

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 SEPTEMBER 30, 2019

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)

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 type="checkbox"/>
	(Do not check if a smaller reporting company)	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

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

As of October 30, 2019, 1,598,262 shares of our common stock were outstanding (excluding 1,298,665 shares held as treasury stock).

Altisource Asset Management Corporation
September 30, 2019
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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;
- 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;
- 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;
- the effects of potential redemptions of our Series A Preferred Stock commencing in March 2020, including our ability to pay with funds legally available therefor or renegotiate the terms thereof;
- 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, 2018.

Part I

Item 1. Financial statements (unaudited)

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

	September 30, 2019 (unaudited)	December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 21,558	\$ 27,171
Short-term investments	955	584
Front Yard common stock, at fair value	18,779	14,182
Receivable from Front Yard	4,168	3,968
Prepaid expenses and other assets	2,010	1,552
Total current assets	<u>47,470</u>	<u>47,457</u>
Non-current assets:		
Right-of-use lease assets	4,458	—
Other non-current assets	1,708	1,910
Total non-current assets	<u>6,166</u>	<u>1,910</u>
Total assets	<u>\$ 53,636</u>	<u>\$ 49,367</u>
Current liabilities:		
Accrued salaries and employee benefits	\$ 4,809	\$ 5,583
Accounts payable and accrued liabilities	1,204	1,188
Short-term lease liabilities	242	—
Total current liabilities	<u>6,255</u>	<u>6,771</u>
Long-term lease liabilities	4,291	—
Total liabilities	<u>10,546</u>	<u>6,771</u>
Commitments and contingencies (Note 4)	—	—
Redeemable preferred stock:		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of September 30, 2019 and December 31, 2018; redemption value \$250,000	249,907	249,752
Stockholders' deficit:		
Common stock, \$0.01 par value, 5,000,000 authorized shares; 2,886,009 and 1,590,739 shares issued and outstanding, respectively, as of September 30, 2019 and 2,862,760 and 1,573,691 shares issued and outstanding, respectively, as of December 31, 2018	29	29
Additional paid-in capital	44,111	42,245
Retained earnings	25,252	26,558
Accumulated other comprehensive loss	(20)	—
Treasury stock, at cost, 1,295,270 shares as of September 30, 2019 and 1,289,069 shares as of December 31, 2018	(276,189)	(275,988)
Total stockholders' deficit	<u>(206,817)</u>	<u>(207,156)</u>
Total liabilities and equity	<u>\$ 53,636</u>	<u>\$ 49,367</u>

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenues:				
Management fees from Front Yard	\$ 3,584	\$ 3,613	\$ 10,686	\$ 10,984
Conversion fees from Front Yard	—	35	29	151
Expense reimbursements from Front Yard	250	286	920	767
Total revenues	3,834	3,934	11,635	11,902
Expenses:				
Salaries and employee benefits	4,219	4,605	12,875	13,343
Legal and professional fees	389	474	2,087	1,293
General and administrative	1,099	993	3,018	2,783
Total expenses	5,707	6,072	17,980	17,419
Other income (loss):				
Change in fair value of Front Yard common stock	(1,072)	698	4,597	(1,641)
Dividend income on Front Yard common stock	244	244	731	731
Other income	63	58	116	150
Total other (loss) income	(765)	1,000	5,444	(760)
Loss before income taxes	(2,638)	(1,138)	(901)	(6,277)
Income tax expense	885	17	173	309
Net loss attributable to stockholders	(3,523)	(1,155)	(1,074)	(6,586)
Amortization of preferred stock issuance costs	(52)	(52)	(155)	(155)
Net loss attributable to common stockholders	\$ (3,575)	\$ (1,207)	\$ (1,229)	\$ (6,741)
Loss per share of common stock – basic:				
Loss per basic common share	\$ (2.25)	\$ (0.75)	\$ (0.77)	\$ (4.19)
Weighted average common stock outstanding – basic	1,590,739	1,613,413	1,587,448	1,609,932
Loss per share of common stock – diluted:				
Loss per diluted common share	\$ (2.25)	\$ (0.75)	\$ (0.77)	\$ (4.19)
Weighted average common stock outstanding – diluted	1,590,739	1,613,413	1,587,448	1,609,932

