

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 MARCH 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 001-36063



Altisource Asset Management Corporation  
(Exact name of registrant as specified in its charter)

UNITED STATES VIRGIN ISLANDS

(State or other jurisdiction of incorporation or organization)

66-0783125

(I.R.S. Employer Identification No.)

5100 Tamarind Reef

Christiansted, United States Virgin Islands 00820

(Address of principal executive office)

(340) 692-0525

(Registrant's telephone number, including area code)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	AAMC	NYSE American

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 4, 2020, 1,626,259 shares of our common stock were outstanding (excluding 1,310,480 shares held as treasury stock).

**Altisource Asset Management Corporation**  
**March 31, 2020**  
**Table of Contents**

<u>Part I</u>	<u>1</u>
<u>Item 1. Financial statements (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Deficit</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's discussion and analysis of financial condition and results of operations</u>	<u>19</u>
<u>Item 3. Quantitative and qualitative disclosures about market risk</u>	<u>24</u>
<u>Item 4. Controls and procedures</u>	<u>25</u>
<u>Part II</u>	<u>26</u>
<u>Item 1. Legal proceedings</u>	<u>26</u>
<u>Item 1A. Risk factors</u>	<u>26</u>
<u>Item 4. Mine safety disclosures</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>28</u>
<u>Signatures</u>	<u>29</u>

References in this report to “we,” “our,” “us,” “AAMC” or the “Company” refer to Altisource Asset Management Corporation and its consolidated subsidiaries, unless otherwise indicated. References in this report to “Front Yard” refer to Front Yard Residential Corporation and its consolidated subsidiaries, unless otherwise indicated.

### Special note on forward-looking statements

Our disclosure and analysis in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “targets,” “predicts” or “potential” or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this report reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. Factors that may materially affect such forward-looking statements include, but are not limited to:

- our ability to implement our business strategy and the business strategy of Front Yard;
- our ability to retain Front Yard as a client;
- the likelihood that Front Yard will terminate our asset management agreement with Front Yard;
- our ability to retain key employees;
- our ability to develop and implement new businesses or, to the extent such businesses are developed, our ability to make them successful or sustain the performance of any such businesses;
- our ability to retain and maintain our strategic relationships;
- the ability of Front Yard to generate returns in amounts that would enable our management fees to increase;
- our ability to obtain additional asset management clients;
- the potential for the COVID-19 pandemic to adversely affect our business, financial position, operations, business prospects, customers, employees and third-party service providers;
- our ability to effectively compete with our competitors;
- Front Yard's ability to complete future or pending transactions;
- the failure of our service providers to effectively perform their obligations under their agreements with us;
- our ability to integrate newly acquired rental assets into Front Yard's portfolio;
- our ability to effectively manage the performance of Front Yard's internal property manager at the level and/or the cost that it anticipates;
- developments in the litigations regarding our redemption obligations under the Certificate of Designations of our Series A Convertible Preferred Stock (the “Series A Shares”), including our ability to obtain declaratory relief confirming that we were not obligated to redeem any of the Series A Shares on the March 15, 2020 redemption date since we did not have funds legally available to redeem all, but not less than all, of the Series A Shares requested to be redeemed on that redemption date;
- our failure to maintain Front Yard's qualification as a REIT;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

While forward-looking statements reflect our good faith beliefs, assumptions, and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see [Part II, Item 1A](#) in this Quarterly Report on Form 10-Q and “Item 1A. Risk factors” in our [Annual Report on Form 10-K](#) for the year ended December 31, 2019.

## Part I

## Item 1. Financial statements (unaudited)

**Altisource Asset Management Corporation**  
**Condensed Consolidated Balance Sheets**  
(In thousands, except share and per share amounts)

	March 31, 2020	December 31, 2019
	(unaudited)	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 16,731	\$ 19,965
Short-term investments	—	517
Front Yard common stock, at fair value	19,412	20,046
Receivable from Front Yard	4,140	5,014
Prepaid expenses and other assets	2,588	1,609
Total current assets	42,871	47,151
<b>Non-current assets:</b>		
Right-of-use lease assets	4,157	4,339
Other non-current assets	2,027	1,758
Total non-current assets	6,184	6,097
Total assets	\$ 49,055	\$ 53,248
<b>Current liabilities:</b>		
Accrued salaries and employee benefits	\$ 4,650	\$ 5,407
Accounts payable and accrued liabilities	1,617	1,328
Short-term lease liabilities	270	265
Total current liabilities	6,537	7,000
Long-term lease liabilities	4,049	4,218
Total liabilities	10,586	11,218
<b>Commitments and contingencies (Note 4)</b>	—	—
<b>Redeemable preferred stock:</b>		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of March 31, 2020 and December 31, 2019; redemption value \$250,000	250,000	249,958
<b>Stockholders' deficit:</b>		
Common stock, \$0.01 par value, 5,000,000 authorized shares; 2,936,739 and 1,626,259 shares issued and outstanding, respectively, as of March 31, 2020 and 2,897,177 and 1,598,512 shares issued and outstanding, respectively, as of December 31, 2019	29	29
Additional paid-in capital	45,127	44,646
Retained earnings	19,863	23,662
Accumulated other comprehensive loss	(122)	(33)
Treasury stock, at cost, 1,310,480 shares as of March 31, 2020 and 1,298,665 shares as of December 31, 2019	(276,428)	(276,232)
Total stockholders' deficit	(211,531)	(207,928)
Total liabilities and equity	\$ 49,055	\$ 53,248

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Condensed Consolidated Statements of Operations**  
(In thousands, except share and per share amounts)  
(Unaudited)

	Three months ended March 31,	
	2020	2019
<b>Revenues:</b>		
Management fees from Front Yard	\$ 3,584	\$ 3,546
Conversion fees from Front Yard	—	29
Expense reimbursements from Front Yard	368	328
Total revenues	3,952	3,903
<b>Expenses:</b>		
Salaries and employee benefits	4,544	4,418
Legal and professional fees	1,534	342
General and administrative	1,095	1,039
Total expenses	7,173	5,799
<b>Other income (loss):</b>		
Change in fair value of Front Yard common stock	(634)	877
Dividend income on Front Yard common stock	244	244
Other income	37	4
Total other (loss) income	(353)	1,125
Loss before income taxes	(3,574)	(771)
Income tax expense	183	69
Net loss	(3,757)	(840)
Amortization of preferred stock issuance costs	(42)	(51)
Net loss attributable to common stockholders	\$ (3,799)	\$ (891)
<b>Loss per share of common stock – basic:</b>		
Loss per basic common share	\$ (2.35)	\$ (0.56)
Weighted average common stock outstanding – basic	1,615,710	1,582,016
<b>Loss per share of common stock – diluted:</b>		
Loss per diluted common share	\$ (2.35)	\$ (0.56)
Weighted average common stock outstanding – diluted	1,615,710	1,582,016

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(In thousands)**  
**(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net loss	\$ (3,757)	\$ (840)
Other comprehensive loss:		
Currency translation adjustments, net	(89)	12
Total other comprehensive loss	(89)	12
Comprehensive loss	\$ (3,846)	\$ (828)

