, leased or operated by any person, whether by lease, license or other means, together with, in each case, all easements, hereditaments and appurtenances relating thereto, all improvements and appurtenant fixtures and equipment, all general intangibles and contract rights and other property and rights incidental to the ownership, lease or operation thereof.

“**Registration Rights Agreement**” shall have the meaning assigned to such term in the recitals hereto.

“**Regular Record Date**” has the meaning set forth in Section 9.5.

“**Related Parties**” shall mean, with respect to any person, such person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such person and of such person’s Affiliates.

“**Release**” shall mean any spilling, leaking, seepage, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the Environment.

“**Required Holders**” shall mean, as of any date of determination, Noteholders holding 66 2/3% of the aggregate unpaid principal balance of all outstanding Notes.

“**Requirements of Law**” shall mean, collectively, any and all requirements of any Governmental Authority including any and all laws, judgments, orders, decrees, ordinances, rules, regulations, statutes or case law.

“**Response**” shall mean (a) “response” as such term is defined in CERCLA, 42 U.S.C. § 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to (i) clean up, remove, treat, abate, monitor or in any other way address any Hazardous Material in the Environment; (ii) prevent the Release or threat of Release, or minimize the further Release, of any Hazardous Material; or (iii) perform studies and investigations in connection with, or as a precondition to, or to determine the necessity of the activities described in, clause (i) or (ii) above.

“**Responsible Officer**” of any person shall mean any executive officer or Financial Officer of such person and any other officer or similar official thereof with responsibility for the administration of the obligations of such person in respect of this Agreement.

“**sale**” shall have the meaning assigned to such term in Section 9.7.

“**SEC Reports**” means the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Commission on March 25, 2015, the Company’s Definitive Proxy Statement on Schedule 14A, filed with the Commission on April 30, 2015, for its 2015 Annual Meeting of

“**Securities Act**” shall mean the Securities Act of 1933, as amended.

“**Security Register**” shall have the meaning assigned to such term in Section 9.6.

“**Senior Indebtedness**” shall have the meaning assigned to such term in Section 7.1

“**Stated Maturity Date**” shall have the meaning assigned to such term in Exhibit A hereto.

“**Subsidiary**” shall mean, with respect to any person (the “**parent**”) at any date, (i) any person the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, (ii) any other corporation, limited liability company, association or other business entity of which securities or other ownership interests representing more than 50% of the voting power of all Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Board of Directors thereof are, as of such date, owned, controlled or held by the parent and/or one or more Subsidiaries of the parent, (iii) any

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partnership (a) the sole general partner or the managing general partner of which is the parent and/or one or more Subsidiaries of the parent or (b) the only general partners of which are the parent and/or one or more Subsidiaries of the parent and (iv) any other person that is otherwise Controlled by the parent and/or one or more Subsidiaries of the parent. Unless the context requires otherwise, “Subsidiary” refers to a Subsidiary of the Company.

“**Tax Returns**” shall mean all returns, statements, filings, attachments and other documents or certifications required to be filed in respect of Taxes.

“**Taxes**” shall mean all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“**Transactions**” shall mean, collectively, the transactions to occur pursuant to the Financing Documents executed and delivered on the Closing Date, including (a) the execution, delivery and performance of such Financing Documents and the issuance of the Notes in connection therewith; and (b) the payment of all fees and expenses to be paid on or prior to the Closing Date and owing in connection with the foregoing.

“**UCC**” shall mean the Uniform Commercial Code as in effect from time to time (except as otherwise specified) in any applicable state or jurisdiction.

“**United States**” shall mean the United States of America.

“**USA PATRIOT Act**” shall have the meaning assigned to such term in Section 3.22.

“**Voting Stock**” shall mean, with respect to any person, any class or classes of Equity Interests pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the Board of Directors of such person.

“**Wholly Owned Subsidiary**” shall mean, as to any person, (a) any corporation 100% of whose capital stock (other than directors’ qualifying shares) is at the time owned by such person and/or one or more Wholly Owned Subsidiaries of such person and (b) any partnership, association, joint venture, limited liability company or other entity in which such person and/or one or more Wholly Owned Subsidiaries of such person have a 100% equity interest at such time.

“**Withdrawal Liability**” shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

“**2013 Quotient**” shall have the meaning assigned to such term in Section 4.14.

“**2015 Quotient**” shall have the meaning assigned to such term in Section 4.14.

SECTION 1.2 Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise (a) any definition of or reference to any Financing Document, agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time

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amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any person shall be construed to include such person’s successors and assigns, (c) the words “herein,” “hereof” and “hereunder,” and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) any reference to any law or regulation herein shall refer to such law or regulation as amended, modified or supplemented from time to time, and (f) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.3 Accounting Terms; GAAP. Except as otherwise expressly provided herein, all financial statements to be delivered pursuant to this Agreement shall be prepared in accordance with GAAP as in effect from time to time and all terms of an accounting or financial nature shall

SECTION 1.4 Resolution of Drafting Ambiguities. The Company acknowledges and agrees that it was represented by counsel in connection with the execution and delivery of the Financing Documents, that it and its counsel reviewed and participated in the preparation and negotiation hereof and thereof and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be employed in the interpretation hereof or thereof.

ARTICLE 2

AUTHORIZATION, ISSUANCE AND SALE OF SECURITIES

SECTION 2.1 Authorization of Issue. As of the Closing Date, the Company has authorized the issue and sale of \$25,000,000 in aggregate principal amount of the Notes, each Note to be in the form of Exhibit A hereto.

SECTION 2.2 Purchase and Sale. On the basis of the representations and warranties contained herein and subject to the terms and conditions set forth herein, the Company agrees to sell to each Purchaser, and each Purchaser, acting severally and not jointly, agrees to purchase from the Company, the aggregate principal amount of Notes as set forth in Schedule A hereto opposite the name of such Purchaser at 100% of the principal amount thereof (the “**Purchase Price**”).

SECTION 2.3 Closing. The purchase and sale of, payment for and delivery of the Notes pursuant to this Agreement shall occur at the offices of The Busch Firm, 2532 DuPont Drive, Irvine, California 92612, at 9:00 a.m., California time, on May 8, 2015, or such other time as shall be agreed upon by the Purchasers and the Company (such date of payment and delivery being herein called the “**Closing Date**”). On the Closing Date, the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser on the Closing Date against payment by such Purchaser to the Company by wire transfer in immediately available funds of the applicable portion of the Purchase Price to be paid by such Purchaser therefor to such bank account or accounts as the Company may request in writing at least two Business Days prior to the Closing Date.

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ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF COMPANY

The Company hereby represents and warrants to each Purchaser as of the date hereof and as of the Closing Date that, except as qualified or otherwise disclosed in the Disclosure Schedule hereto:

SECTION 3.1 Organization; Powers. The Company (a) is duly incorporated and validly existing under the laws of Maryland, (b) has all requisite power and authority to carry on its business as now conducted and to own and lease its property and (c) is qualified and in good standing (to the extent such concept is applicable in the applicable jurisdiction) to do business in every jurisdiction where such qualification is required, except in such jurisdictions where the failure to so qualify or be in good standing, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. Except as described in Schedule 3.1 hereto, there is no existing default under any Organizational Document of the Company or any event which, with the giving of notice or passage of time or both, would constitute a default by any party thereunder.

SECTION 3.2 Authorization; Enforceability; Valid Issuance. The Transactions to be entered into by the Company are within the Company’s powers and have been duly authorized by all necessary action on the part of the Company. This Agreement has been duly executed and delivered by the Company and constitutes, and each other Financing Document, when executed and delivered by the Company, will constitute, a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors’ rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. Upon issuance in accordance with and pursuant to the terms of this Agreement, all of the Notes will be validly issued, fully paid and non-assessable.

SECTION 3.3 No Conflicts. The consummation of the Transactions by the Company (a) does not require any consent or approval of, registration or filing with (other than the filing of one or more registration statements with the Commission in accordance with the requirements of the Registration Rights Agreement, the filing of a Form D with the Commission, the filing with the Commission of a Form 8-K relating to the entry into this Agreement, and any other filings as may be required by any state securities agency), or any other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect, and (ii) consents, approvals, registrations, filings, permits or actions the failure to obtain or perform which could not reasonably be expected to result in a Material Adverse Effect, (b) will not violate the Organizational Documents of the Company, (c) will not violate any material Requirement of Law, (d) will not violate or result in a default or require any consent or approval under any indenture, agreement or other instrument binding upon the Company or its property, or give rise to a right thereunder to require any payment to be made by the Company, except for violations, defaults or the creation of such rights that could not reasonably be expected to result in a Material Adverse Effect, and (e) will not result in the creation or imposition of any Lien on any property of the Company, except Permitted Liens. The issuance of the Notes and the Conversion Shares and the reservation for issuance of the Conversion Shares will not result in the violation of any material rule, regulation or requirement of the NYSE MKT, and, assuming the accuracy of the representations of the Purchasers set forth in Sections 4.14 and 4.15, are not subject to the shareholder approval requirements set forth in Section 713 of the NYSE MKT LLC Company Guide.

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SECTION 3.4 Financial Statements.

(a) Financial Statements. The Company has heretofore delivered to the Purchasers or their representatives the consolidated balance sheets and related statements of income, stockholders’ equity and cash flows of the Company as of and for the fiscal years ended December 31, 2012, 2013 and 2014, audited by and accompanied by the unqualified opinion of Squar, Milner, Peterson, Miranda & Williamson, LLP, independent public accountants. Such financial statements and all financial statements delivered pursuant to Section 6.1(a) and (b) have been or will be, as applicable, prepared in accordance with GAAP and present fairly and accurately the consolidated financial condition and consolidated results of operations and cash flows of the Company as of the

dates and for the periods to which they relate, subject, in the case of such interim statements, to the absence of footnotes, normal year-end adjustments and presentation in condensed format omitting certain line items required by GAAP.

(b) **No Liabilities.** Except as set forth in the financial statements referred to in Section 3.4(a), there are no material liabilities of the Company or any of its Subsidiaries of any kind, whether accrued, contingent, absolute, determined, determinable or otherwise, as of the respective dates thereof, which would be required to be disclosed under GAAP and are not so disclosed.

(c) **Off-Balance Sheet Arrangements.** There is no transaction, arrangement or other relationship between the Company or its Subsidiaries and an unconsolidated or off-balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed or that otherwise could be reasonably likely to have a Material Adverse Effect.

SECTION 3.5 Properties.

(a) **Generally.** The Company and its Subsidiaries have good title to, or valid leasehold interests in, all the property material to their business, free and clear of all Liens except for Permitted Liens and minor irregularities or deficiencies in title that, individually or in the aggregate, do not interfere with their ability to conduct their business as currently conducted or to utilize such property for its intended purpose. The property of the Company and its Subsidiaries, taken as a whole, (i) is in good operating order, condition and repair (ordinary wear and tear excepted) and (ii) is sufficient for the business and operations of the Company and its Subsidiaries as presently conducted.

(b) **Real Property.** The Company and its Subsidiaries own no fee interest in Real Property.

(c) **No Casualty Event.** Neither the Company nor any Subsidiary has received any notice of, nor has any knowledge of, the occurrence or pendency or contemplation of any Casualty Event affecting all or any portion of its property that could reasonably be expected to result in a Material Adverse Effect.

(d) **Right to Use Property.** The Company and its Subsidiaries own or have rights to use all of the property used in, necessary for or material to its business as currently conducted. The use by the Company and its Subsidiaries of such property and all such rights with respect to the foregoing do not infringe on the rights of any person other than such infringement which could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. No claim has been made and remains outstanding that any use by the Company and its Subsidiaries of any property does or may violate the rights of any third party that could, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

SECTION 3.6 Intellectual Property. The Company and its Subsidiaries own, or are licensed to use, all patents, patent applications, trademarks, trade names, service marks, copyrights, technology, trade secrets, proprietary information, domain names, know-how and processes necessary for the conduct of their business as currently conducted (the “**Intellectual Property**”), except for those the failure to own or license which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No claim has been asserted and is pending by any person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual

Property, nor does the Company know of any valid basis for any such claim, except for such claims that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The use of such Intellectual Property by the Company and its Subsidiaries does not infringe the rights of any person, except for such claims and infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.7 Capitalization; Subsidiaries.

(a) **Capitalization.** After giving effect to the Transactions, the authorized Equity Interests of the Company consist solely of 200,000,000 shares of Common Stock, of which 10,184,866 shares will be issued and outstanding, and 10,000,000 shares of its preferred stock, of which 2,070,578 shares will be issued and outstanding. The material powers, preferences, privileges, rights, qualifications and limitations of the Company’s outstanding preferred stock, including its trust preferred stock, are as described in the SEC Reports. No shares of any class of Equity Interests of the Company are held by the Company in its treasury or by its Subsidiaries. The SEC Reports, as updated by Schedule 3.7(a) hereto, set forth all Equity Interests of the Company as of the Closing Date and, other than as reflected on such schedule, the Company has not since December 31, 2014 (i) issued any shares of any class of its Equity Interests or (ii) split, combined or reclassified any of its shares of any class of its Equity Interests. All the issued and outstanding Equity Interests (including all shares of Common Stock to be issued upon conversion of the Notes) of the Company and its Subsidiaries have been duly authorized and are (or in the case of Common Stock issued upon conversion of the Notes, will be) validly issued, fully paid and non-assessable and are (or in the case of Common Stock issued upon conversion of the Notes, will be) free of preemptive rights. The Company has duly reserved for issuance a sufficient number of shares of Common Stock for issuance upon conversion of the Notes at the initial Conversion Rate (as defined in Exhibit A hereto). Except as set forth in the SEC Reports, as updated by Schedule 3.7(a) hereto, there are no securities of the Company or any of its Subsidiaries that are convertible into or exchangeable for Equity Interests of the Company or any of its Subsidiaries, and no options, warrants, calls, subscriptions, convertible securities, or other like rights, agreements or commitments which obligate the Company or any of its Subsidiaries. There are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Equity Interests of the Company or any of its Subsidiaries and, except as set forth in the SEC Reports, as updated by Schedule 3.7(a) hereto, neither the Company nor any of its Subsidiaries has any awards or options outstanding under any stock option plans or agreements or any other outstanding stock-related awards. Except as set forth in the SEC Reports, as updated by Schedule 3.7(a) hereto, as of the Closing Date, neither the Company nor any of its Subsidiaries has any obligation to issue, transfer or sell any Equity Interests of the Company or its Subsidiaries, other than pursuant to the exercise of options issued by the Company prior to the Closing Date or the requirements of the Financing Documents. There will be no voting trusts or other agreements or understandings to which the Company or any of its Subsidiaries will be party with respect to the holding, voting or disposing of Equity Interests of the Company or any of its Subsidiaries. After the Closing Date, neither the Company nor any of its Subsidiaries will have any outstanding bonds, debentures, notes or similar obligations or securities that entitle the holders thereof to vote with the stockholders of the Company or any of its Subsidiaries on any matter or (other than the Notes, and the Company’s Convertible Promissory Notes Due 2018 issued on April 29, 2013) which are convertible into or exercisable for securities having such a right to vote.

(b) **Nature of Subsidiaries of the Company.** Except as set forth on Schedule 3.7(b) hereto, the Company has no Subsidiaries other than Impac Mortgage Corp., Integrated Real Estate Service Corporation, IMH Assets Corp., Impac Warehouse Lending Group, Inc., and Impac Funding Corporation, each of which is a Wholly Owned Subsidiary of the Company.