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net loss attributable to stockholders	\$ (3,523)	\$ (1,155)	\$ (1,074)	\$ (6,586)
Other comprehensive loss:				
Currency translation adjustments, net	(37)	—	(20)	—
Total other comprehensive loss	(37)	—	(20)	—
Comprehensive loss	<u>\$ (3,560)</u>	<u>\$ (1,155)</u>	<u>\$ (1,094)</u>	<u>\$ (6,586)</u>

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 Income (Loss)	Treasury Stock	Total Stockholders' Deficit
	Number of Shares	Amount					
December 31, 2018	2,862,760	\$ 29	\$ 42,245	\$ 26,558	\$ —	\$ (275,988)	\$ (207,156)
Cumulative effect of adoption of ASC 842 (Note 1)	—	—	—	(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 attributable to stockholders	—	—	—	(840)	—	—	(840)
March 31, 2019	2,884,143	29	42,943	25,590	12	(276,183)	(207,609)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	1,866	—	—	—	—	—	—
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(6)	(6)
Amortization of preferred stock issuance costs	—	—	—	(52)	—	—	(52)
Share-based compensation	—	—	588	—	—	—	588
Currency translation adjustments, net	—	—	—	—	5	—	5
Net income attributable to stockholders	—	—	—	3,289	—	—	3,289
June 30, 2019	2,886,009	29	43,531	28,827	17	(276,189)	(203,785)
Amortization of preferred stock issuance costs	—	—	—	(52)	—	—	(52)
Share-based compensation	—	—	580	—	—	—	580
Currency translation adjustments, net	—	—	—	—	(37)	—	(37)
Net loss attributable to stockholders	—	—	—	(3,523)	—	—	(3,523)
September 30, 2019	2,886,009	\$ 29	\$ 44,111	\$ 25,252	\$ (20)	\$ (276,189)	\$ (206,817)

See accompanying notes to condensed consolidated financial statements.

Altisource Asset Management Corporation
Condensed Consolidated Statements of Stockholders' Deficit (continued)
(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					
December 31, 2017	2,815,122	\$ 28	\$ 37,765	\$ 38,970	\$ (1,330)	\$ (272,328)	\$ (196,895)
Cumulative effect of adoption of ASU 2016-01 (Note 1)	—	—	—	(1,330)	1,330	—	—
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	15,339	—	3	—	—	—	3
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(196)	(196)
Amortization of preferred stock issuance costs	—	—	—	(51)	—	—	(51)
Share-based compensation	—	—	1,257	—	—	—	1,257
Net loss attributable to stockholders	—	—	—	(4,364)	—	—	(4,364)
March 31, 2018	2,830,461	28	39,025	33,225	—	(272,524)	(200,246)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	2,001	—	—	—	—	—	—
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(31)	(31)
Amortization of preferred stock issuance costs	—	—	—	(52)	—	—	(52)
Share-based compensation	—	—	1,362	—	—	—	1,362
Net loss attributable to stockholders	—	—	—	(1,067)	—	—	(1,067)
June 30, 2018	2,832,462	28	40,387	32,106	—	(272,555)	(200,034)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	2,584	—	3	—	—	—	3
Treasury shares repurchased	—	—	—	—	—	(125)	(125)
Amortization of preferred stock issuance costs	—	—	—	(52)	—	—	(52)
Share-based compensation	—	—	1,085	—	—	—	1,085
Net loss attributable to stockholders	—	—	—	(1,155)	—	—	(1,155)
September 30, 2018	2,835,046	\$ 28	\$ 41,475	\$ 30,899	\$ —	\$ (272,680)	\$ (200,278)