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Condensed Consolidated Statements of Stockholders' Deficit**  
(In thousands, except share amounts)  
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Deficit
	Number of Shares	Amount					
<b>December 31, 2019</b>	2,897,177	\$ 29	\$ 44,646	\$ 23,662	\$ (33)	\$ (276,232)	\$ (207,928)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	39,562	—	4	—	—	—	4
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(196)	(196)
Amortization of preferred stock issuance costs	—	—	—	(42)	—	—	(42)
Share-based compensation	—	—	477	—	—	—	477
Currency translation adjustments, net	—	—	—	—	(89)	—	(89)
Net loss	—	—	—	(3,757)	—	—	(3,757)
<b>March 31, 2020</b>	<u>2,936,739</u>	<u>\$ 29</u>	<u>\$ 45,127</u>	<u>\$ 19,863</u>	<u>\$ (122)</u>	<u>\$ (276,428)</u>	<u>\$ (211,531)</u>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Deficit
	Number of Shares	Amount					
<b>December 31, 2018</b>	2,862,760	\$ 29	\$ 42,245	\$ 26,558	\$ —	\$ (275,988)	\$ (207,156)
Cumulative effect of adoption of ASC 842	—	—	—	(77)	—	—	(77)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	21,383	—	—	—	—	—	—
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(195)	(195)
Amortization of preferred stock issuance costs	—	—	—	(51)	—	—	(51)
Share-based compensation	—	—	698	—	—	—	698
Currency translation adjustments, net	—	—	—	—	12	—	12
Net loss	—	—	—	(840)	—	—	(840)
<b>March 31, 2019</b>	<u>2,884,143</u>	<u>\$ 29</u>	<u>\$ 42,943</u>	<u>\$ 25,590</u>	<u>\$ 12</u>	<u>\$ (276,183)</u>	<u>(207,609)</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities:</b>		
Net loss	\$ (3,757)	\$ (840)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	477	698
Change in fair value of Front Yard common stock	634	(877)
Depreciation	108	95
Amortization of operating lease right-of-use assets	182	57
Changes in operating assets and liabilities:		
Receivable from Front Yard	874	257
Prepaid expenses and other assets	(1,166)	(540)
Other non-current assets	(329)	319
Accrued salaries and employee benefits	(722)	(3,461)
Accounts payable and accrued liabilities	431	(407)
Operating lease liabilities	(164)	(18)
Net cash used in operating activities	<u>(3,432)</u>	<u>(4,717)</u>
<b>Investing activities:</b>		
Investment in short-term investments	—	(642)
Proceeds from maturities of short-term investments	517	570
Investment in property and equipment	(48)	(80)
Proceeds from disposition of property and equipment	—	42
Net cash provided by (used in) investing activities	<u>469</u>	<u>(110)</u>
<b>Financing activities:</b>		
Proceeds from stock option exercises	13	—
Shares withheld for taxes upon vesting of restricted stock	(196)	(195)
Payment of tax withholdings on stock option exercises	(9)	—
Net cash used in financing activities	<u>(192)</u>	<u>(195)</u>
Net change in cash and cash equivalents	(3,155)	(5,022)
Effect of exchange rate changes on cash	(79)	5
Cash and cash equivalents as of beginning of the period	19,965	27,171
Cash and cash equivalents as of end of the period	<u>\$ 16,731</u>	<u>\$ 22,154</u>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid	\$ 68	\$ 68
Right-of-use lease assets recognized - operating leases	—	2,839
Operating lease liabilities recognized	—	2,826

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**March 31, 2020**  
**(Unaudited)**

## **1. Organization and Basis of Presentation**

Altisource Asset Management Corporation (“we,” “our,” “us,” or the “Company”) was incorporated in the U.S. Virgin Islands (“USVI”) on March 15, 2012 (our “inception”) and commenced operations on December 21, 2012. Our primary business is to provide asset management and corporate governance services to institutional investors. We have been a registered investment adviser under Section 203(c) of the Investment Advisers Act of 1940 since October 2013.

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

On March 31, 2015, we entered into an asset management agreement (the “Former AMA”) with Front Yard, under which we were the exclusive asset manager for Front Yard for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The Former AMA provided for a fee structure in which we were entitled to a base management fee, an incentive management fee and a conversion fee for mortgage loans and real estate owned (“REO”) properties that became rental properties for the first time during each quarter.

On May 7, 2019, we entered into an amended and restated asset management agreement with Front Yard (the “Amended AMA”), under which we are the exclusive asset manager for Front Yard for an initial term of five years and will renew automatically each year thereafter for an additional one-year term, subject in each case to certain termination provisions. The Amended AMA provides for a fee structure in which we are entitled to a Base Management Fee and a potential Incentive Fee. Accordingly, our operating results continue to be highly dependent on Front Yard's operating results. See Note 5 for additional details of these asset management agreements.

Since we are heavily reliant on revenues earned from Front Yard, investors may obtain additional information about Front Yard in its Securities and Exchange Commission (“SEC”) filings, including, without limitation, Front Yard's financial statements and other important disclosures therein, available at <http://www.sec.gov> and <http://ir.frontyardresidential.com/financial-information>.

### **Basis of presentation and use of estimates**

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

The unaudited interim condensed consolidated financial statements and accompanying unaudited condensed consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2019 [Annual Report on Form 10-K](#), which was filed with the SEC on February 28, 2020.

### Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

## Preferred stock

### *Issuance of Series A Convertible Preferred Stock in 2014 Private Placement*

During the first quarter of 2014, we issued 250,000 shares of convertible preferred stock for \$250.0 million (“Series A Shares”) to institutional investors. Under the Certificate of Designations of the Series A Shares (the “Certificate”), we have the option to redeem all of the Series A Shares on March 15, 2020 and on each successive five-year anniversary of March 15, 2020 thereafter. In connection with these same redemption dates, each holder of our Series A Shares has the right to give notice requesting us to redeem all of the shares of Series A Shares held by such holder out of legally available funds. In accordance with the terms of the Certificate, if we have legally available funds to redeem all, but not less than all, of the Series A Shares requested to be redeemed on a redemption date, we will deliver to those holders who have requested redemption in accordance with the Certificate a notice of redemption. If we do not have legally available funds to redeem all, but not less than all, of the Series A Shares requested to be redeemed on a redemption date, we will not provide a notice of redemption. The redemption right will be exercisable in connection with each redemption date every five years until the mandatory redemption date in 2044. If we are required to redeem all of the holder's Series A Shares, we are required to do so for cash at a price equal to \$1,000 per share (the issuance price) out of funds legally available therefor. Due to the redemption provisions of the Series A Preferred Stock, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

Between January 31, 2020 and February 3, 2020, we received purported notices from holders of our Series A Shares requesting us to redeem an aggregate of \$250.0 million liquidation preference of our Series A Shares on March 15, 2020. We do not have legally available funds to redeem all of the Series A Shares on March 15, 2020. As a result, we do not believe, under the terms of the Certificate, that we are obligated to redeem any of the Series A Shares under the Certificate, and, consistent with the exclusive forum provisions of our Third Amended and Restated Bylaws, on January 27, 2020, we filed a claim for declaratory relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor Capital Group, LP and certain of its funds and managed accounts (collectively, “Luxor”) to confirm our interpretation of the Certificate. Luxor has removed the action to the U.S District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is currently being briefed by the parties and is expected to be fully submitted to the Court by no later than June 15, 2020.

On February 3, 2020, Luxor filed a complaint in the Supreme Court of the State of New York, County of New York, against AAMC for breach of contract, specific performance, unjust enrichment, and related damages and expenses. The complaint alleges that AAMC's position that it will not redeem any of Luxor's Series A Shares on the March 15, 2020 redemption date is a material breach of AAMC's redemption obligations under the Certificate. Luxor seeks an order requiring AAMC to redeem its Series A Shares, recovery of no less than \$144,212,000 in damages, which is equal to the amount Luxor would receive if AAMC redeemed all of Luxor's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of its costs and expenses in the lawsuit. In the alternative, Luxor seeks a return of its initial purchase price of \$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. AAMC has been informed by counsel for Luxor that the complaint in New York will be amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, “Putnam”), which also invested in the Series A Shares, as plaintiff. Putnam holds 81,800 Series A Shares. Collectively, Luxor and Putnam seek a recovery of no less than \$226,012,000 in damages, which is equal to the amount Luxor and Putnam would receive if AAMC redeemed all of Luxor's and Putnam's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of their costs and expenses in the lawsuit. In the alternative, Luxor and Putnam seek a return of the initial purchase price of \$231,800,000 for the Series A Shares, as well as payment of their costs and expenses in the lawsuit.

AAMC intends to continue to pursue its strategic business initiatives despite this litigation. If Luxor and Putnam were to prevail in its lawsuit, we may need to cease or curtail our business initiatives and our liquidity could be materially and adversely affected.

The holders of Series A Preferred Stock are not entitled to receive dividends with respect to the Series A Preferred Stock. The shares of Series A Preferred Stock are convertible into shares of our common stock at a conversion price of \$1,250 per share (or an exchange ratio of 0.8 shares of common stock for each share of Series A Preferred Stock), subject to certain anti-dilution adjustments.

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

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

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

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

The Series A Preferred Stock is recorded net of issuance costs, which were amortized on a straight-line basis through the first potential redemption date in March 2020.

#### *2016 Employee Preferred Stock Plan*

On May 26, 2016, the 2016 Employee Preferred Stock Plan (the “Employee Preferred Stock Plan”) was approved by our stockholders. Pursuant to the Employee Preferred Stock Plan, the Company may grant one or more series of non-voting preferred stock, par value \$0.01 per share in the Company to induce certain employees to become employed and remain employees of the Company in the USVI, and any of its future USVI subsidiaries, to encourage ownership of shares in the Company by such USVI employees and to provide additional incentives for such employees to promote the success of the Company’s business.