SECTION 3.8 Litigation; Compliance with Laws. Except as set forth in the SEC Reports, as updated by Schedule 3.8 hereto, there are no actions, suits or proceedings at law or in equity by or before any Governmental Authority now pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries or any business, property or rights of the Company or any of its Subsidiaries (i) that involve any Financing Document or any of the Transactions or (ii) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect. Neither the Company nor any Subsidiary or any of its property has violated or is in violation of, nor will the continued operation of its property as currently conducted violate, any material Requirements of Law (including any zoning or building ordinance, code or approval or any building permits) or is in default with respect to any material Requirement of Law, where such violation or default, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.9 Agreements. Except as would not have a Material Adverse Effect, each contract or agreement to which the Company or any Subsidiary thereof is a party that is material to the business of the Company and its Subsidiaries taken as a whole is enforceable in accordance with its terms by the Company or such Subsidiary, except as such enforceability may be limited by (i) applicable bankruptcy and other similar laws affecting the rights of creditors generally, and (ii) rules of law governing specific performance, injunctive relief, and other equitable remedies. Except as set forth in the SEC Reports, as updated by Schedule 3.9 hereto, neither the Company nor any Subsidiary is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Indebtedness, or any other agreement or instrument to which it is a party or by which it or any of its property is or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect, and no condition exists which, with the giving of notice or the lapse of time or both, would constitute such a default.

SECTION 3.10 Absence of Changes. Except as set forth in the SEC Reports, as updated by Schedule 3.10 hereto, since December 31, 2014, the Company and its Subsidiaries have conducted their respective businesses in all material respects in the ordinary course consistent with past practices, and there has been no event, change, circumstance or occurrence that, individually or in the aggregate, has had or could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.11 Investment Company Act. Neither the Company nor any Subsidiary is an “investment company” or a company “controlled” by an “investment company,” as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

SECTION 3.12 Use of Proceeds. The Company will use the proceeds from the sale of the Notes exclusively in connection with the general corporate purposes of the Company and in conformity with all applicable Requirements of Law.

SECTION 3.13 Taxes. Each of the Company and its Subsidiaries has (a) timely filed or caused to be timely filed all federal Tax Returns and all material state, local and foreign Tax Returns or materials required to have been filed by it and all such Tax Returns are true and correct in all material respects and (b) duly and timely paid, collected or remitted or caused to be duly and timely paid, collected or remitted all Taxes due and payable, collectible or remittable by it as reflected on such Tax Returns and all assessments received by it, except Taxes (i) that are being contested in good faith by appropriate proceedings and for which the Company or such Subsidiary has set aside on its books adequate reserves in accordance with GAAP and (ii) which could not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect. The Company believes that it and its Subsidiaries have each made adequate provision in accordance with GAAP for all Taxes not yet due and payable. Neither the Company nor any of its Subsidiaries is aware of any proposed or pending tax assessments, deficiencies or audits against it. Neither the Company nor any of its Subsidiaries has ever been a party to any understanding or arrangement constituting a “tax shelter” within the meaning of Section 6111(c), Section 6111(d) or Section

6662(d)(2)(C)(iii) of the Code, or has ever “participated” in a “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4. No waivers of statutes of limitation have been given by or requested with respect to any Taxes of the Company or any of its Subsidiaries for any open tax year. Neither the Company nor any of its Subsidiaries has ever been a member of an affiliated, combined, consolidated or unitary Tax group for purposes of filing any Tax Return containing any member other than the Company and its Subsidiaries. No closing agreements, private letter rulings, technical advance memoranda or similar agreements or rulings have been entered into or, to the knowledge of the Company, issued by any taxing authority with respect to the Company or any of its Subsidiaries, except for those that were determined favorably to the taxpayer, or resulted in adverse consequences immaterial to the taxpayer. Neither the Company nor any of its Subsidiaries or any predecessors to any of such entities has made any consent under Section 341 of the Code with respect to the Company or any such Subsidiary.

SECTION 3.14 Disclosure. Neither the Company nor any other Person acting on its behalf has provided to any of the Purchasers or their agents or counsel any information that constitutes or could reasonably be expected to constitute material nonpublic information concerning the Company or any of its Subsidiaries, other than the existence of the transactions contemplated by this Agreement and the other Financing Documents.

SECTION 3.15 Labor Matters. As of the Closing Date, there are no strikes, lock-outs or slowdowns against the Company or any of its Subsidiaries pending or, to the knowledge of the Company, threatened. The hours worked by and payments made to employees of the Company or any of its Subsidiaries have not been in violation of the Fair Labor Standards Act of 1938, as amended, or any other applicable federal, state, local or foreign law dealing with such matters in any manner which could reasonably be expected to result in a Material Adverse Effect. All payments due from the Company or any of its Subsidiaries, or for which any claim may be made against the Company or any of its Subsidiaries, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of the Company or such Subsidiary, as appropriate, except where the failure to do so could not reasonably be expected to result in a Material Adverse Effect. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Company or any of its Subsidiaries is bound.

SECTION 3.16 Employee Benefit Plans. The Company and each of its Subsidiaries and their ERISA Affiliates are in compliance in all material respects with the applicable provisions of ERISA and the Code (relating to employee benefit plans) and the regulations and published interpretations thereunder. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events, could reasonably be expected to result in material liability of the Company or any of its Subsidiaries or any of their ERISA Affiliates or the imposition of a Lien on any of the property of the Company or any of its Subsidiaries. The present value of all accumulated benefit obligations of all underfunded Plans (based on the

assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the property of all such underfunded Plans by an amount which could reasonably be expected to result in a Material Adverse Effect. Using actuarial assumptions and computation methods consistent with subpart I of subtitle E of Title IV of ERISA, the aggregate liabilities of the Company and each of its Subsidiaries and their ERISA Affiliates to all Multiemployer Plans in the event of a complete withdrawal therefrom, as of the close of the most recent fiscal year of each such Multiemployer Plan, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.17 Environmental Matters.

(a) Except as, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect:

(i) the Company and each of its Subsidiaries and their businesses, operations and Real Property are in material compliance with, and the Company and each of its Subsidiaries have no liability under, any applicable Environmental Law; and under the currently effective business plan of the Company and each of its Subsidiaries, no expenditures or operational adjustments will be required in order to comply with applicable Environmental Laws during the next five years;

(ii) the Company and each of its Subsidiaries have obtained all material Environmental Permits required for the conduct of their businesses and operations, and the ownership, operation and use of their property, under Environmental Law, all such Environmental Permits are valid and in good standing and, under the currently effective business plan of the Company and each of its Subsidiaries, no expenditures or operational adjustments will be required in order to renew or modify such Environmental Permits during the next five years;

(iii) There has been no Release or threatened Release of Hazardous Material on, at, under or from any Real Property or facility presently or formerly owned, leased or operated by the Company or any of its Subsidiaries or, to the Company's knowledge, their predecessors in interest that could reasonably be expected to result in liability to the Company or any of its Subsidiaries under any applicable Environmental Law;

(iv) There is no Environmental Claim pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or relating to the Real Property currently or formerly owned, leased or operated by the Company or any of its Subsidiaries or their predecessors in interest or relating to the operations of the Company or any of its Subsidiaries, and there are no actions, activities, circumstances, conditions, events or incidents that could reasonably form the basis of such an Environmental Claim; and

(v) No person with an indemnity or contribution obligation to the Company or any of its Subsidiaries relating to compliance with or liability under Environmental Law is in default with respect to such obligation.

(b)

(i) Neither the Company nor any of its Subsidiaries is obligated to perform any action or otherwise incur any expense under Environmental Law pursuant to any order, decree, judgment or agreement by which it is bound or has assumed by contract, agreement or operation of law, and neither the Company nor any of its Subsidiaries is conducting or financing any Response pursuant to any Environmental Law with respect to any Real Property or any other location;

(ii) No Real Property or facility owned, operated or leased by the Company or any of its Subsidiaries and, to the knowledge of the Company, no Real Property or facility formerly owned, operated or leased by the Company or any of its Subsidiaries or any of their predecessors in interest is (A) listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA or (B) listed on the Comprehensive Environmental Response, Compensation and Liability Information System promulgated pursuant to CERCLA or (C) included on any similar list maintained by any Governmental Authority including any such list relating to petroleum;

(iii) No Lien has been recorded or, to the knowledge of the Company, threatened under any Environmental Law with respect to any Real Property or other assets of the Company or any of its Subsidiaries;

(iv) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not require any notification, registration, filing, reporting, disclosure, investigation, remediation or cleanup pursuant to any Governmental Real Property Disclosure Requirements or any other applicable Environmental Law; and

(v) the Company and each of its Subsidiaries have made available to the Purchasers all material records and files in the possession, custody or control of, or otherwise reasonably available to, the Company and each of its Subsidiaries concerning compliance with or liability under Environmental Law, including those concerning the actual or suspected existence of Hazardous Material at Real Property or facilities currently or formerly owned, operated, leased or used by the Company or any of its Subsidiaries.

SECTION 3.18 Insurance. All insurance maintained by the Company and each of its Subsidiaries is in full force and effect, all premiums have been duly paid, and neither the Company nor any Subsidiary has received notice of violation or cancellation thereof, and there exists no default under any of the underlying insurance policies that could reasonably be expected to result in a Material Adverse Effect. Each of the Company and its Subsidiaries has insurance in such amounts and covering such risks and liabilities as are customary for companies of a similar size engaged in similar businesses in similar locations.

SECTION 3.19 Transactions with Affiliates. Except as set forth in the SEC Reports, none of the officers, directors or employees of the Company or any of its Subsidiaries is presently a party to any transaction with the Company or any of its Subsidiaries (other than for ordinary course services

as employees, officers or directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from, any such officer, director or employee or any corporation, partnership, trust or other person in which any such officer, director, or employee has a substantial interest or is an employee, officer, director, trustee or partner.

SECTION 3.20 SEC Reports. The Company has filed all required registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed by it with the Commission since January 1, 2012. The information contained or incorporated by reference in the SEC Reports was true and correct in all material respects as of the respective dates of the filing thereof with the Commission (or if amended or suspended by a filing prior to the date of this Agreement, then as of the date of such filing), and, as of such respective dates (or if amended or suspended by a filing prior to the date of this Agreement, then as of the date of such filing), the SEC Reports did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All of the SEC Reports, as of their respective dates (or if amended or suspended by a filing prior to the date of this Agreement, then as of the date of such filing), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.21 NYSE MKT. Shares of the Common Stock are registered pursuant to Section 12(b) of the Exchange Act and are listed on the NYSE MKT, and there is no action pending to terminate the registration of the Common Stock under the Exchange Act or delist the Common Stock from the NYSE MKT, nor has the Company received any notification that the Commission or the NYSE MKT is currently contemplating terminating such registration or listing.

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SECTION 3.22 Anti-Terrorism Law.

(a) Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any of their Affiliates is in violation of any Requirement of Law relating to terrorism or money laundering (“**Anti-Terrorism Laws**”), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the “**Executive Order**”), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56 (the “**USA PATRIOT Act**”).

(b) Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any Affiliate or broker or other agent of the Company or any of its Subsidiaries acting or benefiting in any capacity in connection with the issuance of the Notes is any of the following:

- (i) a person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;
- (ii) a person owned or controlled by, or acting for or on behalf of, any person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;
- (iii) a person with which any Purchaser is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;
- (iv) a person that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order; or
- (v) a person that is named as a “specially designated national and blocked person” on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control (“**OFAC**”) at its official website or any replacement website or other replacement official publication of such list.

(c) Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any broker or other agent of the Company or any of its Subsidiaries acting in any capacity in connection with the issuance and sale of the Notes (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person described in paragraph (b) above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

SECTION 3.23 Net Operating Loss Carryforwards. As disclosed in Footnote 16 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 as filed with the Commission, the Company had the benefit, as of such date, of estimated federal and California net operating loss carryforwards in the approximate respective amounts of \$495.9 million and \$427.3 million. The actual amount of the Company’s federal and California net operating loss carryforwards as of the Closing Date will not be materially different from those respective estimated amounts as of December 31, 2014. Subject to the accuracy of the representations made by the Purchasers in Sections 4.14 and 4.15 hereof, the consummation of the Transactions, including, without limitation, the issuance of the Notes on the Closing Date, and the issuance of Conversion Shares subsequently to the Closing, will not result in any limitations on the Company’s ability to utilize such net operating loss carryforwards or in any reductions in the amount thereof pursuant to the Code, including Section 382 thereof, and the regulations promulgated by the Department of Treasury thereunder, or any corresponding provisions of the California Revenue and Taxation Code.

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ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Each Purchaser, acting severally, hereby represents and warrants to the Company as of the date hereof and as of the Closing Date that:

SECTION 4.1 Risks of Investment. Such Purchaser recognizes that the purchase of the Notes involves a high degree of risk in that an investor could sustain the loss of its entire investment and the Company is and will be subject to numerous other risks and uncertainties, including, without limitation, significant and material risks relating to the Company's business and the industries, markets and geographic regions in which the Company competes, all as more fully set forth herein and in the SEC Reports.

SECTION 4.2 Accredited Investor Status. Such Purchaser is an Accredited Investor and is able to bear the economic risk of an investment in the Notes.

SECTION 4.3 Investment Experience. Such Purchaser has prior investment experience, including without, limitation, investment in non-listed and non-registered securities, or has employed the services of an investment advisor, attorney or accountant to read all of the documents furnished or made available by the Company both to it and to all other prospective investors in the Notes and to evaluate the merits and risks of such an investment on its behalf, and it recognizes the highly speculative nature of this investment.

SECTION 4.4 Access to Information. Such Purchaser has been furnished or given access by the Company with or to all information regarding the Company and its financial condition and results of operations which it had requested or desired to know in connection with the Transactions; all documents requested by such Purchaser which could be reasonably provided have been made available for its inspection and review; it has been afforded the opportunity to ask questions of and receive answers from duly authorized representatives of the Company concerning the terms and conditions of the Transactions, and has received any additional information which it had requested in that connection. Such Purchaser has not seen or received any advertisement or general solicitation with respect to the sale of any of the securities of the Company, including, without limitation, the Notes.

SECTION 4.5 Investment Intent; Resales. Such Purchaser acknowledges that the offering of the Notes has not been reviewed or approved by the Commission because the offering is intended to be a nonpublic offering pursuant to Section 4(2) of the Securities Act. The Notes purchased by such Purchaser are being purchased for its own account, for investment and not for distribution or resale to others. Such Purchaser understands that it may not sell or otherwise transfer any of the Notes or Conversion Shares unless they are registered under the Securities Act or unless an exemption from such registration is available and, if required by Section 9.7, the Company receives an opinion from counsel reasonably satisfactory to the Company confirming that an exemption from such registration is available for such sale or transfer.

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SECTION 4.6 Consequences of Intent to Distribute. Such Purchaser understands that the Notes and the Conversion Shares have not been registered under the Securities Act by reason of a claimed exemption under the provisions of the Securities Act which depends, in part, upon such Purchaser's investment intention. Such Purchaser realizes that, in the view of the Commission, a purchase by such Purchaser now with the intention to distribute would represent a purchase with an intention inconsistent with such Purchaser's representation to the Company in Section 4.5, and the Commission might regard such a distribution as a deferred sale for which such claimed exemption is not available.

SECTION 4.7 Rule 144. Such Purchaser understands that Rule 144 promulgated under the Securities Act requires, among other conditions, at least a six (6) month holding period prior to the resale (in limited amounts, if the reseller is an "affiliate" (as defined in Rule 144) of the Company) of securities acquired in a non-public offering, such as the offering of the Notes and the Conversion Shares as contemplated by this Agreement, without having to satisfy the registration requirements under the Securities Act. Except as specifically set forth herein or in any other Financing Document, such Purchaser understands that the Company makes no representation or warranty regarding its fulfillment in the future of any reporting requirements under the Exchange Act, or its dissemination to the public of any current financial or other information concerning the Company, as is required by Rule 144 as one of the conditions of its availability.

SECTION 4.8 Broker-Dealer Status. Such Purchaser acknowledges that if the Purchaser is a Registered Representative of a Financial Industry Regulatory Authority ("FINRA") member firm, it must give such firm the notice required by the FINRA Conduct Rules, or any applicable successor rules of FINRA, receipt of which must be acknowledged by such firm on the signature page hereof. Such Purchaser shall also notify the Company if the Purchaser or any affiliate of the Purchaser is a registered broker-dealer with the Commission, in which case the Purchaser represents that the Purchaser is purchasing the Notes in the ordinary course of business and, at the time of purchase of the Notes, has no agreements or understandings, directly or indirectly, with any person to distribute the Notes or any portion thereof.

SECTION 4.9 Reliance on Specified Information. Except as set forth in this Agreement (including the Disclosure Schedule) and the other Financing Documents, no representations or warranties have been made to such Purchaser by either the Company or any of its agents, employees or affiliates, and in entering into the Transactions, such Purchaser is not relying on any information, other than as contained in this Agreement (including the Disclosure Schedule) and the other Financing Documents, in the SEC Reports and the results of independent investigation by such Purchaser.

SECTION 4.10 Entity Purchaser. If such Purchaser is a partnership, corporation, trust or other entity, such Purchaser: (i) was not formed for the purpose of investing in the Company; (ii) is authorized and otherwise duly qualified to purchase and hold the Notes and the Conversion Shares; and (iii) this Agreement and each other Financing Document to which such Purchaser is to be a party has been duly authorized and this Agreement has been duly executed and delivered by such Purchaser and constitutes, and each other Financing Document to which such Purchaser is to be a party, when executed and delivered by such Purchaser, will constitute, a legal, valid and binding obligation of such Purchaser, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 4.11 Consent to Reliance on Representations. Such Purchaser understands and acknowledges that (i) the Notes and the Conversion Shares are being offered and sold to such Purchaser without registration under the Securities Act in a private placement that is exempt from the registration requirements of the Securities Act pursuant to Section 4(2) thereof and (ii) the availability of such exemption depends in part on, and the Company will rely upon the accuracy and truthfulness of, the foregoing representations of such Purchaser, and such Purchaser hereby consents to such reliance.

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SECTION 4.12 No Conflict. The consummation of the Transactions by such Purchaser (a) does not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority applicable to such Purchaser, except such as have been obtained or made and are in full force and effect, (b) if such Purchaser is an entity, will not violate the Organizational Documents of such Purchaser, (c) will not violate any material Requirement of Law applicable to such Purchaser and (d) will not result in a default or require any consent or approval under any indenture, agreement or other instrument binding upon such Purchaser or its property, or give rise to a right thereunder to require any payment to be made by such Purchaser.

SECTION 4.13 Anti-Terrorism.

(a) Neither such Purchaser nor, to the knowledge of such Purchaser, any of its Affiliates, is in violation of any Anti-Terrorism Laws, the Executive Order or the USA Patriot Act.

(b) Neither such Purchaser nor, to the knowledge of such Purchaser, any Affiliate or broker or other agent of such Purchaser acting or benefiting in any capacity in connection with the issuance of the Notes is any of the following:

- (i) a person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;
- (ii) a person owned or controlled by, or acting for or on behalf of, any person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;
- (iii) a person that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order; or
- (iv) a person that is named as a “specially designated national and blocked person” on the most current list published by OFAC at its official website or any replacement website or other replacement official publication of such list.

(c) Neither such Purchaser nor any of its Subsidiaries nor, to the knowledge of such Purchaser, any broker or other agent of such Purchaser acting in any capacity in connection with the issuance and sale of the Notes (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any person described in paragraph (b) above, (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order, or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

SECTION 4.14 Pre-Closing Holdings of the Common Stock. The aggregate number of outstanding shares of Common Stock beneficially owned by the Purchasers (as determined in accordance with Rule 13d-3 promulgated under the Exchange Act) immediately prior to the Closing, when added to (i) the number (the “**2013 Quotient**”) resulting from dividing (x) \$20,000,000 (the original aggregate principal balance of the Convertible Promissory Notes Due 2018 issued on April 29, 2013) by (y) \$10.875, plus (ii) the number (the “**2015 Quotient**”) resulting from dividing (x) the original aggregate principal balance of the Notes issuable to the Purchasers pursuant to the terms of this Agreement by (y) \$21.50, results in a number that is less than 45% of the sum of (x) the total number of shares of Common Stock outstanding immediately prior to the Closing (as set forth in Section 3.7), (y) the 2013 Quotient and (z) the 2015 Quotient.

SECTION 4.15 Absence of Voting Agreements. Such Purchaser is not party to, nor is it contemplated that it will be party to, any voting trust agreement or other contract, agreement, arrangement, commitment, or understanding which does or would affect or relate to the voting or giving of written consents by such Purchaser with respect to, or the disposition, acquisition or holding by such Purchaser of, the Company’s securities; and no person holds or has the right to receive any proxy or similar instrument with respect to the Company’s securities beneficially owned by such Purchaser.

ARTICLE 5

CONDITIONS TO PURCHASERS’ OBLIGATIONS; TERMINATION OF AGREEMENT

SECTION 5.1 Closing Date Conditions. The obligation of the Purchasers to purchase the Notes to be purchased on the Closing Date is subject to the prior or concurrent satisfaction of each of the conditions set forth in this Section 5.1, except to the extent waived in writing by the Purchasers:

(a) Officers’ Certificate. The Purchasers shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company, confirming compliance with the condition precedent set forth in Section 5.1(e).

(b) Financial Statements. The Purchasers shall have received and shall be satisfied with the form and substance of the financial statements described in Section 3.4.

(c) Opinion of Counsel. The Purchasers shall have received a favorable written opinion of Manatt, Phelps & Phillips, LLP, counsel for the Company, as to such matters under California law, Maryland corporate law and U.S. federal law relating to the Financing Documents and the Transactions as are set forth on Exhibit I attached hereto.

(d) Litigation. There shall be no litigation, public or private, or administrative proceedings, governmental investigation or other legal or regulatory developments, actual or threatened, that, singly or in the aggregate, could reasonably be expected to result in a Material Adverse Effect, or could reasonably be expected to materially and adversely affect the ability of the Company to fully and timely perform its obligations under the Financing Documents, or the ability of the parties to consummate the financings contemplated hereby or the other Transactions.

(e) Representations and Warranties. Each of the representations and warranties made by the Company in Article 3 hereof or in any other Financing Document shall be true and correct in all material respects (except that any representation and warranty that is qualified as to “materiality” or “Material Adverse Effect” shall be true and correct in all respects) on and as of the Closing Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(f) No Legal Bar. No order, judgment or decree of any Governmental Authority shall purport to restrain any Purchaser from purchasing the Notes. No injunction or other restraining order shall have been issued, shall be pending or noticed with respect to any action, suit or proceeding seeking to

enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated by this Agreement or the issuance of the Notes hereunder. There shall be no governmental or judicial action, actual or threatened, that has or would have, singly or in the aggregate, a reasonable likelihood of restraining, preventing or imposing burdensome conditions on the Transactions or the other transactions contemplated hereby.

(g) Absence of Material Adverse Effect. Since December 31, 2014, there shall have occurred no event, change, circumstance or occurrence that, individually or in the aggregate, has had or could reasonably be expected to result in a Material Adverse Effect.

(h) Due Diligence. The Purchasers shall have completed their business, financial, accounting, legal, regulatory and intellectual property due diligence review of the Company and its Subsidiaries and other matters relevant to the Transactions and such due diligence review shall have been completed to the satisfaction of the Purchasers in their sole discretion.

(i) Simultaneous Purchase. Each of the Purchasers shall have simultaneously purchased the Notes to be purchased by such Purchaser pursuant to the terms of this Agreement.

SECTION 5.2 Termination of Agreement. This Agreement may be terminated upon one (1) Business Day's prior written notice by either the Company or any of the Purchasers given to the other parties hereto at any time after May 15, 2015 that the sale and purchase of the Notes has for any reason not been consummated. In the event of such termination, this Agreement shall be abandoned by the parties without any further liability or further obligation hereunder to any other party to this Agreement, except as and to the extent otherwise expressly stated herein.

ARTICLE 6

AFFIRMATIVE COVENANTS

The Company hereby warrants, covenants and agrees with each Purchaser and each Noteholder that from the Closing Date, until the principal amounts of all Notes, and all interest and other Obligations in respect thereof, shall have been paid in full, or until the Notes shall have been converted in full, the Company will:

SECTION 6.1 Financial Statements, Reports, etc.

(a) Annual Reports. Furnish to each Noteholder, as soon as available and in any event within 90 days (or such earlier date on which the Company is required to file a Form 10-K under the Exchange Act) after the end of each fiscal year, beginning with the fiscal year ending December 31, 2015, the consolidated and consolidating balance sheet of the Company as of the end of such fiscal year and related consolidated and consolidating statements of income, cash flows and stockholders' equity for such fiscal year, in comparative form with such financial statements as of the end of, and for, the preceding fiscal year, and the notes thereto, all prepared in accordance with GAAP and, in the case of the consolidated financial statement, accompanied by an opinion of Squar, Milner, Peterson, Miranda & Williamson, LLP, or other independent public accountants of recognized national standing, stating that such financial statements fairly present, in all material respects, the consolidated financial condition, results of operations and cash flows of the Company as of the dates and for the periods specified in accordance with GAAP; provided, however, that if the Company is then subject to the reporting requirements under Section 13 or Section 15(d) of the Exchange Act, then the requirements of this Section 6.1(a) shall be deemed satisfied by the filing of such report with the Commission. The consolidating balance sheet and statements of income, stockholders' equity and cash flows required by this paragraph may be in the form contained in the notes to the financial statements included in the Company' Form 10-K; and

(b) Quarterly Reports. Furnish to each Noteholder, as soon as available and in any event within 45 days (or such earlier date on which the Company is required to file a Form 10-Q under the Exchange Act) after the end of each of the first three fiscal quarters of each fiscal year, beginning with the fiscal quarter ended March 31, 2015, the consolidated and consolidating balance sheet of the Company as of the end of such fiscal quarter and related consolidated and consolidating statements of income and cash

flows for such fiscal quarter and for the then elapsed portion of the fiscal year, in comparative form with the consolidated statements of income and cash flows for the comparable periods in the previous fiscal year, all prepared in accordance with GAAP; provided, however, that if the Company is then subject to the reporting requirements under Section 13 or Section 15(d) of the Exchange Act, then the requirements of this Section 6.1(b) shall be deemed satisfied by the filing of such report with the Commission. The consolidating balance sheet and statements of income and cash flows required by this paragraph may be in the form contained in the notes to the financial statements included in the Company' Form 10-Q.

SECTION 6.2 Default Notice. Furnish to each Noteholder written notice of any Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto, promptly after it becomes known to a Responsible Officer of the Company (and, in any event, within five (5) Business Days after it so becomes known).

SECTION 6.3 Existence; Businesses and Properties.

(a) Do or cause to be done all things necessary to preserve, renew and maintain in full force and effect its legal existence, except where the failure to perform such obligations, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, and do or cause to be done all things reasonably necessary for the Company to remain a publicly traded company required to file reports pursuant to Section 13 and Section 15(d) of the Exchange Act and for the Common Stock to continue to be listed on the NYSE MKT or to be listed on another U.S. national securities exchange.

(b) Do or cause to be done all things reasonably necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, privileges, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business; maintain and operate such business in substantially the manner in which it is presently conducted and operated; comply with all applicable material Requirements of Law

(including any and all zoning, or building laws, ordinances, codes or approvals, Environmental Law or any building permits or any restrictions of record or agreements affecting its Real Property) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted, except where the failure to comply, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect; pay and perform its obligations under all Leases and all Financing Documents; and at all times maintain, preserve and protect all property material to the conduct of such business and keep such property in good repair, working order and condition (other than wear and tear occurring in the ordinary course of business) and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided that nothing in this Section 6.3(b) shall prevent (i) the withdrawal by the Company of its qualification as a foreign corporation in any jurisdiction where such withdrawal, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect; or (ii) the abandonment by the Company of any rights, franchises, licenses, trademarks, trade names, copyrights or patents that it reasonably determines are not useful to its business or no longer commercially desirable.

SECTION 6.4 Insurance. Keep its insurable property adequately insured at all times by financially sound and reputable insurers; maintain such other insurance, to such extent and against such risks as is customary with companies of the same or similar size in the same or similar businesses operating in the same or similar locations, including insurance with respect to such properties as are material to the business of the Company against such casualties and contingencies and of such types and in such amounts with such deductibles as is customary in the case of similar businesses of the same size operating in the same or similar locations.

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SECTION 6.5 Obligations and Taxes.

(a) **Payment of Obligations.** Pay its Indebtedness and other material obligations promptly and in accordance with their terms and pay and discharge promptly when due all Taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, services, materials and supplies or otherwise that, if unpaid, might give rise to a Lien other than a Permitted Lien upon such properties or any part thereof; provided that such payment and discharge shall not be required with respect to any such Tax, assessment, charge, levy or claim so long as (x) the validity or amount thereof shall be contested in good faith by appropriate proceedings timely instituted and diligently conducted and (y) the failure to pay could not reasonably be expected to result in a Material Adverse Effect.

(b) **Filing of Returns.** Timely (subject to permitted extensions) and correctly file all material Tax Returns required to be filed by it and withhold, collect and remit all Taxes that it is required to collect, withhold or remit as reflected on such Tax Returns.

(c) **Tax Shelter Reporting.** In the event that it determines to take any action inconsistent with its present intention not to treat the Notes as being a "reportable transaction" within the meaning of Treasury Regulation Section 1.6011-4, promptly notify the Noteholders thereof.

SECTION 6.6 Maintaining Records; Access to Properties and Inspections. Keep proper books of record and account in which full, true and correct entries in all material respects in conformity with GAAP and all material Requirements of Law are made of all material dealings and transactions in relation to its business and activities and permit any representatives designated by any Noteholder to visit, audit and inspect its financial records and property, at reasonable times and as often as reasonably requested (but in no event, more than once in a twelve month period if no Default or Event of Default shall have occurred) and to make extracts from and copies of such financial records, and permit any representatives designated by the Noteholders to discuss its affairs, finances, accounts and condition with its officers and employees and advisors (including independent accountants).

SECTION 6.7 Use of Proceeds. Use the proceeds from the sale of the Notes only for the purposes set forth in Section 3.12.

SECTION 6.8 Payment of Principal, Premium and Interest. Duly and punctually pay the principal of (and premium, if any, on) and all interest on the Notes and all other fees, costs and expenses owed hereunder in accordance with the terms of the Notes and this Agreement, and pay interest on overdue principal (including post-petition interest in a proceeding under any Bankruptcy Law), and interest on overdue interest, to the extent lawful, at the rate specified in the Notes.

SECTION 6.9 Reservation for Issuance of Conversion Shares; Listing of Conversion Shares. Take all actions necessary to at all times have authorized, and reserved for issuance pursuant to the terms of the Financing Documents, the number of shares of Common Stock issuable upon full conversion of all of the Notes at a conversion price equal to the Conversion Price (as defined in Exhibit A hereto), and take all actions necessary to promptly cause all of the Conversion Shares to be listed on the NYSE MKT (or other U.S. national securities exchange subsequently serving as the principal trading market for shares of the Common Stock), and to maintain such listing.

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ARTICLE 7

NEGATIVE COVENANTS

The Company hereby warrants, covenants and agrees with each Purchaser and each Noteholder that, from the Closing Date, until the principal amount of all Notes, and all interest and other Obligations in respect thereof, shall have been paid in full, or until the Notes shall have been converted in full, the Company will not:

SECTION 7.1 Indebtedness. Incur, issue, create, assume or permit to exist, directly or indirectly, any Indebtedness, other than Senior Indebtedness, that is not expressly subordinated to the Notes.