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

We have issued shares of preferred stock under the Employee Preferred Stock Plan to certain of our USVI employees. These shares of preferred stock are mandatorily redeemable by us in the event of such employee's termination of service with the Company for any reason. At March 31, 2020 and December 31, 2019, we had 1,000 and 1,000 shares outstanding, respectively, and we included the redemption value of these shares of \$10,000 and \$10,000, respectively, within accounts payable and accrued liabilities in our condensed consolidated balance sheets. In December 2019 and February 2019, our Board of Directors declared and paid an aggregate of \$1.0 million (in relation to the 2019 fiscal year) and \$1.1 million (in relation to the 2018 fiscal year), respectively, of dividends on these shares of preferred stock. Such dividends are included in salaries and employee benefits in our condensed consolidated statements of operations.

#### **Recently issued accounting standards**

##### *Adoption of recent accounting standards*

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. ASU 2016-13, as amended, is intended to address the issue that the previous “incurred loss” methodology was restrictive for an entity's ability to record credit losses based on not yet meeting the “probable” threshold. The new language requires these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This ASU is effective for fiscal years beginning after December 15, 2019. The amendments in ASU 2016-13 should be applied on a modified retrospective transition basis. We adopted this standard on January 1, 2020, and our adoption of the standard did not have a material impact on our consolidated financial statements.

##### *Recently issued accounting standards not yet adopted*

In December 2019, the FASB issued ASU 2019-12, Income Taxes - Simplifying the Accounting for Income Taxes (Topic 740), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021. We are currently evaluating the impact of this standard.

## 2. Fair Value of Financial Instruments

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

	Carrying Amount	Level 1	Level 2	Level 3
		Quoted Prices in Active Markets	Observable Inputs Other Than Level 1 Prices	Unobservable Inputs
<b>March 31, 2020</b>				
Recurring basis (assets):				
Front Yard common stock	\$ 19,412	\$ 19,412	\$ —	\$ —
<b>December 31, 2019</b>				
Recurring basis (assets):				
Front Yard common stock	\$ 20,046	\$ 20,046	\$ —	\$ —

We did not transfer any assets from one level to another level during the three months ended March 31, 2020 or during the year ended December 31, 2019.

The fair value of our holdings in Front Yard common stock is based on unadjusted quoted prices from active markets.

We held 1,624,465 shares of Front Yard's common stock at each of March 31, 2020 and December 31, 2019, representing approximately 3.0% of Front Yard's then-outstanding common stock at each date. All of our shares of Front Yard's common stock were acquired in open market transactions.

The following table presents the cost basis and fair value of our holdings in Front Yard's common stock as of the dates indicated (\$ in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2020</b>				
Front Yard common stock	\$ 20,596	\$ —	\$ (1,184)	\$ 19,412
<b>December 31, 2019</b>				
Front Yard common stock	\$ 20,596	\$ —	\$ (550)	\$ 20,046

## 3. Leases

We lease office space under various operating leases. We currently occupy office space in Christiansted, U.S. Virgin Islands; Charlotte, North Carolina; College Station, Texas; George Town, Cayman Islands; and Bengaluru, India. As of March 31, 2020 and December 31, 2019, our weighted average remaining lease term, including applicable extensions, was 8.8 years and 9.1 years, respectively, and we applied a discount rate of 8.4% and 8.4%, respectively, to our office leases. We determine the discount rate for each lease to be either the discount rate stated in the lease agreement or our estimated rate that we would be charged to finance real estate assets.

During the three months ended March 31, 2020 and 2019, we recognized rent expense of \$0.2 million and \$0.1 million, respectively, related to long-term operating leases, and we recognized rent expense of a nominal amount and \$0.1 million, respectively, related to short-term operating leases. We include rent expense as a component of general and administrative expenses.

The following table presents our future lease obligations under our operating leases as of March 31, 2020 (\$ in thousands):

	<b>Operating Lease Liabilities</b>
2020 (1)	\$ 614
2021	633
2022	661
2023	685
2024	707
Thereafter	2,913
Total lease payments	6,213
Less: interest	1,894
Lease liabilities	\$ 4,319

(1) Excludes the three months ended March 31, 2020.

#### 4. Commitments and Contingencies

##### Litigation, claims and assessments

Information regarding reportable legal proceedings is contained in the “Commitments and Contingencies” note in the financial statements provided in our [Annual Report on Form 10-K](#) for the year ended December 31, 2019. We establish reserves for specific legal proceedings when we determine that the likelihood of an outcome is probable and the amount of loss can be reasonably estimated. We do not currently have any reserves for our legal proceedings. The following updates and restates the description of the previously reported matters:

##### *Erbey Holding Corporation et al. v. Blackrock Management Inc., et al.*

On April 12, 2018, a partial stockholder derivative action was filed in the Superior Court of the Virgin Islands, Division of St. Croix under the caption *Erbey Holding Corporation, et al. v. Blackrock Financial Management Inc., et al.* The action was filed by Erbey Holding Corporation (“Erbey Holding”), John R. Erbey Family Limited Partnership (“JREFLP”), by its general partner Jupiter Capital, Inc., Salt Pond Holdings, LLC (“Salt Pond”), Munus, L.P. (“Munus”), Carisma Trust (“Carisma”), by its trustee, Venia, LLC, and Tribue Limited Partnership (collectively, the “Plaintiffs”) each on its own behalf and Salt Pond and Carisma derivatively on behalf of AAMC. The action was filed against Blackrock Financial Management, Inc., Blackrock Investment Management, LLC, Blackrock Investments, LLC, Blackrock Capital Management, Inc., Blackrock, Inc. (collectively, “Blackrock”), Pacific Investment Management Company LLC, PIMCO Investments LLC (collectively, “PIMCO”) and John and Jane Does 1-10 (collectively with Blackrock and PIMCO, the “Defendants”). The action alleges a conspiracy by Blackrock and PIMCO to harm Ocwen and AAMC and certain of their subsidiaries, affiliates and related companies and to extract enormous profits at the expense of Ocwen and AAMC by attempting to damage their operations, business relationships and reputations. The complaint alleges that Defendants’ conspiratorial activities, which included short-selling activities, were designed to destroy Ocwen and AAMC, and that the Plaintiffs (including AAMC) suffered significant injury, including but not limited to lost value of their stock and/or stock holdings. The action seeks, among other things, an award of monetary damages to AAMC, including treble damages under Section 605, Title IV of the Virgin Islands Code related to the Criminally Influenced and Corrupt Organizations Act, punitive damages and an award of attorney’s and other fees and expenses.

Defendants have moved to dismiss the first amended verified complaint. Plaintiffs and AAMC have moved for leave to file a second amended verified complaint to include AAMC as a direct plaintiff, rather than as a derivative party. On March 27, 2019, the Court held oral argument on Defendants’ motions to dismiss the first amended verified complaint and Plaintiffs’ motion for leave to file the second amended verified complaint. The Court has not yet decided the pending motions.

At this time, we are not able to predict the ultimate outcome of this matter, nor can we estimate the range of possible damages to be awarded to AAMC, if any. We have determined that there is no contingent liability related to this matter for AAMC.

*Altisource Asset Management Corporation v. Luxor Capital Group, LP, et al.*

On January 27, 2020, AAMC filed a complaint for declaratory judgment relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor Capital Group, LP and certain of its funds and managed accounts (collectively, “Luxor”) regarding AAMC’s redemption obligations under the Certificate of Designations (the “Certificate”) of AAMC’s Series A Convertible Preferred Stock (the “Series A Shares”). Under the Certificate, holders of the Series A Shares are permitted on March 15, 2020 and on each successive five-year anniversary of March 15, 2020 to request AAMC, upon not less than 15 nor more than 30 business days’ prior notice, to redeem all but not less than all of their Series A Shares out of legally available funds. AAMC seeks a declaration that AAMC is not required to redeem any of Luxor’s Series A Shares on a redemption date if AAMC does not have legally available funds to redeem all of Luxor’s Series A Shares on such redemption date. Luxor has removed the action to the U.S District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is currently being briefed by the parties and is expected to be fully submitted to the Court by no later than June 15, 2020.

*Luxor Capital Group, LP, et al. v. Altisource Asset Management Corporation*

On February 3, 2020, Luxor filed a complaint in the Supreme Court of the State of New York, County of New York, against AAMC for breach of contract, specific performance, unjust enrichment, and related damages and expenses. The complaint alleges that AAMC’s position that it would not redeem any of Luxor’s Series A Shares on the March 15, 2020 redemption date is a material breach of AAMC’s redemption obligations under the Certificate. Luxor seeks an order requiring AAMC to redeem its Series A Shares, recovery of no less than \$144,212,000 in damages, which is equal to the amount Luxor would receive if AAMC redeemed all of Luxor’s Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of its costs and expenses in the lawsuit. In the alternative, Luxor seeks a return of its initial purchase price of \$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. AAMC has been informed by counsel for Luxor that the complaint in New York will be amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, “Putnam”), which also invested in the Series A Shares, as plaintiffs. Putnam holds 81,800 Series A Shares. Collectively, Luxor and Putnam seek a recovery of no less than \$226,012,000 in damages, which is equal to the amount Luxor and Putnam would receive if AAMC redeemed all of Luxor’s and Putnam’s Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of their costs and expenses in the lawsuit. In the alternative, Luxor and Putnam seek a return of the initial purchase price of \$231,800,000 for the Series A Shares, as well as payment of their costs and expenses in the lawsuit. As described above, AAMC previously filed an action for declaratory relief to confirm its interpretation of the redemption provisions in the Certificate, and intends to vigorously defend itself against the claims by Luxor.