The term "**Senior Indebtedness**" shall mean:

(a) All obligations of the Company, whether outstanding on the date hereof or thereafter incurred, in respect of borrowed money from a national or regional bank or other financial institution, or from those parties set forth on Schedule 7.1(a), whether pursuant to a line of credit, warehouse

facility, repurchase facility or otherwise;

(b) All other Indebtedness of the Company outstanding on the Closing Date and (x) described in the SEC Reports, (y) reflected in the financial statements included in the SEC Reports, or (z) listed on Schedule 7.1(b) hereto;

(c) Indebtedness of the Company under Hedging Obligations with respect to interest rates, foreign currency exchange rates or commodity prices, in each case not entered into for speculative purposes;

(d) Indebtedness of the Company in respect of Purchase Money Obligations and Capital Lease Obligations (including, without limitation, Purchase Money Obligations and Capital Lease Obligations in existence on the Closing Date or set forth in Schedule 7.1(b) hereto);

(e) Indebtedness of the Company in respect of bid, performance or surety bonds, workers' compensation claims, self-insurance obligations and bankers acceptances issued for the account of the Company in the ordinary course of business;

(f) Contingent Obligations of the Company in respect of Indebtedness otherwise permitted under this Section 7.1;

(g) Indebtedness of the Company arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(h) any other Indebtedness of the Company which the Company and the Required Holders may from time to time expressly and specifically agree in writing shall constitute Senior Indebtedness; and

(i) all deferrals, renewals, extensions, refundings, replacements, refinancings and restructuring of and amendments, modification and supplements to (provided that, with respect to any Senior Indebtedness described in clauses (b) and (h) above, in each of the foregoing cases the Indebtedness so incurred shall be on terms substantially similar to the terms applicable to the Senior Indebtedness to which it relates), or guarantees of, any Senior Indebtedness described above.

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Nothing in this Section 7.1 shall in any way limit the ability of the Company to incur Indebtedness subordinate to the Notes, including, but not limited to, junior debt financing, provided that the agreements, documents and instruments evidencing such obligations expressly acknowledge such subordination.

SECTION 7.2 Liens. Create, incur, assume or permit to exist, directly or indirectly, any Lien on any property now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except Liens securing Senior Indebtedness described in Section 7.1(a) and the following (collectively, the "**Permitted Liens**"):

(a) inchoate Liens for taxes, assessments or governmental charges or levies not yet due and payable or delinquent and Liens for taxes, assessments or governmental charges or levies, which are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection with such proceedings) have the effect of preventing the forfeiture or sale of the property subject to any such Lien;

(b) Liens in respect of property of the Company imposed by Requirements of Law, which were incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, materialmen's, landlords', workmen's, suppliers', repairmen's and mechanics' Liens and other similar Liens arising in the ordinary course of business, and (i) which do not in the aggregate materially detract from the value of the property of the Company and do not materially impair the use thereof in the operation of the business of the Company, and (ii) which, if they secure obligations that are then due and unpaid, are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection with such proceedings) have the effect of preventing the forfeiture or sale of the property subject to any such Lien;

(c) any Lien in existence on the Closing Date and set forth on Schedule 7.2(c) hereto and any Lien granted as a replacement or substitute therefor; provided that any such replacement or substitute Lien does not secure an aggregate amount of Indebtedness, if any, greater than that secured on the Closing Date and (ii) does not encumber any property other than the property subject thereto on the Closing Date;

(d) easements, rights-of-way, restrictions (including zoning restrictions), covenants, licenses, encroachments, protrusions and other similar charges or encumbrances, and minor title deficiencies on or with respect to any Real Property, in each case whether now or hereafter in existence, not (i) securing Indebtedness, (ii) individually or in the aggregate materially impairing the value or marketability of such Real Property or (iii) individually or in the aggregate materially interfering with the ordinary conduct of the business of the Company at such Real Property;

(e) Liens arising out of judgments, attachments or awards not resulting in a Default and in respect of which the Company shall in good faith be prosecuting an appeal or proceedings for review in respect of which there shall be secured a subsisting stay of execution pending such appeal or proceedings;

(f) Liens (other than any Lien imposed by ERISA) (x) imposed by Requirements of Law or deposits made in connection therewith in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security legislation, (y) incurred in the ordinary course of business to secure the performance of tenders, statutory obligations (other than excise taxes), surety, stay, customs and appeal bonds, statutory bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money) or (z) arising by virtue of deposits made in the ordinary course of business to secure liability for premiums to insurance carriers; provided that (i) with respect to clauses (x), (y) and (z) of this paragraph (f), such Liens are for amounts not yet due and payable or delinquent or, to the

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extent such amounts are so due and payable, such amounts are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings or orders entered in connection with such proceedings have the effect of preventing the

forfeiture or sale of the property subject to any such Lien, (ii) to the extent such Liens are not imposed by Requirements of Law, such Liens shall in no event encumber any property other than cash and Cash Equivalents, and (iii) the aggregate amount of deposits at any time pursuant to clause (y) and clause (z) of this paragraph (f) shall not exceed \$100,000 in the aggregate;

(g) Leases as lessor of the properties of the Company, in each case entered into in the ordinary course of its business so long as such Leases do not, individually or in the aggregate, (i) interfere in any material respect with the ordinary conduct of the business of the Company, or (ii) materially impair the use (for its intended purposes) or the value of the property subject thereto;

(h) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Company in the ordinary course of business in accordance with the past practices of the Company;

(i) Liens securing Purchase Money Obligations or Capital Lease Obligations; provided that any such Liens attach only to the property being financed pursuant to such Indebtedness and do not encumber any other property of the Company;

(j) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by the Company, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; provided that, unless such Liens are non-consensual and arise by operation of law, in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

(k) Liens on property of a person existing at the time such person is acquired or merged with or into or consolidated with the Company to the extent not prohibited by the terms of this Agreement (and not created in anticipation or contemplation thereof); provided that such Liens do not extend to property not subject to such Liens at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than such existing Liens;

(l) licenses of Intellectual Property granted by the Company in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business of the Company;

(m) the filing of UCC financing statements solely as a precautionary measure in connection with operating leases or consignment of goods; and

(n) Liens otherwise incurred in the ordinary course of business of the Company consistent with past practice.

SECTION 7.3 Prepayments of Other Indebtedness; Modifications of Documents Governing Material Indebtedness. Directly or indirectly:

(a) make (or give any notice in respect thereof) any voluntary or optional payment or prepayment on or redemption or acquisition for value of, or any prepayment or redemption as a result of any asset sale, change of control or similar event of, any Indebtedness (other than the Indebtedness represented by the Obligations); or

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(b) amend or modify, or permit the amendment or modification of, any provision of any document governing any Material Indebtedness in any manner that is adverse in any material respect to the interests of the Noteholders.

SECTION 7.4 Business. Engage (directly or indirectly) in any business other than those businesses in which the Company is engaged on the Closing Date (or, in the good faith judgment of the Board of Directors of the Company, which are substantially related thereto or are reasonable extensions thereof).

SECTION 7.5 Fiscal Year. Change its fiscal year-end to a date other than December 31.

SECTION 7.6 Stay, Extension and Usury Laws. Plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of its obligations under the Notes or this Agreement, and the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Noteholders, but shall suffer and permit the execution of every such power as though no such law has been enacted.

SECTION 7.7 No Integration. Make any offer or sale of securities of any class of the Company if, as a result of the doctrine of "integration" referred to in Rule 502 under the Securities Act, such offer or sale would render invalid (for the purpose of the sale of the Notes to the Purchasers) any applicable exemption from the registration requirements of the Securities Act provided by Section 4(2) thereof or otherwise.

ARTICLE 8

EVENTS OF DEFAULT

SECTION 8.1 Events of Default. Upon the occurrence and during the continuance of the following events ("Events of Default"):

(a) default shall be made in the payment of any principal on any Note when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for repurchase thereof or by acceleration thereof or otherwise;

(b) default shall be made in the payment of any interest on any Note or any fee or any other amount (other than an amount referred to in paragraph (a) above) due under any Financing Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of two (2) Business Days;

(c) any representation or warranty made or deemed made in or in connection with any Financing Document, shall prove to have been false or misleading in any material respect when so made or deemed made;

(d) default shall be made in the due observance or performance by the Company of the covenant contained in Section 6.2;

(e) default shall be made in the due observance or performance by the Company of any covenant, condition or agreement contained in this Agreement or any other Financing Document (other than those specified in paragraphs (a), (b) or (d) immediately above) and such default shall continue unremedied or shall not be waived for a period of thirty (30) days after written notice thereof from any Noteholder to the Company;

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(f) there shall have occurred an event of default under the applicable documents, agreements or instruments that results in the acceleration of payment or redemption, as the case may be, of any Indebtedness, trust preferred stock or other preferred stock of or issued by the Company, if the effect thereof is to cause, or to permit the holder or holders of such Indebtedness or preferred stock or a trustee or other representative on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness or preferred stock to become due prior to its stated maturity or become subject to a mandatory purchase offer by the Company; provided that it shall not constitute an Event of Default pursuant to this paragraph (f) unless the aggregate amount of all such defaulted obligations referred to herein exceeds \$3,000,000 at any one time;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Company or of a substantial part of the property of the Company, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of the property of the Company; or (iii) the winding-up or liquidation of the Company; and such proceeding or petition shall continue undismissed for sixty (60) days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the Company shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in clause (g) above; (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or for a substantial part of the property of the Company; (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (v) make a general assignment for the benefit of creditors; (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due; (vii) take any action for the purpose of effecting any of the foregoing; or (viii) wind up or liquidate;

(i) one or more judgments, orders or decrees for the payment of money in an aggregate amount in excess of \$3,000,000 shall be rendered against the Company and the same shall remain undischarged, unvacated or unbonded for a period of thirty (30) consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon properties of the Company to enforce any such judgment;

then, and in every such event (other than an event described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Required Holders may, by written notice to the Company, declare the Notes then outstanding to be immediately due and payable, and thereupon the principal of the Notes so declared to be due and payable, together with accrued interest thereon and any unpaid accrued fees, and all other Obligations of the Company accrued hereunder and under any other Financing Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Company, anything contained herein or in any other Financing Document to the contrary notwithstanding; and, in any event described in paragraph (g) or (h) above, the principal of the Notes then outstanding, together with accrued interest thereon and any and all fees and all other Obligations of the Company accrued thereunder, shall automatically become due and payable, without presentment, demand, protest or any other notice of any

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kind, all of which are hereby expressly waived by the Company, anything contained herein or in any other Financing Document to the contrary notwithstanding. Notwithstanding the foregoing, the right of any Noteholder to receive payment of principal of or interest on any Note held by such Noteholder on or after the respective due dates expressed in such Note, or to bring suit for the enforcement of any such repayment on or after such respective dates, is absolute and unconditional and shall not be impaired or affected without the consent of such Noteholder.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained, the Required Holders, by written notice to the Company, may rescind and annul such declaration and its consequences if:

(a) the Company has paid a sum sufficient to pay: (i) all overdue interest on all Notes; (ii) the principal of any Notes which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate borne by the Notes; and (iii) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate provided therefor in the Notes; and

(b) all Events of Default, other than the non-payment of the principal amount of Notes and interest thereon which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 8.2.

SECTION 8.2 Waiver of Past Defaults. The Required Holders may on behalf of the Holders of all the Notes waive any past default hereunder and its consequences. Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Agreement; provided, however, that no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

ARTICLE 9

THE NOTES

SECTION 9.1 Form and Execution. The Notes shall be in the form of Exhibit A hereto. The Notes shall be executed on behalf of the Company by its President or one of its Vice Presidents and attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Notes may be manual or facsimile.

Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

SECTION 9.2 Terms of the Notes. The terms of the Notes shall be as set forth in Exhibit A hereto. Without limiting the foregoing:

- (a) Stated Maturity Date. The Stated Maturity Date of the principal of the Notes shall be as provided in Exhibit A hereto.
- (b) Interest. The Notes will bear interest on their principal amount and overdue interest as provided in Exhibit A hereto.
- (c) Conversion Rights. The holders of the Notes shall have the right to convert the outstanding principal balance of the Notes into Equity Interests on the terms and subject to the conditions set forth in Exhibit A hereto.

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SECTION 9.3 Denominations. The Notes shall be issuable only in registered form without coupons and only in denominations of U.S. \$1,000 and any integral multiple thereof.

SECTION 9.4 Form of Legend for the Notes. Every Note issued and delivered hereunder shall bear a legend in substantially the following form:

THE SECURITY REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR QUALIFIED UNDER ANY STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT IS IN EFFECT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. THE HOLDER OF THIS SECURITY IS SUBJECT TO THE TERMS OF THE NOTE PURCHASE AGREEMENT, DATED AS OF MAY 8, 2015 (THE “PURCHASE AGREEMENT”), AMONG IMPAC MORTGAGE HOLDINGS, INC. (THE “COMPANY”) AND THE PURCHASERS NAMED THEREIN. A COPY OF SUCH PURCHASE AGREEMENT IS AVAILABLE AT THE OFFICES OF THE COMPANY.

SECTION 9.5 Payments and Computations. All payments of interest on the Notes shall be paid to the persons in whose names such Notes are registered on the Security Register at the close of business on the date fifteen (15) calendar days prior to the related Interest Payment Date (the “**Regular Record Date**”) and all payments of principal on the Notes shall be paid to the persons in whose names such Notes are registered at Maturity. Notwithstanding the foregoing, if a Note is issued after a Regular Record Date and prior to the first Interest Payment Date, the record date for such first Interest Payment Date shall be the original issue date thereof. Payments of principal and interest on any Note shall be made in accordance with this Agreement and subject to applicable law and regulations, by wire transfer in immediately available funds to such account as any Noteholder shall designate by written instructions received by the Company no less than five (5) days prior to any applicable Interest Payment Date or other applicable payment date, which wire instructions shall continue in effect until such time as the Noteholder otherwise notifies the Company or such Noteholder no longer is the registered owner of such Note or Notes.

SECTION 9.6 Registration; Registration of Transfer and Exchange.

- (a) Security Register. The Company shall maintain a register (the “**Security Register**”) for the registration or transfer of the Notes. The name and address of the Noteholder of each Note, records of any transfers of the Notes and the name and address of any transferee of a Note shall be entered in the Security Register and the Company shall, promptly upon receipt thereof, update the Security Register to reflect all information received from a Noteholder. There shall be no more than one Noteholder for each Note, including all beneficial interests therein.
- (b) Registration of Transfer. Upon surrender for registration of transfer of any Note at the office or agency of the Company, the Company shall execute and deliver, in the name of the designated transferee or transferees, one or more new Notes, of any authorized denominations and like aggregate principal amount.

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(c) Exchange. At the option of the Noteholder, Notes may be exchanged for other Notes, of any authorized denominations and of like aggregate principal amount, upon surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Company shall execute and deliver the Notes which the Noteholder making the exchange is entitled to receive.

(d) Effect of Registration of Transfer or Exchange. All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Notes surrendered upon such registration of transfer or exchange.

(e) Requirements; Charges. Every Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Company) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company duly executed, by the Noteholder thereof or his attorney duly authorized in writing. No service charge shall be made for any registration of transfer or exchange of Notes.

SECTION 9.7 Transfer Restrictions.

- (a) No Note may be sold, transferred or otherwise disposed of (any such sale, transfer or other disposition is herein referred to as a “sale”), except in compliance with this Section 9.7.
- (b) A Noteholder may sell Notes to a transferee that is an Accredited Investor; provided, however, that each of the following conditions is satisfied:
- (i) such transferee represents that it is acquiring the Note or Notes for its own account and that it is not acquiring such Note or Notes with a view to, or for offer or sale in connection with, any distribution thereof (within the meaning of the Securities Act) that would be in violation of the securities laws of the United States or any state thereof, but subject, nevertheless, to the disposition of its property being at all times within its control; and
 - (ii) such transferee agrees to be bound by the provisions of this Section 9.7 with respect to any resale of the Notes.
- (c) In the event of a proposed sale that does not qualify under Section 9.7(b) above, a Noteholder may sell its Notes only if:
- (i) such Noteholder gives written notice to the Company of its intention to effect such sale, which notice (A) shall describe the manner and circumstances of the proposed transaction in reasonable detail and (B) shall designate the counsel for such Noteholder, which counsel shall be reasonably satisfactory to the Company;
 - (ii) such counsel for the Noteholder shall render an opinion to the effect that such proposed sale may be effected without registration under the Securities Act; and
 - (iii) such transferee complies with Sections 9.7(b)(i) and 9.7(b)(ii).

SECTION 9.8 Mutilated, Destroyed, Lost and Stolen Notes. If any mutilated Note is surrendered to the Company, the Company shall execute and deliver in exchange therefor a new Note of the same principal amount and bearing a number not contemporaneously outstanding.

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If there shall be delivered to the Company (a) evidence to its satisfaction of the destruction, loss or theft of any Note and (b) such security or indemnity as may be required by it to save each of it and any agent harmless, then, in the absence of notice that such Note has been acquired by a bona fide purchaser, the Company shall execute and deliver, in lieu of any such destroyed, lost or stolen Note, a new Note of a like principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Note, pay such Note.

Upon the issuance of any new Note pursuant to this Section 9.8, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

Every new Note issued pursuant to this Section 9.8 in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section 9.8 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

SECTION 9.9 Persons Deemed Owners. Prior to due presentment of a Note for registration of transfer, the Company and any agent of the Company may treat the person in whose name such Note is registered as the owner of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not such Note be overdue and neither the Company nor any agent of the Company shall be affected by notice to the contrary.

SECTION 9.10 Cancellation. All Notes surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any person other than the Company, be delivered to the Company and shall be promptly canceled by it. The Company shall cancel any Notes previously issued and delivered hereunder which the Company may have reacquired.

SECTION 9.11 Home Office Payment. So long as any Purchaser shall be the holder of any Note, and notwithstanding anything contained in this Agreement or such Note to the contrary, the Company will pay all sums becoming due on such Note for principal and interest by such method and at such address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment in full of any Note, such Purchaser shall surrender such Note for cancellation reasonably promptly after any such request, to the Company at its principal executive office. Prior to any sale or other disposition of any Note held by such Purchaser, such Purchaser will surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 9.6. The Company will afford the benefits of this Section 9.11 to any person that is the direct or indirect transferee of any Note purchased by such Purchaser under this Agreement and that has made the same agreement relating to such Note as such Purchaser made in this Section 9.11.

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ARTICLE 10

OTHER AGREEMENTS

SECTION 10.1 Exclusivity. The Company agrees that it will not, at any time prior to the earlier of the Closing Date or May 15, 2015 (such earlier date, the “**Exclusivity Date**”), without the prior written consent of each of the Purchasers in each instance, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person other than the Purchasers relating to the sale or issuance by the Company of any convertible debt on terms substantially similar to the terms embodied in the Notes (collectively, “**Competing Transactions**”), and shall notify each of the Purchasers promptly of any inquiries of third parties received prior to the Exclusivity Date by the Company with respect to a Competing Transaction. In the event that the Company breaches the foregoing obligation and negotiates a Competing Transaction on or prior to the Exclusivity Date without providing the Purchasers an opportunity to participate pro rata therein, then the Company shall upon the closing of such Competing Transaction pay to each Purchaser its proportionate share of \$500,000 as liquidated damages, which the Company hereby acknowledges is a reasonable amount of liquidated damages in light of the totality of the circumstances.

SECTION 10.2 Board of Directors of the Company. Each Purchaser hereby covenants and agrees, during the period commencing on the Closing Date and ending on the third anniversary thereof, to vote all Conversion Shares, if any, then owned by it for each of the Company’s nominees for election to the Company’s Board of Directors, and further covenants and agrees not to nominate any other candidate for election to the Company’s Board of Directors at any time within such three (3) year period, provided that these covenants and agreements shall not be binding on such Purchaser at any time that an Event of Default has occurred and is continuing under the Note(s) held by such Purchaser.

SECTION 10.3 Section 13 Filings by Purchasers. Each Purchaser hereby covenants and agrees that, during the period that it is a Noteholder and/or the beneficial owner of Conversion Shares, it will accurately report all shares of the Common Stock beneficially owned by it (as determined in accordance with Rule 13d-3 promulgated under the Exchange Act) on the Commission’s Form 13D or Form 13G, as applicable, pursuant to the requirements of Rule 13d-1 promulgated under the Exchange Act, and on such amendments thereto as are required pursuant to Rule 13d-2 promulgated under the Exchange Act.

SECTION 10.4 Covering Open Positions with Registered Conversion Shares. Each Purchaser hereby covenants and agrees that neither it nor any of its Affiliates that it Controls will have an open position (e.g., short sale) in the Common Stock prior to any Registration Statement covering Conversion Shares held by such Purchaser being declared effective by the Commission, with the intent of covering such open position with Common Stock being registered pursuant to such Registration Statement. Each Purchaser hereby acknowledges and understands that the Commission has taken the position that such an open position might constitute a violation of Section 5 of the Securities Act.

SECTION 10.5 Compliance with Securities Laws. Each Purchaser hereby covenants and agrees that it will at all times be in compliance with any and all applicable federal and state securities and other laws, statutes and regulations regarding its ownership, and/or any sale, transfer or hypothecation by it, of the Notes and the Conversion Shares, including, but not limited to, those applicable rules and regulations promulgated by the Commission, FINRA and any exchange on which the Common Stock is listed.

SECTION 10.6 Subordination Agreements. The Noteholders agree to execute any subordination agreement(s) the Company and the holders of such Senior Indebtedness may reasonably request to subordinate all of the Notes to any Senior Indebtedness described in Section 7.1(a) incurred by the Company after the Closing Date.

ARTICLE 11

MISCELLANEOUS

SECTION 11.1 Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier or email as follows:

- (i) If to the Company at:
Impac Mortgage Holdings, Inc.
19500 Jamboree Road
Irvine, California 92612
Attention: General Counsel
Telecopier No.: (949) 475-3942
Email: rmorrison@impaccompanies.com

with a copy to (which shall not constitute notice):

Manatt, Phelps & Phillips, LLP
695 Town Center Drive, 14th Floor
Costa Mesa, California 92626
Attention: Thomas Poletti
Telecopier No.: (714) 371-2501
Email: tpoletti@manatt.com

or at such other address as the Company shall have specified to the Noteholders in writing.

- (ii) If to a Purchaser:

To such Purchaser at the address specified for such communications in Schedule A hereto (or at such other address as such Purchaser shall have specified to the Company in writing), with a copy to (which shall not constitute notice):

or at such other address as such Purchaser shall have specified to the Company in writing.

- (iii) If to any other Noteholder:

To such Noteholder at the address of such Noteholder appearing in the Security Register or such other address as such other Noteholder shall have specified to the Company or the Company in writing.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient), and notices sent by email shall be deemed to have been given when the recipient thereof shall have confirmed receipt thereof.

SECTION 11.2 Waivers; Amendment.

(a) No failure or delay by any Noteholder in exercising any right or power hereunder or under any other Financing Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of each Noteholder hereunder and under the other Financing Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Financing Document or consent to any departure by the Company therefrom shall in any event be effective unless the same shall be permitted by Section 11.2(b), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(b) This Agreement and the Notes may be amended, and the observance of any term hereof and thereof may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders; provided, however, that no such amendment or waiver may, without the prior written consent of each Noteholder affected thereby (or each Purchaser if prior to the Closing Date) (i) subject any Noteholder to any additional obligation, (ii) reduce the principal of or change the rate of interest on any Note, (iii) postpone the date fixed for any payment of principal of or interest on any Note, (iv) change the percentage of the aggregate principal amount of the Notes the Noteholders of which shall be required to consent or take any other action under this Section 11.2(b) or any other provision of this Agreement or any Note, (v) impair the right of any Noteholder to receive payment of principal and interest on such Noteholder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Noteholder's Notes, (vi) adversely affect the ranking of the Notes, or (vii) change the currency in which amounts due under the Notes are payable. No amendment or waiver of this Agreement will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or thereby impair any right consequent thereon. As used herein, the term this "Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

SECTION 11.3 Expenses; Indemnity.

(a) Expenses. The Company agrees to pay, promptly upon demand:

(i) upon and at the Closing, (x) all reasonable out-of-pocket costs and expenses incurred by the Purchasers, including the reasonable fees, charges and disbursements of Advisors for the Purchasers in connection with the preparation, execution and delivery of the Financing Documents and relating to any actual or proposed amendment, supplement or waiver of any of the Financing Documents, up to a maximum of \$125,000, and (y) an underwriting fee relating to the Transactions payable to Plus Four PE, LLC, an affiliate of Plus Four Private Equities, LP, in the amount of \$50,000; in the event that this Agreement is terminated by either the Company or the Purchasers pursuant to the provisions of Section 5.2 hereof, the Company shall be responsible for all such costs and expenses (excluding for this purpose the underwriting fee) up to a maximum amount of \$30,000, with the full amount of such costs and expenses (up to such maximum) due and payable immediately upon such termination; and

(ii) all documentary and similar taxes and charges in respect of the Financing Documents.

For purposes of this Agreement, "**Advisors**" shall mean legal counsel (including local counsel), auditors, accountants, consultants, appraisers or other advisors.

(b) Issuer Indemnification. The Company agrees to indemnify the Purchasers and the Noteholders, each of their Affiliates, and each of their respective partners, controlling persons, directors, officers, trustees, employees, Advisors and agents (each such person being called a "**Purchaser Indemnitee**") against, and to hold each Purchaser Indemnitee harmless from, any and all losses, claims, damages (other than special, indirect, consequential or punitive damages), liabilities, penalties, judgments, suits and related reasonable out-of-pocket expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Purchaser Indemnitee arising out of, in any way connected with, or as a result of (i) the execution, delivery or performance by the Company of the Financing Documents, (ii) any actual or proposed use of the proceeds of the Notes, (iii) any actual or alleged presence or Release or threatened Release of Hazardous Materials, on, at, under or from any property owned, leased or operated by the Company or any of its Subsidiaries at any time, or any Environmental Claim related in any way to the Company or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory; provided that such indemnity shall not, as to any Purchaser Indemnitee, be available to the extent that such losses, claims, damages, liabilities, penalties, judgments, suits or related expenses are determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted (x) from a material breach by such Purchaser Indemnitee of its obligations under the Financing Documents, or (y) primarily from the gross negligence or willful misconduct of such Purchaser Indemnitee or its agents or representatives. No Purchaser Indemnitee referred to in this paragraph (b) shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Financing Documents or the transactions contemplated hereby or thereby.

(c) Purchaser Indemnification. Each Purchaser agrees severally, and not jointly with any other Purchasers, to indemnify the Company and each of its Affiliates, and each of their respective partners, controlling persons, directors, officers, trustees, employees, Advisors and agents (each such person being called an "**Issuer Indemnitee**") against, and to hold each Issuer Indemnitee harmless from, any and all losses, claims, damages (other than special, indirect, consequential or punitive damages), liabilities, penalties, judgments, suits and related reasonable out-of-pocket expenses, including reasonable

counsel fees, charges and disbursements, incurred by or asserted against any Issuer Indemnitee arising out of, in any way connected with, or as a result of (i) any material breach of the representations, warranties, covenants or agreements of such Purchaser set forth herein, or (ii) any actual or prospective claim, litigation, investigation or proceeding relating to any such breach, whether based on contract, tort or any other theory; provided that such indemnity shall not, as to any Issuer Indemnitee, be available to the extent that such losses, claims, damages, liabilities, penalties, judgments, suits or related expenses are determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted (x) from a breach by the Company or such Issuer Indemnitee of its obligations under the Financing Documents, or (y) primarily from the gross negligence or willful misconduct of the Company or such Issuer Indemnitee or its agents or representatives. No Issuer Indemnitee referred to in this paragraph (c) shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Financing Documents or the transactions contemplated hereby or thereby.

SECTION 11.4 Successors and Assigns; Third Party Beneficiaries. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns (including, without limitation, each subsequent holder of Notes) permitted hereby, provided that the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Required Noteholders (and any attempted such assignment or

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transfer by the Company without such consent shall be null and void). Nothing in this Agreement, express or implied, shall be construed to confer upon any person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the other Purchaser Indemnitees and Issuer Indemnitees and (as to Section 11.3(a)(i)(y) only) Plus Four PE, LLC) any legal or equitable right, remedy or claim under or by reason of this Agreement.

SECTION 11.5 Survival of Agreement. All covenants, agreements, representations and warranties made by the Company in the Financing Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Financing Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Financing Documents and the issuance of the Notes, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Purchasers or the Noteholders may have had notice or knowledge of any Default or incorrect representation or warranty at the time any purchase of the Notes is made hereunder, and shall continue in full force and effect as long as the Notes or any fee or any other amount payable under this Agreement or any other Financing Document is outstanding and unpaid. The provisions of Section 11.3 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment or conversion of the Notes, the payment of the Obligations or the termination of this Agreement or any provision hereof.

SECTION 11.6 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Financing Documents constitute the entire contract among the parties relating to the subject matter hereof and thereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof, including, without limitation, that certain Summary of Terms, dated April 27, 2015, entered into by the Company and Plus Four Private Equities, LP. This Agreement shall become effective when it shall have been executed by the Company and each of the Purchasers and when the Company and each of the Purchasers shall have received executed counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and, to the extent provided herein, their respective successors and assigns permitted hereunder. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be as effective as delivery of a manually executed counterpart of this Agreement.

SECTION 11.7 Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 11.8 Governing Law; Jurisdiction; Consent to Service of Process.

(a) Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of California, without regard to conflicts of law principles that would require the application of the laws of another jurisdiction.

(b) Submission to Jurisdiction. The Company hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the courts of the State of California sitting in Orange County and of the United States District Court of the Central District of California, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Financing Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby

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irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such California State courts or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Financing Document shall affect any right that the Purchasers or any Noteholder may otherwise have to bring any action or proceeding relating to this Agreement or any other Financing Document against the Company or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. The Company hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Financing Document in any court referred to in Section 11.8(b). Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party to this Agreement irrevocably consents to service of process in any action or proceeding arising out of or relating to any Financing Document, in the manner provided for notices (other than telecopy and email) in Section 11.1. Nothing in this Agreement or any other Financing Document will affect the right of any party to this Agreement to serve process in any other manner permitted by applicable law.

SECTION 11.9 Waiver of Jury Trial. The Company hereby waives, to the fullest extent permitted by applicable Requirements of Law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this Agreement, any other Financing Document or the transactions contemplated hereby (whether based on contract, tort or any other theory). Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section.