***COVID-19 Pandemic***

Due to the current COVID-19 pandemic in the United States and globally, our business, our employees and the economy as a whole could be, and could continue to be, adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on our cash flows and future results of operations could potentially be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could cause or result in office closures and other related disruptions that could materially adversely impact our business operations and impact our financial performance.

## 5. Related Party Transactions

### Asset management agreement with Front Yard

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

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

### Terms of the Amended AMA

We and Front Yard entered into the Amended AMA on May 7, 2019 (the "Effective Date"). The Amended AMA amends and restates, in its entirety, the Former AMA. The Amended AMA has an initial term of five years and will renew automatically each year thereafter for an additional one-year term, subject in each case to the termination provisions further described below.

### Management Fees

The Amended AMA provides for the following management fee structure, which is subject to certain performance thresholds and an Aggregate Fee Cap (as described below):

- **Base Management Fee.** Front Yard will pay a quarterly base management fee (the "Base Management Fee") to us as follows:
  - Initially, commencing on the Effective Date and until the Reset Date (as defined below), the quarterly Base Management Fee will be (i) \$3,584,000 (the "Minimum Base Fee") plus (ii) an additional amount (the "Additional Base Fee"), if any, of 50% of the amount by which Front Yard's per share Adjusted AFFO (as defined in the Amended AMA) for the quarter exceeds \$0.15 per share (provided that the Base Management Fee for any calendar quarter prior to the Reset Date cannot be less than the Minimum Base Fee or greater than \$5,250,000). Beginning in 2021, the Base Management Fee may be reduced, but not below the Minimum Base Fee, in the fourth quarter of each year by the amount that Front Yard's AFFO (as defined below) on a per share basis is less than an aggregate of \$0.60 for the applicable calendar year (the "AFFO Adjustment Amount"); and

- Thereafter, commencing in the first quarter after which the quarterly Base Management Fee first reaches \$5,250,000 (the “Reset Date”), the Base Management Fee will be 25% of the sum of (i) the applicable Annual Base Fee Floor *plus* (ii) the amount calculated by multiplying the applicable Manager Base Fee Percentage by the amount, if any, that Front Yard's Gross Real Estate Assets (as defined below) exceeds the applicable Gross Real Estate Assets Floor (in each case of the foregoing clauses (i) and (ii), as set forth in the table below), *minus* (iii) solely in the case of the fourth quarter of a calendar year, the AFFO Adjustment Amount (if any); provided, that the Base Management Fee for any calendar quarter shall not be less than the Minimum Base Fee.

Gross Real Estate Assets (1)	Annual Base Fee Floor	Manager Base Fee Percentage	Gross Real Estate Assets Floor
Up to \$2,750,000,000	\$21,000,000	0.325%	\$2,250,000,000
\$2,750,000,000 – \$3,250,000,000	\$22,625,000	0.275%	\$2,750,000,000
\$3,250,000,000 – \$4,000,000,000	\$24,000,000	0.250%	\$3,250,000,000
\$4,000,000,000 – \$5,000,000,000	\$25,875,000	0.175%	\$4,000,000,000
\$5,000,000,000 – \$6,000,000,000	\$27,625,000	0.125%	\$5,000,000,000
\$6,000,000,000 – \$7,000,000,000	\$28,875,000	0.100%	\$6,000,000,000
Thereafter	\$29,875,000	0.050%	\$7,000,000,000

- (1) Gross Real Estate Assets is generally defined as the aggregate book value of all residential real estate assets owned by Front Yard and its subsidiaries before reserves for depreciation, impairment or other non-cash reserves as computed in accordance with GAAP.

In determining the Base Management Fee, “AFFO” is generally calculated as GAAP net income (or loss) adjusted for (i) gains or losses from debt restructuring and sales of property; (ii) depreciation, amortization and impairment on residential real estate assets; (iii) unconsolidated partnerships and joint ventures; (iv) acquisition and related expenses, equity based compensation expenses and other non-recurring or non-cash items; (v) recurring capital expenditures on all real estate assets and (vi) the cost of leasing commissions.

For any partial quarter during the term of the Amended AMA, the Base Management Fee is subject to proration based on the number of calendar days under the Amended AMA in such period.

**Incentive Fee.** We may earn an annual Incentive Fee to the extent that Front Yard's AFFO exceeds certain performance thresholds. The annual Incentive Fee, if any, shall be an amount equal to 20% of the amount by which Front Yard's AFFO for the calendar year (after the deduction of Base Management Fees but prior to the deduction of Incentive Fees) exceeds 5% of Gross Shareholder Equity (as defined below).

In each calendar year, the Incentive Fee will be limited to the extent that any portion of the Incentive Fee for such calendar year (after taking into account any AFFO Adjustment Amount and the payment of the Incentive Fee) would cause the AFFO per share for such calendar year to be less than \$0.60 (the “Incentive Fee Adjustment”). For any partial calendar year under the Amended AMA, the Incentive Fee amount (and Incentive Fee Adjustment, if any) for that partial calendar year is subject to proration based on the number of calendar days of the year that the Amended AMA is in effect.

Gross Shareholder Equity for purposes of the Amended AMA is generally defined as the arithmetic average of all shareholder equity as computed in accordance with GAAP and adding back all accumulated depreciation and changes due to non-cash valuations (including those recorded as a component of accumulated other comprehensive income) and other non-cash adjustments, in each case, as of the first day of such calendar year, the first day of each of the second, third and fourth calendar quarters of such calendar year and the first day of the succeeding calendar year.

Front Yard has the flexibility to pay up to 25% of the annual Incentive Fee to us in shares of its common stock, subject to certain conditions specified in the Amended AMA.

### Aggregate Fee Cap

The aggregate amount of the Base Management Fees and Incentive Fees payable to us in any calendar year cannot exceed the “Aggregate Fee Cap,” which is generally defined as follows:

- For any calendar year in which average Gross Real Estate Assets is less than \$2,250,000,000, the aggregate fees payable to us shall not exceed \$21,000,000; or
- For any calendar years in which average Gross Real Estate Assets exceeds \$2,250,000,000, the aggregate fees payable to us shall not exceed the sum of (i) the applicable Aggregate Fee Floor *plus* (ii) the amount calculated by multiplying the applicable Aggregate Fee Percentage by the amount, if any, by which average Gross Real Estate Assets exceed the applicable Gross Real Estate Assets Floor, in each case as set forth in the table below.

Gross Real Estate Assets	Aggregate Fee Floor	Aggregate Fee Percentage	Gross Real Estate Assets Floor
\$2,250,000,000 – \$2,750,000,000	\$21,000,000	0.650%	\$2,250,000,000
\$2,750,000,000 – \$3,250,000,000	\$24,250,000	0.600%	\$2,750,000,000
\$3,250,000,000 – \$4,000,000,000	\$27,250,000	0.500%	\$3,250,000,000
\$4,000,000,000 – \$5,000,000,000	\$31,000,000	0.450%	\$4,000,000,000
\$5,000,000,000 – \$6,000,000,000	\$35,500,000	0.250%	\$5,000,000,000
\$6,000,000,000 – \$7,000,000,000	\$38,000,000	0.125%	\$6,000,000,000
Thereafter	\$39,250,000	0.100%	\$7,000,000,000

### Expenses and Expense Budget

We are responsible for all of our own costs and expenses other than the expenses related to compensation of Front Yard’s dedicated general counsel and, beginning in January 2020, certain specified employees who provide direct property management services to Front Yard. Front Yard and its subsidiaries pay their own costs and expenses, and, to the extent such Front Yard expenses are initially paid by us, Front Yard is required to reimburse us for such reasonable costs and expenses.

### Termination Provisions

The Amended AMA may be terminated without cause (i) by Front Yard for any reason, or no reason, or (ii) by Front Yard or us in connection with the expiration of the initial term or any renewal term, in either case with 180 days’ prior written notice. If the Amended AMA is terminated by Front Yard without cause or in connection with the expiration of the initial term or any renewal term, Front Yard shall pay a termination fee (the “Termination Fee”) to us in an amount generally equal to three times the arithmetical mean of the aggregate fees actually paid or payable with respect to each of the three immediately preceding completed calendar years (including any such prior years that may have occurred prior to the Effective Date). Upon any such termination by Front Yard, Front Yard shall have the right, at its option, to license certain intellectual property and technology assets from us.