SECTION 11.10 Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 11.11 Confidentiality. Each Purchaser and Noteholder agrees to maintain the confidentiality of, and to not use, the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees and agents, including accountants, legal counsel and other Advisors (it being understood that the persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential pursuant to the terms hereof), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable Requirements of Law or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or under any other Financing Document or any suit, action or proceeding relating to this Agreement or any other Financing Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section 11.11, to (i) any transferee of, or any prospective transferee of, any Notes, (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Company or any Note, or (iii) any rating agency for the purpose of obtaining a credit rating applicable to the Notes or the Company, (g) with the consent of the Company, (h) to the extent such Information (x) is publicly available at the time of disclosure or becomes publicly available other than as a result of a breach of this Section 11.11 or (y) becomes available to such Purchaser or Noteholder on a nonconfidential basis from a source other than the Company

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or any of its Subsidiaries; provided that such source is not known by such disclosing party to be bound by confidentiality obligations to the Company or (i) to a person that is an investor or prospective investor in such Noteholder or an affiliated investment vehicle that agrees that its access to information regarding the Company and its Subsidiaries and the Notes is solely for purposes of evaluating an investment in such Noteholder or affiliated investment vehicle. For the purposes of this Section 11.11, "**Information**" shall mean all information received from the Company or any of its Subsidiaries relating to the Company or any of its Subsidiaries or their business, that is clearly identified or reasonably identifiable at the time of delivery as confidential, other than any such information that is available to the Purchasers or any Noteholder on a nonconfidential basis prior to disclosure by the Company or any of its Subsidiaries. Any person required to maintain the confidentiality of Information as provided in this Section 11.11 shall be considered to have complied with its obligation to do so if such person has exercised the same degree of reasonable care to maintain the confidentiality of such Information as such person would reasonably accord to its own confidential information. The Company agrees not to disclose the existence or terms of this Agreement to any person other than the Company's accountants and attorneys prior to the Closing Date, without the prior written consent of each of the Purchasers, except to the extent required by applicable securities laws, rules and regulations.

SECTION 11.12 Obligations Absolute. To the fullest extent permitted by applicable Requirements of Law, all obligations of the Company hereunder shall be absolute and unconditional irrespective of:

- (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Company or any Subsidiary;
 - (b) any lack of validity or enforceability of any Financing Document or any other agreement or instrument relating thereto against the Company (other than based upon a failure of consideration with respect thereto);
 - (c) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from any Financing Document or any other agreement or instrument relating thereto, as permitted by the terms thereof;
 - (d) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to any departure from any guarantee, for all or any of the Obligations;
 - (e) any exercise or non-exercise, or any waiver, of any right, remedy, power or privilege under or in respect hereof or any Financing Document;
- or
- (f) any other circumstances which might otherwise constitute a defense available to, or a discharge of, the Company, other than as provided in any Financing Document.

SECTION 11.13 Absence of Personal Liability. Each of the Purchasers and the Company hereby expressly acknowledge and agree that with respect to each officers' certificate and each other certificate required to be delivered pursuant to or in connection with this Agreement or any other Financing Document, the person signing such certificate shall be deemed in so acting to be acting solely in a representative capacity on behalf of the applicable certifying party, and no person signing such certificate shall have any personal civil liability with respect thereto or as a consequence thereof, except for actions by such person involving fraud or willful misconduct.

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SECTION 11.14 Acknowledgment. The Company hereby expressly (i) acknowledges the terms of this Agreement, (ii) ratifies and affirms its obligations under the other Financing Documents and (iii) acknowledges its continued liability under all such Financing Documents in accordance with the respective terms thereof.

SECTION 11.15 Registration Rights. The holders of the Conversion Shares shall have registration rights with respect to such shares of Common Stock on the terms set forth in the Registration Rights Agreement, all of the terms and conditions of which are hereby fully incorporated into this Agreement by this reference.

SECTION 11.16 Interest Rate Limitation. Notwithstanding anything herein or in any Note to the contrary, if at any time the interest rate applicable to any Note, together with all fees, charges and other amounts which are treated as interest on such Note under applicable Requirements of Law (collectively, the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) which may be contracted for, charged, taken, received or reserved by the Noteholder holding such Note in accordance with applicable Requirements of Law, the rate of interest payable in respect of such Note hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate.

SECTION 11.17 Independent Nature of Purchasers’ Obligations and Rights. The obligations of each Purchaser under this Agreement and the other Financing Documents are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Financing Document. Nothing contained herein or in any other Financing Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as, and the Company acknowledges that the Purchasers do not so constitute, a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Purchasers are in any way acting in concert or as a group or entity with respect to such obligations or the transactions contemplated by the Financing Documents or any matters, and the Company acknowledges that the Purchasers are not acting in concert or as a group, and the Company shall not assert any such claim, with respect to such obligations or the transactions contemplated by the Financing Documents. The decision of each Purchaser to purchase a Note or Notes pursuant to the Financing Documents has been made by such Purchaser independently of any other Purchaser. Each Purchaser acknowledges that no other Purchaser has acted as agent for such Purchaser in connection with such Purchaser making its investment hereunder and that no other Purchaser will be acting as agent of such Purchaser in connection with the holding or monitoring of such Purchaser’s investment in the Notes or enforcing its rights under the Financing Documents. The Company and each Purchaser confirm that each Purchaser has independently participated with the Company in the negotiation of the transactions contemplated hereby with the advice of its own legal counsel and other Advisors. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of any other Financing Document, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. The use of a single agreement to effectuate the purchase and sale of the Notes contemplated hereby was solely in the control of the Company, not the action or decision of any Purchaser, and was done solely for the convenience of the Company and not because it was required or requested to do so by any Purchaser. It is expressly understood and agreed that each provision contained in this Agreement and in each other Financing Document is between the Company and a Purchaser, solely, and not among the Company and the Purchasers collectively, and not between and among the Purchasers.

[Signature Pages to Note Purchase Agreement Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Note Purchase Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

COMPANY

IMPAC MORTGAGE HOLDINGS, INC.

By: /s/ William S. Ashmore
Name: William S. Ashmore
Title: President

Signature Page to Note Purchase Agreement

PURCHASERS

RHP TRUST, Dated May 31, 2011

By: /s/ Richard H. Pickup
Name: Richard H. Pickup
Its: Trustee

VINTAGE TRUST II, Dated July 19, 2007

By: /s/ Todd Martin Pickup
Name: Todd Martin Pickup
Its: Trustee

By: /s/ Devon Renee Martin
Name: Devon Renee Martin
Its: Trustee

**LENAWEE TRUST,
Dated December 30, 1992, as reformed and restated**

By: /s/ Gregory A. Busch
Name: Gregory A. Busch
Its: Trustee

By: /s/ Jared Jones
Name: Jared Jones
Its: Trustee

Signature Page to Note Purchase Agreement

**TREMBLE TRUST,
Dated September 18, 2013**

By: /s/ Stephan L. Busch
Name: Stephan L. Busch
Its: Trustee

**TRINITAS TRUST,
Dated May 31, 2005**

By: /s/ Gregory A. Busch
Name: Gregory A. Busch
Its: Trustee

Signature Page to Note Purchase Agreement

SCHEDULE A

INFORMATION RELATING TO THE PURCHASERS OF THE NOTES

Purchaser	Principal Amount of Notes to be Purchased
RHP Trust, Dated May 31, 2011 2532 DuPont Drive Irvine, California 92612 Attn: Richard H. Pickup, Trustee	\$ 13,750,000.00
Vintage Trust II, Dated July 19, 2007 2532 DuPont Drive Irvine, California 92612 Attn: Todd M. Pickup, Trustee	\$ 10,000,000.00
Gregory A. Busch and Jared Jones, or successor Trustee(s), as Trustees of the Lenawee Trust, Dated December 30, 1992, as reformed and restated	\$ 850,000.00
Stephan L. Busch, Trustee of the Tremble Trust, Dated September 18, 2013	\$ 200,000.00
Gregory A. Busch, Trustee of the Trinitas Trust, Dated May 31, 2005	\$ 200,000.00

DISCLOSURE SCHEDULE

SCHEDULE 3.1

Organization; Powers

SCHEDULE 3.7(a)

Capitalization

- On April 1, 2015, the Company issued 494,017 shares of common stock to CashCall Mortgage.
 - Since December 31, 2014, the following shares have been issued pursuant to the exercise of stock options: 106,744 shares
 - As of May 5, 2015, the Company had 10,189,293 shares outstanding
-

SCHEDULE 3.7(b)

Nature of Subsidiaries of the Company

See attached organizational chart.

SCHEDULE 3.8

Litigation

As part of a review of the overall compensation and retention structure of the executive management team, the Company discovered that a retention plan created three years ago to retain key executives included an aspect associated with the financing of premiums on a life insurance benefit that may be inconsistent with the requirements of the Sarbanes-Oxley Act. Therefore, the Company is taking all steps necessary to insure that the retention plan is in compliance with the Sarbanes-Oxley Act.

Leasehold at 19500 Jamboree Rd., Irvine, CA 92612. We are attempting to negotiate with our landlord for our premises at 19500 Jamboree for rent relief. As a result we have not paid parking charges of about \$1.1 million and another \$100,000 in charges he contends are due for property improvements. Our lease calls for the landlord to construct an amphitheater on the campus for our use, which was never built, and for a driveway up to the front of our building which is lost due to landlord property renovations. As such, we have countered that the landlord is in breach. Of the approximately \$1.2 million, the landlord has agreed to waive \$900,000 if we drop our claims for breach and agree to pay the balance over time. We are demanding that he forgive the full \$1.2 million. Negotiations are ongoing.

SCHEDULE 3.9

Agreements

See Schedule 3.8.

SCHEDULE 3.10

Absence of Changes

See Schedule 3.8.

SCHEDULE 7.1(a) & 7.1(b)

Senior Indebtedness

Loan Agreement to be entered into with Macquarie Alpine Inc. for a term loan and credit facility of up to \$50.0 million, as may be amended or supplemented from time to time, including any increase in the maximum term loan and credit facility amount.

Various Equipment Leases, including office equipment, IT equipment and copiers, having an outstanding balance of \$1,884,902 as of March 31, 2015.

SCHEDULE 7.2(c)

Permitted Liens

The Company has pledged a portion of the collateral needed to finance premiums from a third party lender for certain life insurance policies.

Liens securing indebtedness of the Company which is outstanding on the Closing Date and described in the SEC Reports and the financial statements included in the SEC Reports.

See attached.

EXHIBIT A

FORM OF CONVERTIBLE PROMISSORY NOTE DUE 2020

EXHIBIT B

REGISTRATION RIGHTS AGREEMENT

1. **Definitions.** As used herein, the following terms shall have the following meanings.

“**Agreement**” means the Note Purchase Agreement to which this Registration Rights Agreement is an Exhibit.

“**Company Registrable Securities**” means newly issued shares of the Common Stock to be offered pursuant to a registration statement under the Securities Act.

“**Person**” means an individual, a partnership, a corporation, an association, a joint stock company, a limited liability company, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

“**Registrable Securities**” means the Conversion Shares (including the shares of Common Stock or other capital stock of the Company, if any, issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, such Conversion Shares) owned by any Purchaser, or by any Person who acquires such Conversion Shares from said Purchaser and is a permitted assignee thereof under Section 10 hereof, until (x) a registration statement covering such shares of Common Stock has been declared effective by the SEC and such securities have been disposed of pursuant to such effective registration statement, or (y) all such securities may be sold pursuant to Rule 144 within a three (3) month period. For purposes of this Registration Rights Agreement, a Person will be deemed to be a holder of Registrable Securities whenever such Person has the right to acquire directly or indirectly such Registrable Securities (upon conversion or otherwise, but disregarding any restrictions or limitations upon the exercise of such right), whether or not such acquisition has actually been effected.

“**Registration Expenses**” means all expenses of the Company incident to its performance of or compliance with this Registration Rights Agreement, including, without limitation: (i) all registration and filing fees; (ii) fees and expenses of its counsel relating to compliance with securities or blue sky laws (including fees and expenses of counsel in connection with blue sky qualifications of the securities registered); (iii) printing, messenger and delivery expenses; (iv) internal expenses of the Company (including all salaries and expenses of its officers and employees performing legal or accounting duties); (v) fees and expenses of counsel for the Company (but not of separate counsel for the selling stockholders) and fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters); (vi) fees and expenses of any special experts retained by the Company in connection with such registration; (vii) fees and expenses in connection with any review of underwriting arrangements by the Financial Industry Regulatory Authority; and (viii) fees and expenses of underwriters customarily paid by issuers or sellers of securities (but not including any underwriting discounts or commissions attributable to the sale of Registrable Securities).

“**Rule 144**” means Rule 144 promulgated under the Securities Act (or any similar rule then in force).

“**SEC**” means the Securities and Exchange Commission.

Unless otherwise defined in this Registration Rights Agreement, all capitalized terms used in this Registration Rights Agreement shall have the meanings respectively ascribed to them in the Agreement.

2. **Demand Registrations.**

(a) **Request for Registration.** Subject to Section 2(b) and 2(c) hereof, at any time and from time to time after January 1, 2016, the holders of a majority of the Registrable Securities may request registration, whether underwritten or otherwise, under the Securities Act of all or part of their Registrable Securities on Form S-1 or any similar long form registration (“**Long Form Registrations**”) or on Form S-3 or any similar short form registration (“**Short Form Registrations**”), if available. Each request for a Long Form Registration or Short Form Registration shall specify the approximate number of

Registrable Securities requested to be registered and the anticipated per share price range for such offering. Within ten (10) days after receipt of any such request for a Long Form Registration or Short Form Registration, the Company will give written notice of such requested registration to all other holders of Registrable Securities and will include (subject to the provisions of this Registration Rights Agreement) in such registration, all Registrable Securities with respect to which the Company has received written requests for inclusion therein within twenty (20) days after the receipt of the Company's notice. The Company shall, once during the 12 month period commencing on the date on which a request for registration is made under this Section 2(a), have the right to delay filing the registration statement with respect thereto for a period of not more than 90 days; provided the Company shall have furnished to holders of the Registrable Securities requesting such registration statement a certificate signed by the Chairman of the Board of the Company stating that in the good faith judgment of the Board it would be materially detrimental to the Company and its stockholders for such registration statement to be filed, become effective or to remain effective as long as such registration statement would otherwise be required to remain effective because such filing or effectiveness (x) would materially interfere with a significant acquisition, corporate reorganization or other similar transaction involving the Company, (y) would require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential, or (z) would render the Company unable to comply with requirements under the Securities Act or Exchange Act. All registrations requested pursuant to this Section 2(a) are referred to herein as "**Demand Registrations.**"

(b) Long Form Registrations. The holders of a majority of the Registrable Securities will be entitled to request two (2) Long Form Registrations, in which the Company will pay all Registration Expenses. A registration will not count as the permitted Long Form Registration until it has become effective.

(c) Short Form Registrations. In addition to the Long Form Registrations provided pursuant to Section 2(b) hereof, the holders of a majority of the Registrable Securities will be entitled to request up to a maximum of four (4) Short Form Registrations, in which the Company will pay all Registration Expenses. Demand Registrations will be Short Form Registrations whenever the Company is permitted to use any applicable short form for the offer and sale of securities by selling stockholders in an offering not deemed to be a "primary offering" by the staff of the SEC. For so long as the Company is subject to the reporting requirements of the Exchange Act, the Company will use its commercially reasonable efforts to make Short Form Registrations available for the sale of Registrable Securities.

(d) Priority on Demand Registrations. The Company will not include in any Long Form Registration or Short Form Registration any securities (other than Company Registrable Securities) which are not Registrable Securities without the prior written consent of the holders of at least a majority of the Registrable Securities included in such registration. If a Long Form Registration or a Short Form Registration is an underwritten offering and the managing underwriters advise the Company in writing that in their good faith opinion the inclusion of any other securities in the offering would adversely affect the marketability of the offering, then such other securities shall not be permitted to be included. Additionally, if in connection with such an offering, the managing underwriters advise the Company in writing that in their opinion the number of Registrable Securities and, if permitted hereunder, other securities requested to

be included in such offering exceeds the number of Registrable Securities and other securities, if any, which can be sold therein without adversely affecting the marketability of the offering, the Company will include in such registration (i) first, the Registrable Securities requested to be included in such registration, and (ii) second (x) if no Company Registrable Securities are requested to be included in such registration, the other securities requested to be included in such registration pro rata among the holders of such other securities based on the number of shares of such other securities owned by each such holder, and (y) if Company Registrable Securities are requested to be included in such registration, the number of such other securities and Company Registrable Securities requested to be included in such registration pro rata among Company Registrable Securities and the holders of such other securities based on the number of shares of such other securities and Company Registrable Securities requested to be included therein. Any Persons other than holders of Registrable Securities who participate in Demand Registrations must pay their share of the Registration Expenses incurred in connection therewith.

(e) Selection of Underwriters. The Company shall have the exclusive right to select the underwriter(s) and manager(s) for any Demand Registration that is an underwritten offering; provided that the Company shall use its commercially reasonable efforts to engage a qualified underwriter. The Company in exercising such right in good faith shall be under no obligation to select any Person that is not a broker-dealer with nationally recognized standing as a securities underwriter, and the holders of the Registrable Securities hereby expressly acknowledge that no such Person may be willing to act as an underwriter or manager for any such Demand Registration or, if willing, may not be willing to do so on reasonable and/or standard terms and conditions applicable to such underwritings generally.

3. **Piggyback Registrations.**

(a) Right to Piggyback. If at any time after January 1, 2016 the Company proposes to register any Company Registrable Securities under the Securities Act (other than pursuant to a Demand Registration, and other than pursuant to a registration statement on Form S-8 or S-4 or any similar form or in connection with a registration the primary purpose of which is to register debt securities) and the registration form to be used may be used for the registration of Registrable Securities (a "**Piggyback Registration**"), the Company will give prompt written notice to all holders of Registrable Securities of its intention to effect such a registration and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within twenty (20) days after the receipt of the Company's notice; provided that (y) if such registration involves an underwritten public offering, all holders of Registrable Securities must sell their Registrable Securities included therein to the underwriters on the same terms and conditions as applicable to the Company and the other holders of Registrable Securities included therein and (z) if, at any time after giving written notice of its intention to register any Common Stock pursuant to this Section 3(a) and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such Common Stock, the Company shall give written notice thereof to all such holders of Registrable Securities and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration.

(b) Priority on Underwritten Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company, the Company will include in such registration all Registrable Securities requested to be included in such registration; provided, that if the managing underwriters advise the Company in writing that in their good faith opinion the inclusion of any Registrable Securities in such offering would adversely affect the marketability of the offering, then such Registrable Securities shall not be permitted to be included; and provided further, that if in connection with such offering, the managing underwriters advise the Company in writing that in their opinion the number of

securities requested to be included in such registration exceeds the number which can be sold in such offering without adversely affecting the marketability of the offering, the Company will include in such registration (i) first, the securities the Company proposes to sell, (ii) second, the Registrable Securities requested to be included in such registration pro rata among the holders of such Registrable Securities on the basis of the number of shares of Registrable Securities owned by each such holder, and (iii) third, at the Company's discretion, other securities, if any, requested to be included in such registration.

4. **Holdback Agreements.** Each holder of Registrable Securities hereby agrees not to effect any public sale or distribution (including sales pursuant to Rule 144) of equity securities of the Company, or any securities convertible into or exchangeable or exercisable for such securities, during the ten (10) days prior to and during not more than a ninety (90) day period beginning on the effective date of any Demand Registration or Piggyback Registration that is an underwritten offering in which Registrable Securities are included (except as part of such underwritten registration), to the extent requested by the managing underwriters of such offering; provided that each executive officer and director of the Company and each other holder of at least 5% (on a fully diluted basis) of Common Stock, or any securities convertible or exercisable into or exchangeable for Common Stock, agrees to similar restrictions. If the underwriters managing the registered public offering waive any such restriction for the benefit of any holder of Registrable Securities, they will also grant an equivalent waiver to each other holder of Registrable Securities, whether or not participating in such offering.

5. **Registration Procedures.** Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to Section 2 or 3 hereof, the Company will, subject to the provisions hereof, use its reasonable best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto the Company will as expeditiously as possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its reasonable best efforts to cause such registration statement to become effective (provided that before filing a registration statement or prospectus or any amendments or supplements thereto, the Company will furnish to the counsel selected by the holders of a majority of the Registrable Securities covered by such registration statement copies of all such documents proposed to be filed);

(b) OMITTED.

(c) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for a period of twelve (12) months (or such shorter period during which all Registrable Securities covered thereby have been sold thereunder or until such time as all Registrable Securities may be sold under Rule 144 in a three month period) and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(d) furnish to each seller of Registrable Securities such number of copies of such registration statement, each amendment and supplement thereto, the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as such seller may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such seller;

(e) use its reasonable best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller (provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subsection, (ii) subject itself to taxation in any such jurisdiction, or (iii) consent to general service of process (i.e., service of process which is not limited solely to securities law violations) in any such jurisdiction);

(f) notify each seller of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein, in the context in which they were made, not misleading, and, at the request of any such seller, the Company will promptly prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein, in the context in which they were made, not misleading;

(g) cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed;

(h) provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of such registration statement;

(i) in the case of underwritten offerings, enter into underwriting agreements and other customary agreements in customary form with the managing underwriter(s) selected by the Company and take all such other actions as the underwriters may reasonably request in order to expedite or facilitate the disposition of such Registrable Securities ;

(j) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement;

(k) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC and all applicable state securities regulatory bodies, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months beginning with the first day of the Company's first full calendar quarter after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 promulgated thereunder;

(l) permit any holder of Registrable Securities which holder, in the reasonable judgment of counsel to such holder, might be deemed to be an underwriter or a controlling person of the Company, to review drafts of such registration statement prior to filing and to require the insertion therein

of material, furnished to the Company in writing, which in the reasonable judgment of counsel to such holder and counsel to the Company should be included;

(m) in the event of the issuance of any stop order suspending the effectiveness of a registration statement, or of any order suspending or preventing the use of any related prospectus or suspending the qualification of any common stock included in such registration statement for sale in any jurisdiction, the Company will use its reasonable best efforts promptly to obtain the withdrawal of such order;

(n) use its reasonable best efforts to cause such Registrable Securities covered by such registration statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the sellers thereof to consummate the disposition of such Registrable Securities; and

(o) in the case of an underwritten offering, obtain a "cold comfort" letter from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by "cold comfort" letters as the underwriters may reasonably request.

6. Registration Expenses. Except as otherwise expressly set forth herein, all Registration Expenses incident to the Company's performance or compliance with this Registration Rights Agreement shall be borne by the Company.

7. Indemnification.

(a) The Company agrees to indemnify, to the extent permitted by law, each holder of Registrable Securities, its officers and directors, and each Person who controls such holder (within the meaning of the Securities Act) against all losses, claims, damages, liabilities and expenses arising out of or based upon any untrue or alleged untrue statement of material fact contained in any registration statement, prospectus or preliminary prospectus or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein, in the context in which they were made, not misleading, and shall reimburse such holder, director, officer or controlling person for any legal or other expenses reasonably incurred by such holder, director, officer or controlling person in connection with the investigation or defense of such loss, claim, damage, liability or expense, except insofar as the same are caused by or contained in any information furnished in writing to the Company by such holder expressly for use therein or by such holder's failure to deliver a copy of the registration statement or prospectus or any amendment or supplements thereto after the Company has timely furnished such holder with a sufficient number of copies of the same (a "**Delivery Failure**"). In connection with an underwritten offering, the Company will indemnify the underwriters thereof, their officers and directors and each Person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the holders of Registrable Securities.

(b) In connection with any registration statement in which a holder of Registrable Securities is participating, each such holder will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any such registration statement or prospectus and, to the extent permitted by law, will indemnify the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue or alleged untrue statement of material fact contained in the registration statement, prospectus or preliminary prospectus or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein, in the context in which they were made, not misleading, but only to the extent that such untrue statement or omission relates to such holder and is contained in any information or affidavit so furnished in writing by such holder, or from such holder's Delivery Failure; provided, that the obligation of each such holder to indemnify will be several and not joint and will be limited to the net amount of proceeds received by such holder from the sale of Registrable Securities pursuant to such registration statement.

(c) Any Person entitled to indemnification hereunder will (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification; provided, that the failure to notify the indemnifying party shall not relieve it from any liability to the indemnified party hereunder except to the extent the indemnifying party is actually prejudiced thereby, and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party will not be subject to any liability for any settlement made by the indemnified party without its consent (but such consent will not be unreasonably withheld). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

(d) The indemnification provided hereunder will remain in full force and effect regardless of any investigation made by or on behalf of the indemnified party or any officer, director or controlling Person of such indemnified party and will survive the transfer of securities. The Company also agrees to make such provisions, as are reasonably requested by any indemnified party, for contribution to such party in the event the Company's indemnification is unavailable for any reason.

8. Participation in Underwritten Registrations. No Person may participate in any registration hereunder which is underwritten unless such Person (a) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Person or Persons entitled hereunder to approve such arrangements and (b) completes and executes all customary questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

9. Rule 144 Reporting. With a view to making available to the holders of Registrable Securities the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its reasonable best efforts to:

(a) make and keep current public information available, within the meaning of Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times that it is subject to the reporting requirements of the Exchange Act;

(b) file with the SEC, in a timely manner, all reports and other documents required of the Company under the Securities Act and Exchange Act (at all times that it is subject to such reporting requirements); and

(c) so long as any party hereto owns any Registrable Securities, furnish to such Person forthwith upon its request, a written statement by the Company as to its compliance with the reporting requirements of said Rule 144, the Securities Act and the Exchange Act (at any time that it is subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company filed with the SEC; and such other reports and documents as such Person may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

10. Transferability of Registration Rights. The rights conferred on the Purchasers, as holders of Registrable Securities pursuant to the terms of this Registration Rights Agreement, may be assigned by any such holder, in connection with the sale or other transfer by such holder of shares of Common Stock constituting Registrable Securities (the “**Transferred Registrable Securities**”), to any purchaser or transferee in such sale or other transfer (“**Transferee**”) who either (i) is a partner, equity interest holder or employee of said holder, or (ii) purchases at least 100,000 shares of Transferred Registrable Securities (as proportionally adjusted for stock splits, reverse stock splits and the like) and is not a competitor of the Company in a material line of the Company’s business; provided, (x) that the sale or other transfer by such holder to the Transferee is permitted by the provisions of Section 9.7 of the Agreement; (y) that the assignee shall automatically become subject to all of the burdens and obligations imposed on the holders of Registrable Securities by the terms of this Registration Rights Agreement; and (z) that the Company is given written notice by the assignor-holder at the time of or within a reasonable time after such assignment, stating the name and address of the assignee and identifying the Transferred Registrable Securities with respect to which such registration rights are being assigned.

11. No Third Party Beneficiaries. No Person, other than signatories to the Agreement, and the permitted assignees of such signatories described in Section 10 hereof, shall have any rights under this Registration Rights Agreement.

CONVERTIBLE PROMISSORY NOTE

THE SECURITY REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR QUALIFIED UNDER ANY STATE SECURITIES LAWS AND MAY NOT BE TRANSFERRED, SOLD OR OTHERWISE DISPOSED OF EXCEPT WHILE A REGISTRATION STATEMENT IS IN EFFECT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. THE HOLDER OF THIS SECURITY IS SUBJECT TO THE TERMS OF THE NOTE PURCHASE AGREEMENT, DATED AS OF MAY 8, 2015 (THE “PURCHASE AGREEMENT”), AMONG IMPAC MORTGAGE HOLDINGS, INC., A MARYLAND CORPORATION (THE “COMPANY”), AND THE PURCHASERS NAMED THEREIN. A COPY OF SUCH PURCHASE AGREEMENT IS AVAILABLE AT THE OFFICES OF THE COMPANY.

CONVERTIBLE PROMISSORY NOTE DUE 2020

No. _____ \$ _____

Impac Mortgage Holdings, Inc., a corporation duly organized and existing under the laws of Maryland (herein called the “**Company**,” which term includes any successor person under the Purchase Agreement), for value received, hereby promises to pay to [_____], or registered assigns, the principal sum of [_____] DOLLARS (\$[_____]) on or before May 9, 2020 (the “**Stated Maturity Date**”) in accordance with the terms of this Note.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated: May 8, 2015

IMPAC MORTGAGE HOLDINGS, INC.

By: _____
Name: _____
Title: _____

Attest:

By: _____
Title: _____

1. General. This Note is one of a duly authorized issue of Notes of the Company designated as its Convertible Promissory Notes Due 2020 (the “**Notes**”), limited in aggregate principal amount to \$25,000,000, in each case, issued pursuant to the Note Purchase Agreement, dated as of May 8, 2015 (the “**Purchase Agreement**”), among the Company and the Purchasers named therein, to which Purchase Agreement and all amendments thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company and the Noteholders (including both the Purchasers and subsequent holders of the Notes) and of the terms upon which the Notes are, and are to be, issued and delivered.

Payments of principal and interest on this Note shall be made, in accordance with the Purchase Agreement and subject to applicable laws and regulations, by wire transfer in immediately available funds to such account as any holder hereof shall designate by written instructions received by the Company no less than 5 days prior to any applicable Interest Payment Date (as defined *infra*) or other applicable payment date hereunder, which wire instructions shall continue in effect until such time as the holder otherwise notifies the Company or such holder no longer is the registered owner of this Note.

2. Payments of Principal and Interest. The Company promises to pay interest on the outstanding principal amount of this Note from the date of issuance of this Note (or any Predecessor Note), or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly in arrears on March 31, June 30, September 30 and December 31 in each year commencing June 30, 2015 (each, an “**Interest Payment Date**”) and on the Stated Maturity Date, at an interest rate equal to 7.5% per annum until the principal hereof is fully repaid; provided, however, that if any Interest Payment Date falls on a date which is not a Business Day, interest due on such Interest Payment Date shall be paid on the Business Day immediately preceding such Interest Payment Date; provided, further, that such interest payment shall include interest accruing to the calendar day immediately preceding such Interest Payment Date. Principal on this Note shall be due and payable in full on the Stated Maturity Date.

To the extent that the payment of such interest shall be legally enforceable, in the event of any Default on this Note, (x) the interest rate borne by this Note shall immediately increase by, and (y) any principal of, or installment of interest on, this Note which is overdue shall bear interest, in each case, at the rate of 2% per annum in excess of the rate of interest then borne by this Note from the date of such Default until cured or waived.

Interest on this Note shall be computed on the basis of a 360 day year of twelve (12) months each comprised of thirty (30) days.

All interest and principal payable on any Interest Payment Date or other applicable payment date hereunder will, as provided in the Purchase Agreement, be paid to the person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on the “**Regular Record Date**”, which shall be the fifteenth calendar day (whether or not a Business Day) immediately preceding such Interest Payment Date or other applicable payment date. Notwithstanding the foregoing, if this Note is issued after a Regular Record Date and prior to the first Interest Payment Date, the record date for the first Interest Payment Date hereunder shall be the original issue date.

3. Prepayment. This Note may not be prepaid, in whole or in part, without the prior written consent of the holder of this Note, except as expressly permitted by the terms of this Section 3 or by clause (i) of Section 6 of this Note.

(a) Prepayment Right. The Company shall have the right, but not the obligation, to prepay at any time prior to the Stated Maturity Date all, but not less than all, amounts then owing under all of the Notes, subject to the conditions set forth in this Section 3 (the “**Prepayment**”).

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(b) Notice of Prepayment. The Company may exercise the right provided in Section 3(a) hereof by delivering written notice (the “**Prepayment Notice**”) of its election to make the Prepayment, in accordance with the provisions of Section 11.1 of the Purchase Agreement, to the holder of each Note, not less than thirty (30) calendar days prior to the date (which shall be a Business Day) that the Prepayment is to be made (the “**Prepayment Date**”), and further stating therein:

- (i) the Prepayment Date;
- (ii) the total amount, including the Prepayment Premium (as defined below), payable to such holder with respect to said Note on the Prepayment Date in connection with the Prepayment (the “**Total Prepayment Amount**”);
- (iii) that, on the Prepayment Date, the Total Prepayment Amount will become due and payable in full to such holder, as proportionally reduced in the event that all or a portion of the outstanding principal under said Note is the subject of a Conversion (as defined below) noticed or elected as described in Section 3(e); and
- (iv) that said Note is to be surrendered to the Company on the Prepayment Date.