If the Termination Fee becomes payable (except in connection with a termination by us for cause, which would require the payment of the entire Termination Fee in cash), at least 50% of the Termination Fee must be paid in cash on the termination date and the remainder of the Termination Fee may be paid, at Front Yard’s option, either in cash or, subject to certain conditions specified in the Amended AMA, in Front Yard common stock in up to 3 equal quarterly installments (without interest) on each of the six-, nine- and twelve-month anniversaries of the termination date until the Termination Fee has been paid in full.

Front Yard may also terminate the Amended AMA, without the payment of a Termination Fee, upon a change of control of us (as described in the Amended AMA) and “for cause” upon the occurrence of certain events including, without limitation, a final judgment that we or any of our agents, assignees or controlled affiliates has committed a felony or materially violated securities

laws; our bankruptcy; the liquidation or dissolution of AAMC; a court determination that we have committed fraud or embezzled funds from Front Yard; a failure of Front Yard to qualify as a REIT as a result of any action or inaction of us; an uncured material breach of a material provision of the Amended AMA; or receipt of certain qualified opinions from our or Front Yard's independent public accounting firm that (i) with respect to such opinions relating to us, are reasonably expected to materially adversely affect either our ability to perform under the Amended AMA or Front Yard, or (ii) with respect to such opinions relating to Front Yard, such opinions are a result of our actions or inaction; in each case, subject to the exceptions and conditions set forth in the Amended AMA. We may terminate the Amended AMA upon an uncured default by Front Yard under the Amended AMA and receive the Termination Fee. A termination "for cause" may be effected by Front Yard with 30 days' written notice or by us with 60 days' written notice. Upon any termination by Front Yard "for cause," Front Yard shall have the right, at its option, to license certain intellectual property and technology assets from us.

#### *Transition Following Termination*

Following any termination of the Amended AMA, we are required to cooperate in executing an orderly transition to a new manager or otherwise in accordance with Front Yard's direction including by providing transition services as requested by Front Yard for up to one (1) year after termination or such longer period as may be mutually agreed (including by assisting Front Yard with the recruiting, hiring and/or training of new replacement employees) at cost (but not more than the Base Management Fee at the time of termination).

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

#### **Terms of the Former AMA**

On March 31, 2015, we entered into the Former AMA with Front Yard. The Former AMA, which became effective on April 1, 2015, provided for the following management fee structure:

- **Base Management Fee.** We were entitled to a quarterly base management fee equal to 1.5% of the product of (i) Front Yard's average invested capital (as defined in the Former AMA) for the quarter *multiplied* by (ii) 0.25, while it had fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The base management fee percentage increased to 1.75% of average invested capital while Front Yard had between 2,500 and 4,499 Rental Properties and increased to 2.0% of invested capital while Front Yard had 4,500 or more Rental Properties. Because Front Yard had more than 4,500 Rental Properties, we were entitled to receive a base management fee of 2.0% of Front Yard's invested capital during the three months ended March 31, 2020 and 2019;
- **Incentive Management Fee.** We were entitled to a quarterly incentive management fee equal to 20% of the amount by which Front Yard's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP *plus* real estate depreciation expense *minus* recurring capital expenditures on all real estate assets owned by Front Yard) exceeded an annual hurdle return rate of between 7.0% and 8.25% (or 1.75% and 2.06% per quarter), depending on the 10-year treasury rate. To the extent Front Yard had an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall was added to the normal quarterly return hurdle for the next quarter before we would be entitled to an incentive management fee. The incentive management fee increased to 22.5% while Front Yard has between 2,500 and 4,499 Rental Properties and increased to 25% while Front Yard has 4,500 or more Rental Properties. No incentive management fee under the Former AMA was earned by us because Front Yard's return on invested capital (as defined in the AMA) was below the cumulative required hurdle rate; and
- **Conversion Fee.** We were entitled to a quarterly conversion fee equal to 1.5% of assets converted into leased single-family homes by Front Yard for the first time during the applicable quarter.

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

## 6. Share-Based Payments

On January 30, 2020, in order to induce our new Co-Chief Executive Officer to join the Company, we granted 60,000 shares of restricted stock and 60,000 stock options to our newly appointed Co-Chief Executive Officer. The restricted stock and stock options had a weighted average grant date fair value of \$13.11 and \$10.61, respectively. The restricted stock units will vest in four equal annual installments on each of January 30, 2021, 2022, 2023 and 2024, subject to forfeiture and acceleration. The stock options have an exercise price of \$13.11 and consist of two tranches that will vest based on the satisfaction of certain performance criteria and time-based service requirements. The first tranche includes 40,000 stock options and will vest in three allotments beginning on the date the share price equals or exceeds 400% of the exercise price (the "First Performance Goal"). Upon satisfaction of the First Performance Goal, 13,333 options will vest and become exercisable immediately, with the remaining 26,667 options vesting in equal installments on the first and second anniversary of the achievement of the First Performance Goal, subject to forfeiture or expiration. The second tranche of 20,000 stock options will vest in three allotments beginning on the date the share price equals or exceeds 800% of the exercise price of the options (the "Second Performance Goal"). Upon satisfaction of the Second Performance Goal, 6,666 options will vest and become exercisable immediately, with the remaining 13,334 options vesting in equal installments on the first and second anniversary of the Second Performance goal, subject to forfeiture or expiration. All unvested options shall expire on the tenth anniversary of the January 30, 2020 grant date.

On January 23, 2019, we granted 60,329 shares of restricted stock to members of management with a weighted average grant date fair value per share of \$26.68. The restricted stock units will vest in three equal annual installments, the first of which occurred on January 23, 2020 with the remaining installments vesting on January 23, 2021 and 2022, subject to forfeiture or acceleration.

Our Directors each receive annual grants of restricted stock equal to \$60,000 based on the market value of our common stock at the time of the annual stockholders meeting. These shares of restricted stock vest and are issued after a one-year service period, subject to each Director attending at least 75% of the Board and committee meetings.

We recorded \$0.5 million and \$0.7 million of compensation expense related to our share-based compensation for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020 and December 31, 2019, we had an aggregate \$1.5 million and \$1.2 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 2.0 years and 0.8 years, respectively.

## 7. Income Taxes

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

As of March 31, 2020 and December 31, 2019, we accrued no interest or penalties associated with any unrecognized tax benefits, nor did we recognize any interest expense or penalties during the three months ended March 31, 2020 and 2019.

The following table sets forth the components of our deferred tax assets:

	March 31, 2020	December 31, 2019
<b>Deferred tax assets:</b>		
Stock compensation	\$ 79	\$ 114
Accrued expenses	577	669
Net operating losses	357	357
Lease liabilities	915	955
Front Yard common stock	48	—
Other	49	48
Gross deferred tax assets	2,025	2,143
<b>Deferred tax liability:</b>		
Right-of-use lease assets	878	922
Front Yard common stock	—	42
Depreciation	2	4
Gross deferred tax liabilities	880	968
Net deferred tax assets before valuation allowance	1,145	1,175
Valuation allowance	(442)	(491)
Deferred tax asset, net	\$ 703	\$ 684

## 8. Earnings Per Share

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

	Three months ended March 31,	
	2020	2019
<b><u>Numerator</u></b>		
Net loss	\$ (3,757)	\$ (840)
Amortization of preferred stock issuance costs	(42)	(51)
Numerator for basic and diluted EPS – net loss attributable to common stockholders	(3,799)	(891)
<b><u>Denominator</u></b>		
Weighted average common stock outstanding – basic	1,615,710	1,582,016
Weighted average common stock outstanding – diluted	1,615,710	1,582,016
Loss per basic common share	\$ (2.35)	\$ (0.56)
Loss per diluted common share	\$ (2.35)	\$ (0.56)

We excluded the items presented below from the calculation of diluted earnings per share as they were antidilutive for the periods indicated (\$ in thousands):

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b><u>Numerator</u></b>		
Reversal of amortization of preferred stock issuance costs	\$ 42	\$ 51
<b><u>Denominator</u></b>		
Stock options	11,110	14,180
Restricted stock	50,033	44,043
Preferred stock, if converted	200,000	200,000

## 9. Segment Information

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

## 10. Subsequent Events

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

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

### **Our Company**

Altisource Asset Management Corporation (“we,” “our,” “us” or the “Company”) was incorporated in the United States Virgin Islands (“USVI”) on March 15, 2012. We have been a registered investment adviser under Section 203(c) of the Investment Advisers Act of 1940 since October 2013. We operate in a single segment focused on providing asset management and corporate governance services to institutional investors.

Our primary client is Front Yard Residential Corporation (“Front Yard”), a publicly traded real estate investment trust (“REIT”) focused on acquiring and managing quality, affordable single-family rental (“SFR”) properties for America’s families. Front Yard is currently our primary source of revenue and will drive our results. The services provided to Front Yard by AAMC and the payment terms for such services are governed by an Amended and Restated Asset Management Agreement, dated as of May 7, 2019, between Front Yard and AAMC (the “Amended AMA”).

Since we are heavily reliant on revenues earned from Front Yard, investors may obtain additional information about Front Yard in its Securities and Exchange Commission (“SEC”) filings, including, without limitation, Front Yard’s financial statements and other important disclosures therein, available at <http://www.sec.gov> and <http://ir.frontyardresidential.com/financial-information>.

During the second quarter of 2019, Front Yard commenced a strategic alternatives review process designed to maximize its stockholder value. In light of this process, we appointed a new Co-Chief Executive Officer on January 13, 2020 to serve as an additional resource for us and to be responsible for implementing new business. Our potential new businesses are in the development stage under the leadership and direction of our new Co-Chief Executive Officer and may include asset management services, investments in real estate related assets or other businesses that leverage the experience of our new Co-Chief Executive Officer and our real estate asset acquisition and portfolio management teams. Our incumbent Co-Chief Executive Officer has continued to focus on the business of Front Yard and the completion of its strategic alternatives review.

On February 17, 2020, Front Yard's strategic alternatives review was completed, culminating in Front Yard's entry into an Agreement and Plan of Merger (the “Merger Agreement”) with affiliates of Amherst Single Family Residential Partners VI, LP (“Amherst”), providing for the acquisition of Front Yard by Amherst (the “Merger”). The Merger is expected to close in the second quarter of 2020, subject to the approval of the holders of a majority of Front Yard’s outstanding shares and the satisfaction of customary closing conditions.

On May 4, 2020, Front Yard and Amherst determined not to close the Merger transaction. Front Yard entered into a Termination and Settlement Agreement with Amherst to terminate that the Merger Agreement. As contemplated by the Termination and Settlement Agreement, Amherst has agreed to pay Front Yard a \$25 million cash termination fee, purchase from Front Yard 4.4 million shares of Front Yard common stock for an aggregate cash purchase price of \$55 million (\$12.50 per share) and provide Front Yard with a \$20 million committed unsecured multi-draw lending facility. Although it was anticipated that Amherst would provide a notice to terminate the Amended AMA upon consummation of the Merger, the termination of the Merger Agreement has resulted in the Amended AMA remaining in full force and effect between Front Yard and AAMC. As such, we expect to continue to provide portfolio management and certain corporate governance services to Front Yard under the Amended AMA.

While the Amended AMA remains in force, we expect that our new Co-Chief Executive Officer will continue to develop and implement new businesses while AAMC continues to provide services to Front Yard. For information on the potential risks to AAMC in relation to potential new business initiatives, see “Item 1A. Risk Factors” of our [Annual Report on Form 10-K](#) for the year ended December 31, 2019 filed with the Securities and Exchange Commission (“SEC”) on February 28, 2020.

Additionally, our wholly owned subsidiary, NewSource Reinsurance Company Ltd. (“NewSource”), is a title insurance and reinsurance company licensed with the Bermuda Monetary Authority. NewSource commenced reinsurance activities during the second quarter of 2014. In December 2014, NewSource determined that the economics of the initial business did not warrant the continuation of its initial reinsurance quota share agreement with an unrelated third party. NewSource therefore transferred all of the risk of claims and future losses underwritten to an unrelated third party, and its reinsurance and insurance business has been dormant since that time.

## **Management Overview**

Since joining us in January 2020, our new Co-Chief Executive Officer has been in the process of developing new business initiatives for AAMC. Though our potential new businesses are in the development stage, we expect that they will include asset management services, investments in real estate related assets or other businesses that leverage the experience of our new Co-Chief Executive Officer and our real estate asset acquisition and portfolio management teams. We have also been exploring opportunities to develop lending platforms for mortgage origination and servicing related businesses for which AAMC can collect asset management fees and, potentially, interest income and referral commissions. We have been in the process of forming entities, including a fund structure to raise and manage assets from investors interested in these businesses.

During the first quarter of 2020, we also continued to improve the operating efficiency of Front Yard's internal property management platform, and we have seen significant improvements in Front Yard's occupancy levels, collections of overdue rent balances and unit turn timelines, all of which has translated into improved and "best ever" operating metrics for Front Yard during the first quarter of 2020 despite the country's onset of the COVID-19 pandemic.

We have also continued to target optimized performance of Front Yard's SFR portfolio by marketing certain rental properties for sale that do not meet Front Yard's strategic objectives. During the quarter ended March 31, 2020, we assisted Front Yard in the sale of 73 non-core rental homes on an individual basis, and we have identified 124 non-core rental properties for sale as of March 31, 2020. We also assisted Front Yard in its disposition of 9 non-rental REO properties, and Front Yard has 13 non-rental REO properties remaining to be sold as of March 31, 2020. We believe these non-core asset sales will allow Front Yard to improve its operating efficiency, recycle capital that may be used to purchase pools of stabilized rental homes at attractive yields, repurchase common stock, pay down debt or utilize the proceeds for such other purposes as it determine will best serve its our stockholders.

### *COVID-19 Pandemic Update*

Due to the current COVID-19 pandemic in the United States and globally, our business, our employees and the economy as a whole could be, and could continue to be, adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on our cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could materially disrupt our business operations and impact our financial performance. However, to date, we have seen little impact on our ability to operate effectively or on our expected cash flows due to COVID-19.

We remain committed to the safety of our employees and to providing quality service to Front Yard. We had previously implemented a robust technology platform to enable us to seamlessly transition to a remote workplace in order to continue our normal operations without disruption to our or Front Yard's business. We are proud of the quality of service, focus and dedication our employees have demonstrated during this unprecedented time.

We believe that our business model is resilient and that we are well positioned to endure the COVID-19 pandemic. For example, despite nation-wide economic challenges stemming from COVID-19, Front Yard's April 2020 rent collections exceeded 99% of its trailing 12-month average and stabilized leased percentage increased to 97.7% at April 30, 2020.

### **Asset Management Agreement with Front Yard**

For details of the Amended AMA and the former asset management agreement dated as of March 31, 2015 (the "Former AMA") with Front Yard, see [Item 1 - Financial statements \(unaudited\) - "Note 5. Related Party Transactions."](#)

### **Metrics Affecting our Consolidated Results**

#### **Revenues**

Our revenues consist of fees due to us under the asset management agreements with Front Yard. Under the Amended AMA, our revenues include a quarterly Base Management Fee and a potential annual Incentive Fee, each of which are dependent upon Front Yard's performance and are subject to potential downward adjustments and an aggregate fee cap. Beginning in the third quarter of 2019 (the first full quarter under the Amended AMA), the Base Management Fee we recognize under the Amended AMA is subject to a quarterly minimum of \$3,584,000.

Under the Former AMA, our revenues included a base management fee and a conversion fee. The base management fee was calculated as a percentage of Front Yard's average invested capital, and the conversion fee was based on the number and value of mortgage loans and/or REO properties that Front Yard converted to rental properties for the first time in each period.

Under both the Amended AMA and the Former AMA, our revenues also include reimbursements of certain expenses in our management of Front Yard's business, which relate primarily to travel and other out-of-pocket expenses solely related to our management of Front Yard's business and the base salary, bonus, benefits and stock compensation, if any, solely of the General Counsel dedicated to Front Yard. Beginning in January 2020, we are also reimbursed for certain specified employees who provide direct property management services to Front Yard. All other salary, bonus, benefits and stock compensation of AAMC's employees (other than Front Yard share-based compensation issued to them by Front Yard) are the responsibility of AAMC and are not reimbursed by Front Yard pursuant to the Amended AMA.

In addition, we receive dividends on the shares of Front Yard common stock that we own when Front Yard declares and pays dividends to its holders of common stock. Upon the declaration of such dividends, we record them as other income. The amount of dividends we receive will vary with Front Yard's financial performance, taxable income, liquidity needs and other factors deemed relevant by Front Yard's Board of Directors. Lastly, we recognize changes in the fair value of our holdings of Front Yard common stock as other income or loss that will be directly dependent upon fluctuations in the market price of Front Yard's common stock.