(c) Prepayment Premium. The Company shall pay to the holder of each Note a prepayment premium (the “**Prepayment Premium**”) on the Prepayment Date, as follows: in the event that the Prepayment is effected prior to the expiration of the thirty (30)-month period following the Closing Date, then the Company shall pay to such holder on the Prepayment Date a Prepayment Premium in an amount equal to the entire amount of interest under said Note through the third (3rd) anniversary of the Closing Date that is forgone by such holder as a result of the occurrence of the Prepayment; in the event that the Prepayment is effected after the expiration of such thirty (30)-month period and prior to the Stated Maturity Date, then the Company shall pay to such holder on the Prepayment Date a Prepayment Premium in an amount equal to the entire amount of the interest under said Note that is forgone by such holder as a result of the occurrence of the Prepayment (x) for a period of six (6) months, or, if shorter, (y) for the period commencing on the Prepayment Date and ending on the Stated Maturity Date.

(d) Failure to Effectuate Prepayment. In the event that the Company fails to comply with any of its obligations under this Section 3 in attempting to effectuate a purported Prepayment, the subject Prepayment Notice shall thereupon be deemed null and void ab initio for all purposes hereof, and any sums paid to the holder of this Note in connection with such purported Prepayment shall be promptly returned by such holder to the Company, and, if this Note was surrendered to the Company in connection with such purported Prepayment, the Company shall promptly return this Note to such holder.

(e) Superseding Conversion Notice or Election. In the event that, during the period commencing with the delivery of the Prepayment Notice to the holder of this Note and ending on the day preceding the Prepayment Date, the holder of this Note either delivers a Conversion Notice (as defined below) pursuant to the provisions of Section 5(b) hereof or receives delivery of a Company Conversion Notice (as defined below) pursuant to the provisions of Section 5(d) hereof, or the Electing Holders (as defined below) timely make an election under clause (ii) of Section 6 hereof, then the Prepayment shall be immediately and automatically deemed to apply only to that portion, if any, of the outstanding principal of this Note that is not subject to the Conversion so noticed or elected.

4. OMITTED.

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5. Conversion.

(a) Optional Conversion by Holder. Subject to and in accordance with the provisions of this Section 5, at any time after January 1, 2016 and through to and including the Stated Maturity Date, the holder hereof may elect, in its sole discretion, to effect the conversion of all or any portion of the outstanding principal under this Note into shares of the Common Stock (“**Conversion**”). The number of shares of Common Stock into which the outstanding principal under this Note shall be converted pursuant to this Section 5(a) shall be determined by dividing the amount of such principal the holder hereof has elected to convert by \$21.50 (including as adjusted pursuant to the terms of this Section 5, the “**Conversion Price**”). The Conversion Price, and the number and nature of the securities into which this Note is convertible, are subject to adjustment as provided in Section 5(f) hereof. Upon such Conversion, the entire amount of accrued and unpaid interest (and all other amounts owing) under this Note through the effective date of Conversion shall be immediately due and payable in cash to the holder of this Note, and such date shall thereupon be deemed an Interest Payment Date for purposes of Section 2 hereof.

(b) Manner of Effecting Section 5(a) Conversion. If the holder hereof elects to effect a Conversion pursuant to Section 5(a) hereof, the holder hereof shall deliver, in accordance with the provisions of Section 11.1 of the Purchase Agreement, a duly executed written notice to the Company of such election specifying the amount of principal to be converted (the “**Conversion Notice**”), and in such event the Conversion shall be deemed to have been effected at the close of business on the date such Conversion Notice is given. Upon any Conversion of this Note pursuant to Section 5(a) hereof, the rights of the holder hereof with respect to the outstanding principal thereby converted shall cease, and the holder hereof shall thereupon be deemed to have become the holder of record of the shares of Common Stock (or other securities) into which this Note shall have been converted, provided that, if the holder hereof elects to convert only a portion of the outstanding principal pursuant to Section 5(a) hereof, then the Company will promptly deliver a new note to the holder hereof, on the same terms and conditions as this Note, with respect to the portion of the outstanding principal that is not converted (the “**New Note**”). Concurrently with the delivery of a Conversion Notice, the holder hereof shall surrender this Note to the Company. Promptly upon its receipt of a Conversion Notice, the Company shall (i) deliver to or upon the written order of the holder hereof a certificate or certificates for the number of shares of Common Stock (or other securities) issuable upon such Conversion, (ii) make a cash payment to the holder in respect of any fraction of a share as provided in Section 5(e) hereof and in the amount required pursuant to the last sentence of Section 5(a) hereof, and (iii) if applicable, deliver a New Note to the holder hereof as set forth in this Section 5(b).

(c) Optional Conversion by Company. In the event that the market price per share of the Common Stock, as measured by the average volume-weighted closing stock price per share of the Common Stock on the NYSE MKT (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of Common Stock are listed) for any twenty (20) trading days in any period after January 1, 2016 of thirty (30) consecutive trading days, reaches the level of \$30.10 (as adjusted, mutatis mutandis, pursuant to the adjustment principles set forth in Section 5(f) infra) (the “**Optional Conversion Threshold**”), then the Company shall have the right, but not the obligation, to effect, without the consent of any holder of a Note, the Conversion of the entire outstanding principal balance of all of the Notes, and no lesser portion thereof, into shares of Common Stock at the Conversion Price as in effect at the effective time of such Conversion (including as adjusted as provided in Section 5(f) hereof). Upon such Conversion, the entire amount of accrued and unpaid interest (and all other amounts owing) under this Note through the effective date of Conversion shall be immediately due and payable in cash to the holder of this Note. In addition, if the Conversion effected pursuant to this Section 5(c) occurs prior to the third anniversary of the Closing Date, the entire amount of the interest under this Note through said third anniversary that is forgone by the holder of this Note as a result of the occurrence of this Conversion shall also be immediately due and payable in cash to said holder.

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(d) Manner of Effecting Section 5(c) Conversion. The Company may exercise the right provided in Section 5(c) hereof by delivering a written notice of exercise (which shall include in reasonable detail the Company’s bases for concluding that the Optional Conversion Threshold has been attained) (the “**Company Conversion Notice**”), in accordance with the provisions of Section 11.1 of the Purchase Agreement, to the holder of each Note not less than fifteen (15) calendar days prior to the effective date of the subject Conversion, which effective date may not be more than sixty (60) calendar days after the date that the Optional Conversion Threshold was attained, as set forth in the Company Conversion Notice, and in such event the Conversion shall be deemed to have been effected at the close of business on the date such Company Conversion Notice is given. Any failure by the Company, on any individual occasion of attaining the Optional Conversion Threshold, to effect a Conversion pursuant to Sections 5(c) and 5(d) hereof shall in no way affect any future right of the Company to effect such a Conversion on a subsequent date, assuming that all of the conditions to effecting such a Conversion are separately satisfied as of such subsequent date. Upon any Conversion of this Note pursuant to Section 5(c) hereof, the rights of the holder hereof with respect to the outstanding principal thereby converted shall cease, and the holder hereof shall thereupon be deemed to have become the holder of record of the shares of Common Stock (or other securities) into which this Note shall have been converted. Upon receipt of the Company Conversion Notice, the holder hereof shall surrender this Note to the Company, and the Company shall thereupon (i) deliver to or upon the written order of the holder hereof a certificate or certificates for the number of shares of Common Stock (or other securities) issuable upon such Conversion, and (ii) make a cash payment to the holder in respect of any fraction of a share as provided in Section 5(e) hereof and in the amount required pursuant to the last two sentences of Section 5(c) hereof.

(e) Fractional Shares. No fractional shares shall be issued upon any Conversion. Instead of any fractional share which would otherwise be issuable upon a Conversion, the Company shall pay a cash amount to the holder of this Note in respect of such fractional share in an amount based upon (i) the closing price of the Common Stock on the trading day immediately preceding the date of such Conversion on the principal national securities exchange on which the Common Stock is then listed, or (ii) if the Common Stock is not then so listed, the current fair market value of a share of Common Stock as determined in good faith by the Board of Directors of the Company.

(f) Adjustments. The Conversion Price and the aggregate number and nature of the securities issuable upon the exercise of this Note (the “**Conversion Rate**”) shall be subject to adjustment from time to time upon the occurrence of the events enumerated in this Section 5(f), as follows.

If the Company:

- (1) pays a dividend or makes any other distribution on the Common Stock in shares of the Common Stock or other capital stock of the Company; or
- (2) subdivides, combines or reclassifies the outstanding shares of Common Stock;

then, in each case, the Conversion Rate and the Conversion Price in effect immediately prior to such action shall be proportionately adjusted so that the holder of this Note may upon payment of the same aggregate Conversion Price payable immediately prior to such action receive the aggregate number and kind of shares of capital stock of the Company which the holder would have owned immediately following such action if this Note had been converted immediately prior to such action.

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Any such adjustment shall become effective immediately after the record date of such dividend or distribution or the effective date of such subdivision, combination or reclassification.

If after an adjustment the holder of this Note upon conversion of this Note may receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company shall determine the allocation of the adjusted Conversion Price between the classes of capital stock. After such allocation, the Conversion Rate and the Conversion Price of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Section 5(f).

Such adjustment shall be made successively whenever any event listed above shall occur.

In the event of any such adjustment, a Financial Officer of the Company shall, within three (3) Business Days thereof, notify the holder of this Note, in accordance with the provisions of Section 11.1 of the Purchase Agreement, of such adjustment and, in reasonable detail, the method of computing the adjusted Conversion Rate and the adjusted Conversion Price.

(g) Registration Rights. Pursuant to Section 11.15 of the Purchase Agreement, all of the shares of Common Stock issuable upon a Conversion pursuant to this Section 5 (as well as upon a Conversion pursuant to Section 6 hereof) shall have the benefit of registration rights on the terms set forth in the Registration Rights Agreement.

(h) **Pre-Conversion Dividends.** Upon the occurrence of any Conversion pursuant to this Section 5 (as well as upon a Conversion pursuant to Section 6 hereof), the Company shall, within three (3) Business Days thereof, pay to the holder of this Note (x) the sum of the applicable per share amounts of *each* cash dividend and other cash distribution paid by the Company with respect to all shares of Common Stock during the period commencing on the Closing Date and ending on the effective date of such Conversion, as if such Conversion had occurred immediately prior to the record date for said dividend or other distribution at the Conversion Price in effect immediately prior to said record date, (y) less the amount of all interest paid by the Company under this Note prior to the date of said dividend or distribution.

6. Change in Control. Notwithstanding any other provision of this Note, upon the occurrence of one or more events constituting a Change in Control, and on each such occasion during the term of this Note, the holders holding a majority of the outstanding principal balance of the Notes (the “**Electing Holders**”) shall have the right, in their sole and absolute discretion, by written election, to either (i) cause each of the outstanding Notes, and all amounts of unpaid principal, accrued but unpaid interest and other amounts owing thereunder, to become immediately due and payable in full simultaneously with such occurrence; (ii) cause the entire unpaid principal balance of each outstanding Note to be converted as of the logical instant immediately prior to such occurrence into shares of the Common Stock at a conversion price per share equal to the Conversion Price as then in effect, with the entire amount of accrued but unpaid interest and other amounts owing under each Note becoming immediately due and payable in cash to the holder of said Note; or (iii) cause the outstanding Notes, and all of the terms and provisions thereof, to continue in full force and effect notwithstanding the occurrence of said Change in Control. The Company shall provide each holder of a Note written notice of any contemplated Change in Control, specifying with reasonable particularity the nature, terms and contemplated timing thereof, not less than fifteen (15) Business Days prior to the scheduled or first anticipated date of the consummation thereof. The holders of the Notes shall have ten (10) Business Days from the date such notice is given to respond to the Company in writing with respect to electing the option set forth in either clause (i), (ii) or (iii) *supra*. In the event that the Electing Holders fail to make timely any such election, they will be deemed to have made the election set forth in clause (iii). In the event that the Electing Holders elect the option set forth in clause (i) or (ii), the Company shall promptly take all necessary and desirable actions to effectuate the full payment, or entire conversion of the aggregate principal balance, as applicable, of all of the Notes.

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7. Events of Default. If an Event of Default shall occur and be continuing, the principal of this Note may be declared, or may automatically become, due and payable in the manner and with the effect provided in the Purchase Agreement.

8. Amendments, Modifications and Waivers. The Purchase Agreement permits, with certain exceptions as therein provided, the amendment thereof and of the Notes and the modification of the rights and obligations of the Company and certain rights of the Noteholders under the Purchase Agreement and the Notes at any time by the Company with the consent of the Required Holders. The Purchase Agreement also contains provisions permitting the Required Holders, on behalf of the Noteholders of all the Notes, to waive compliance by the Company with certain provisions of the Purchase Agreement and of the Notes and past defaults under the Purchase Agreement and their consequences. Any such consent or waiver shall be conclusive and binding upon such Noteholder and upon all future Noteholders of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

9. Restrictions on Transfer; Registration of Transfer. This Note is subject to restrictions on transfer as set forth in the Purchase Agreement. As provided in the Purchase Agreement and subject to certain limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the principal offices of the Company, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company duly executed by, the holder hereof or its attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Notes are issuable only in registered form without coupons in denominations authorized under the Purchase Agreement. As provided in the Purchase Agreement and subject to certain limitations therein set forth, Notes are exchangeable for a like aggregate principal amount of Notes of a different authorized denomination, as requested by the Noteholder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange.

Prior to due presentment of this Note for registration of transfer as permitted by the terms of the Purchase Agreement, the Company and any agent of the Company may treat the person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

10. Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon its shares of Common Stock (or other class of its securities into which this Note may be converted), other than a cash dividend or distribution as referenced in Section 5(h) hereof, whether in property, stock or other securities (including, without limitation, stock or other securities of any subsidiary of the Company, whether in connection with a spin-off of such subsidiary, or otherwise); (b) to offer rights for subscription pro rata to the holders of any class securities into which this Note may be converted; (c) to effect any reclassification or recapitalization of any class of securities into which this Note may be converted; or (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; then, in connection with each such event, the Company shall give the holder of this Note (x) at least fifteen (15) days’ prior written notice of the date on which a record will be taken for such dividend, distribution or

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subscription rights (and specifying the date on which the holders of the applicable securities will be entitled thereto) or for determining the rights, if any, of holders of such securities to vote in respect of the matters referred to in (c) and (d) above; and (y) in the case of the matters referred to in (c) and (d) above at least fifteen (15) days’ prior written notice of the date when the same will take place (and specifying the date on which the holders of the applicable securities will be entitled to exchange such securities for securities or other property deliverable upon the occurrence of such event).

11. Miscellaneous. All terms used in this Note which are defined in the Purchase Agreement and not otherwise defined in this Note shall have the meanings respectively assigned to them in the Purchase Agreement.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

CERTIFICATION

I, Joseph R. Tomkinson, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOSEPH R. TOMKINSON

Joseph R. Tomkinson
Chief Executive Officer
August 12, 2015

CERTIFICATION

I, Todd R. Taylor, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ TODD R. TAYLOR

Todd R. Taylor

Chief Financial Officer

August 12, 2015

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH R. TOMKINSON

Joseph R. Tomkinson
Chief Executive Officer
August 12, 2015

/s/ TODD R. TAYLOR

Todd R. Taylor
Chief Financial Officer
August 12, 2015