### ***Expenses***

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

### **Results of Operations**

The following sets forth discussion of our results of operations for the three months ended March 31, 2020 and 2019.

#### **Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019**

##### ***Management Fees and Expense Reimbursements***

Pursuant to the Amended AMA and Former AMA, we recognized base management fees from Front Yard of \$3.6 million and \$3.5 million during the three months ended March 31, 2020 and 2019, respectively. The increase in base management fees is primarily driven by the Minimum Base Fee of \$3.6 million per quarter becoming applicable beginning in May 2019.

We recognized conversion fees from Front Yard of \$29,000 during the three months ended March 31, 2019. Under the Amended AMA, we no longer receive conversion fees from Front Yard.

We recognized expense reimbursements due from Front Yard of \$0.4 million during the three months ended March 31, 2020 compared to \$0.3 million during the three months ended March 31, 2019. Expense reimbursements relate primarily to travel and other out-of-pocket costs in managing Front Yard's business and the employment costs related to employees dedicated to Front Yard.

##### ***Salaries and Employee Benefits***

Salaries and employee benefits were \$4.5 million and \$4.4 million during the three months ended March 31, 2020 and 2019, respectively. The increase in salaries and benefits during the three months ended March 31, 2020 is primarily due to by higher salaries and benefits associated with increased headcount, including our new Co-Chief Executive Officer, partially offset by reduced share-based compensation expense.

### **Legal and Professional Fees**

Legal and professional fees were \$1.5 million and \$0.3 million during the three months ended March 31, 2020 and 2019, respectively. This is primarily driven by litigation expenses and fees incurred in the creation of new business lines.

### **General and Administrative Expenses**

General and administrative expenses were \$1.1 million and \$1.0 million during the three months ended March 31, 2020 and 2019, respectively. This increase is primarily due to increased occupancy costs related to an office space leased in the third quarter of 2019 and increased director compensation, partially offset by reduced travel expenses.

### **Change in Fair Value of Front Yard Common Stock**

The change in fair value of Front Yard common stock was \$(0.6) million compared to \$0.9 million during the three months ended March 31, 2020 and 2019, respectively. These changes in fair value were due solely to changes in the market price of Front Yard's common stock, as reported at quarter end on the New York Stock Exchange.

### **Dividend Income on Front Yard Common Stock**

Dividends recognized on shares of Front Yard common stock were \$0.2 million for each of the three-month periods ended March 31, 2020 and 2019. The amount of dividends we receive may vary with Front Yard's financial performance, taxable income, liquidity needs and other factors deemed relevant by Front Yard's Board of Directors.

### **Liquidity and Capital Resources**

As of March 31, 2020, we had cash and cash equivalents of \$16.7 million compared to cash and cash equivalents of \$20.0 million and short-term investments of \$0.5 million as of December 31, 2019. The reduction in the cash and cash equivalents in 2020 was primarily due to payment of annual incentive compensation, ongoing salaries and benefits and general corporate expenses in excess of revenues. At March 31, 2020, we also had \$19.4 million in Front Yard common stock, a decrease from \$20.0 million as of December 31, 2019, due solely to the decrease in Front Yard's stock price during the first three months of 2020. We also continue to generate asset management fees from Front Yard under the Amended AMA. We believe that these sources of liquidity will be sufficient to enable us to meet anticipated short-term (one year) liquidity requirements to run our operations since (i) we are continuing to generate asset management fees under the AMA, (ii) we are seeking to generate revenues or interest income in connection with new business initiatives and (iii) to the extent declared and paid by Front Yard, we may receive dividends on the Front Yard common stock we own. Our ongoing cash expenditures are salaries and employee benefits, legal and professional fees, lease obligations and other general and administrative expenses.

Between January 31, 2020 and February 3, 2020, we received purported notices from holders of our shares of convertible preferred stock ("Series A Shares") requesting us to redeem an aggregate of \$250,000,000 liquidation preference of our Series A Shares on March 15, 2020. We do not have legally available funds to redeem all of the Series A Shares on March 15, 2020. As a result, we do not believe, under the terms of the Certificate of Designations of the Series A Shares (the "Certificate"), that we are obligated to redeem any of the Series A Shares under the Certificate, and, on January 27, 2020, we filed a claim for declaratory relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor Capital Group, LP and certain of its funds and managed accounts (collectively, "Luxor") to confirm our interpretation of the Certificate. Luxor has removed the action to the U.S District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is currently being briefed by the parties and is expected to be fully submitted to the Court by no later than June 15, 2020.

On February 3, 2020, Luxor filed a complaint in the Supreme Court of the State of New York, County of New York, against AAMC for breach of contract, specific performance, unjust enrichment, and related damages and expenses. The complaint alleges that AAMC's position that it will not redeem any of Luxor's Series A Shares on the March 15, 2020 redemption date is a material breach of AAMC's redemption obligations under the Certificate. Luxor seeks an order requiring AAMC to redeem its Series A Shares, recovery of no less than \$144,212,000 in damages, which is equal to the amount Luxor would receive if AAMC redeemed all of Luxor's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of its costs and expenses in the lawsuit. In the alternative, Luxor seeks a return of its initial purchase price of \$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. AAMC has been informed by counsel for Luxor that the complaint in New York will be amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, "Putnam"), which also invested in the Series A Shares, as plaintiff. Putnam holds 81,800 Series A

Shares. Collectively, Luxor and Putnam seek a recovery of no less than \$226,012,000 in damages, which is equal to the amount Luxor and Putnam would receive if AAMC redeemed all of Luxor's and Putnam's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of their costs and expenses in the lawsuit. In the alternative, Luxor and Putnam seek a return of the initial purchase price of \$231,800,000 for the Series A Shares, as well as payment of their costs and expenses in the lawsuit.

AAMC intends to continue to pursue its strategic business initiatives despite this litigation. If Luxor and Putnam were to prevail in its lawsuit, we may need to cease or curtail our business initiatives and our liquidity could be materially and adversely affected. For more information on the potential risks to AAMC in relation to these legal proceedings, see "Item 1A. Risk Factors" of our [Annual Report on Form 10-K](#) for the year ended December 31, 2019 filed with the Securities and Exchange Commission ("SEC") on February 28, 2020.

### **Treasury Shares**

At March 31, 2020, a total of \$268.7 million in shares of our common stock had been repurchased under the authorization by our Board of Directors to repurchase up to \$300.0 million in shares of our common stock. Repurchased shares are held as treasury stock and are available for general corporate purposes. We have an aggregate of \$31.3 million remaining for repurchases under our Board-approved repurchase plan.

### **Cash Flows**

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

	<b>Three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net cash used in operating activities	\$ (3,432)	\$ (4,717)
Net cash provided by (used in) investing activities	469	(110)
Net cash used in financing activities	(192)	(195)
Net change in cash and cash equivalents	<u>\$ (3,155)</u>	<u>\$ (5,022)</u>

Net cash used in operating activities for the three months ended March 31, 2020 consisted primarily of payment of annual incentive compensation, payment of a signing bonus to our new Co-Chief Executive Officer, ongoing salaries and benefits, payments of ongoing lease obligations and general corporate expenses in excess of revenues. Net cash used in operating activities for the three months ended March 31, 2019 consisted primarily of payment of annual incentive compensation, ongoing salaries and benefits, dividends on preferred stock issued under the 2016 Employee Preferred Stock Program, payments of ongoing lease obligations and general corporate expenses in excess of revenues.

Net cash provided by investing activities for the three months ended March 31, 2020 consisted primarily of proceeds from the maturities of short-term investments. Net cash used in investing cash flows during the three months ended March 31, 2019 consisted primarily of proceeds from the maturities of short-term investments, partially offset by investments in short-term investments.

Net cash used in financing activities for the three months ended March 31, 2020 and 2019 primarily related to shares withheld for taxes upon vesting of restricted stock.

### **Off-balance Sheet Arrangements**

We had no off-balance sheet arrangements as of March 31, 2020 or December 31, 2019.

### **Recent Accounting Pronouncements**

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

## **Critical Accounting Judgments**

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

For additional details on our critical accounting judgments, please see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Judgments” in our [Annual Report on Form 10-K](#) for the year ended December 31, 2019 as filed with the SEC on February 28, 2020.

### ***Item 3. Quantitative and qualitative disclosures about market risk***

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

#### ***Investment Risk Relating to Front Yard's Common Stock***

We hold an aggregate of 1,624,465 shares of Front Yard common stock in open market transactions, and we may purchase additional shares of Front Yard common stock from time to time. If additional purchases are commenced, any such purchases of Front Yard common stock by us may be discontinued at any time, or we may commence sales of such common stock. To the extent we have purchased, or continue to acquire, Front Yard common stock, we will be exposed to risks and uncertainties with respect to our ownership of such shares, including downward pressure on Front Yard's stock price, including, without limitation, following Front Yard's announcement that it terminated the Merger Agreement with Amherst, a reduction or increase of dividends declared and paid on the Front Yard stock and/or an inability to dispose of such shares at a time when we otherwise may desire or need to do so. There can be no assurance that we will be successful in mitigating such risks.

In addition, under the terms of the Amended AMA, at the option of Front Yard, up to 25% of Incentive Fees each year and up to 50% of a Termination Fee, if payable, may be paid in shares of Front Yard common stock. Should Front Yard make this election, we would further be exposed to the above-described market risk on the shares we receive.

Since the Merger was not consummated, we will continue to be subject to the risk of any decline in the market price of Front Yard common stock, and we may consider opportunities to reduce such risk exposure as determined by our Board of Directors.

**Item 4. Controls and procedures**

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

Our Co-Chief Executive Officers and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, management has determined that the Company's disclosure controls and procedures were effective as of March 31, 2020.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on Controls***

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

## Part II

### **Item 1. Legal proceedings**

For a description of the Company's legal proceedings, refer to [Item 1 - Financial Statements \(Unaudited\) - Note 4, "Commitments and Contingencies"](#) of the interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

#### **Item 1A. Risk factors**

There have been no material changes in our risk factors since December 31, 2019 other than the risk factors provided below. For information regarding our risk factors, you should carefully consider the risk factors discussed below as well as the risk factors disclosed in "Item 1A. Risk factors" in our [Annual Report on Form 10-K](#) for the year ended December 31, 2019 filed on February 28, 2020.

***Because we derive our revenues from Front Yard pursuant to the Amended AMA and we have not yet fully developed new business initiatives, any termination of the Amended AMA could be materially detrimental to us as well as our financial condition and prospects.***

On May 7, 2019, we entered into the Amended AMA with Front Yard, which replaced the Former AMA. We continue to generate all of our revenues from Front Yard, as Front Yard is our principal client. In the Amended AMA, we negotiated, among other things, (i) a new minimum base management fee, which replaced the base management fee that had been diminishing each quarter under the Former AMA and (ii) a new termination fee to be paid to AAMC in the event Front Yard terminates the Amended AMA "for convenience" including following a change of control of Front Yard. Previously, under the Former AMA, Front Yard could only terminate the Former AMA following a change of control of Front Yard, for other performance failures or for "cause" without paying a termination fee. In the event Front Yard, as our primary source of revenues, were to terminate the Amended AMA, subject to a 180-day notice period, it is possible that the management fees could be reduced, during a Front Yard transition period at the option of Front Yard for up to on-year, to our costs in providing the transition services. Following any transition period, our current management fees would reduce to \$0. In addition, up to 50% of the Termination Fee (as defined in the Amended AMA) could be payable to AAMC in cash and/or stock of Front Yard over up to twelve months following such termination. To the extent Front Yard pays a portion of the Termination Fee in stock, we would be subject to the market risks related to Front Yard or any successor entity. To the extent we are unable to develop any new businesses or obtain any additional asset management clients following a termination by Front Yard, our results of operations and financial condition would be materially adversely affected.

On February 17, 2020, Front Yard had entered into the Merger Agreement with Amherst that was expected to close in the second quarter of 2020. On May 4, 2020, Front Yard and Amherst determined not to close the Merger transaction and reach a settlement agreement. Although it was anticipated that Amherst would provide a notice to terminate the Amended AMA upon consummation of the Merger, the termination of the Merger Agreement has resulted in the Amended AMA remaining in full force and effect between Front Yard and AAMC. As such, we expect to continue to provide portfolio management and certain corporate governance services to Front Yard under the Amended AMA and will not receive a termination fee that would have provided additional liquidity to AAMC.

We are currently generating losses for AAMC due, in part, to our continued primary reliance on the fees earned from Front Yard under the Amended AMA and the continued staffing levels to meet Front Yard's needs under the Amended AMA as it seeks to build scale. As such, our potential profitability may be dependent on our ability to develop and implement profitable new and alternative businesses for AAMC to generate returns for our stockholders, or we may become dependent on new additional liquidity if a termination fee is paid upon termination of the Amended AMA by Front Yard. In any event, AAMC may not be able to successfully implement such new businesses and/or replace any lost revenues from a termination of the Amended AMA by Front Yard on a timely basis or at all, which would have a material, adverse effect on us.

***The COVID-19 pandemic and ensuing governmental responses could materially adversely affect our financial condition and results of operations.***

As a result of the COVID-19 pandemic, governmental authorities have implemented and are continuing to implement numerous and constantly evolving measures to try to contain the virus, such as travel bans and restrictions, limits on gatherings, quarantines, shelter-in-place orders and business shutdowns. All of our offices have been affected by the outbreak. These measures have impacted and may further impact our workforce and operations, as well as those of our vendors. Although many

governmental measures have had specific expiration dates, some of those measures have already been extended more than once. Although our employees are working from home, the constraints and limits imposed on our operations may impede our service to Front Yard under the Amended AMA and/or slow or diminish our efforts to develop new business lines. These restrictions on our operations and workforce, or similar limitations for our vendors, could have a material adverse effect on our financial condition and results of operations.

The outbreak has significantly increased economic uncertainty. We anticipate that the current outbreak or continued spread of COVID-19 will cause an economic slowdown, and it is possible that it could cause a global recession. The degree to which COVID-19 impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus and address its impact and how quickly and to what extent normal economic and operating conditions can resume.

In response to these developments, we have modified our business practices, including restricting employee travel, modifying employee work locations and implementing social distancing. Many of our vendors and service providers have made similar modifications. The resources available to employees working remotely may not enable them to maintain the same level of productivity and efficiency, and these and other employees may face additional demands on their time, such as increased responsibilities resulting from school closures or the illness of family members. Further, our increased reliance on remote access to our information systems increases our exposure to potential cybersecurity breaches. We may take further actions as government authorities require or recommend or as we determine to be in the best interests of our employees, vendors, suppliers and Front Yard. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, in which case our employees may become sick, our ability to perform critical functions could be harmed, and we may be unable to respond to the needs of our business. The resumption of normal business operations after such interruptions may be delayed or constrained by lingering effects of COVID-19 on our suppliers, third-party service providers, and/or Front Yard.

***Item 4. Mine safety disclosures***

Not applicable.

**Item 6. Exhibits****Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">2.1</a>	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
<a href="#">3.1</a>	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
<a href="#">3.2</a>	Third Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-Q filed with the SEC on February 28, 2020).
<a href="#">3.3</a>	Certificate of Designations establishing the Company's Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2014).
<a href="#">31.1*</a>	Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
<a href="#">31.2*</a>	Certification of Co-CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
<a href="#">31.3*</a>	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
<a href="#">32.1*</a>	Certification of Co-CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
<a href="#">32.2*</a>	Certification of Co-CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
<a href="#">32.3*</a>	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

**Signatures**

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

Date: May 11, 2020

Altisource Asset Management Corporation  
By: /s/ Robin N. Lowe  
\_\_\_\_\_  
Robin N. Lowe  
Chief Financial Officer

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, George G. Ellison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altisource Asset Management Corporation;
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; and
  - (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 the 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.

Date: May 11, 2020

By:           /s/          George G. Ellison            
George G. Ellison  
Co-Chief Executive Officer

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Indroneel Chatterjee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altisource Asset Management Corporation;
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; and
  - (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 the 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.

Date: May 11, 2020

By:           /s/          Indroneel Chatterjee            
Indroneel Chatterjee  
Co-Chief Executive Officer

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robin N. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Altisource Asset Management Corporation;
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; and
  - (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 the 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.

Date: May 11, 2020

By:           /s/          Robin N. Lowe            
Robin N. Lowe  
Chief Financial Officer

Certification of the Co-Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Co-Chief Executive Officer of Altisource Asset Management Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q for the quarter ended March 31, 2020 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 11, 2020

By:           /s/          George G. Ellison            
George G. Ellison  
Co-Chief Executive Officer

## Certification of the Co-Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Co-Chief Executive Officer of Altisource Asset Management Corporation (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q for the quarter ended March 31, 2020 ("Form 10-Q"), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 11, 2020

By:           /s/          Indroneel Chatterjee            
Indroneel Chatterjee  
Co-Chief Executive Officer

Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of Altisource Asset Management Corporation (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. §1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the quarterly report on Form 10-Q for the quarter ended March 31, 2020 (“Form 10-Q”), filed concurrently herewith by the Company, fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 11, 2020

By:           /s/          Robin N. Lowe            
Robin N. Lowe  
Chief Financial Officer