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2019	2018
Operating activities:		
Net loss attributable to stockholders	\$ (1,074)	\$ (6,586)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,866	3,704
Change in fair value of Front Yard common stock	(4,597)	1,641
Depreciation	285	325
Amortization of operating lease right-of-use assets	226	—
Changes in operating assets and liabilities:		
Receivable from Front Yard	(200)	145
Prepaid expenses and other assets	(521)	(150)
Other non-current assets	115	88
Accrued salaries and employee benefits	(766)	(1,048)
Accounts payable and accrued liabilities	(19)	(1,197)
Operating lease liabilities	(138)	—
Net cash used in operating activities	<u>(4,823)</u>	<u>(3,078)</u>
Investing activities:		
Investment in short-term investments	(1,622)	(137)
Proceeds from maturities of short-term investments	1,251	483
Investment in property and equipment	(240)	(77)
Proceeds from disposition of property and equipment	42	—
Net cash (used in) provided by investing activities	<u>(569)</u>	<u>269</u>
Financing activities:		
Proceeds from stock option exercises	—	24
Shares withheld for taxes upon vesting of restricted stock	(201)	(227)
Payment of tax withholdings on stock option exercises	—	(18)
Repurchase of treasury shares	—	(125)
Net cash used in financing activities	<u>(201)</u>	<u>(346)</u>
Net change in cash and cash equivalents	(5,593)	(3,155)
Effect of exchange rate changes on cash	(20)	—
Cash and cash equivalents as of beginning of the period	27,171	33,349
Cash and cash equivalents as of end of the period	<u>\$ 21,558</u>	<u>\$ 30,194</u>
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 489	\$ 1,320
Right-of-use lease assets recognized - operating leases	4,684	—
Operating lease liabilities recognized	4,671	—

See accompanying notes to condensed consolidated financial statements.

Altisource Asset Management Corporation
Notes to Condensed Consolidated Financial Statements
September 30, 2019
(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”), 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 become 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 2018 [Annual Report on Form 10-K](#), which was filed with the SEC on February 27, 2019.

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

Series A Convertible Preferred Stock

During the first quarter of 2014, we issued 250,000 shares of convertible preferred stock for \$250.0 million (“Series A Preferred Stock”) to institutional investors. All of the outstanding shares of Series A Preferred Stock may be required to be redeemed by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of the Series A Preferred Stock has the right to give notice requiring us to redeem all the shares of Series A Preferred Stock held by such holder. Depending on the date of such notice, the redemption date will fall on or within 15 business days after March 15, 2020. The redemption right will be exercisable every five years thereafter until the mandatory redemption date in 2044. If we are required to redeem a holder’s 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. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders’ equity.

If holders of the Series A Preferred Stock were to exercise their rights to require us to redeem their shares of Series A Preferred Stock and we do not have funds legally available to pay the full redemption price, our obligation to make such payment at such time would be limited by reference to the number of shares as to which redemption notices are validly delivered and the amount of funds legally available therefor. If, as we expect, the amount of such funds is insufficient to satisfy all redemptions, we do not expect to be able to increase such funds in any material amount, if at all, by raising debt or equity capital or taking other actions. Accordingly, we have been managing our cash in expectation of receiving redemption notices, subject to the needs of our ongoing business, including the maintenance of adequate working capital to run our business. To that end, we have ceased repurchasing shares of our common stock and do not intend to resume any such repurchases until we reconsider the issue after the first potential March 2020 redemption date for our Series A Preferred Stock.

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 are being 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 September 30, 2019 and December 31, 2018, we had 1,000 and 800 shares outstanding, respectively, and we included the redemption value of these shares of \$10,000 and \$8,000, respectively, within accounts payable and accrued liabilities in our condensed consolidated balance sheets. In February 2019 and 2018, our Board of Directors declared and paid an aggregate of \$1.1 million and \$0.9 million, 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 February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. Accounting by lessors is substantially unchanged from prior practice as lessors will continue to recognize lease revenue on a straight-line basis. The FASB has also issued multiple ASUs amending certain aspects of Topic 842. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. The amendments in ASU 2016-02 should be applied on a modified retrospective transition basis, and a number of practical expedients may apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. We adopted this standard as of January 1, 2019 when the standard became effective and was required to be adopted. Consistent with the standard, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods prior to January 1, 2019. As mentioned above, the new standard provides a number of optional practical expedients in transition. We elected the "package of practical expedients," which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs under the new standard. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease exemption for all leases that qualify; as a result, we will not recognize right-of-use assets or lease liabilities for leases with a term of less than 12 months at inception. Upon our adoption of this standard, we recognized operating lease right-of-use assets of \$2.8 million, lease liabilities of \$2.8 million and a cumulative-effect adjustment to retained earnings of \$(0.1) million. We have also provided the required incremental disclosures about our leasing activities on a prospective basis in Note 3.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). Our adoption of ASU 2016-01 effective January 1, 2018 resulted in a cumulative-effect adjustment to our balance sheet of \$1.3 million to reclassify our accumulated other comprehensive loss to retained earnings, and thereafter we record the impact of changes in the fair value of our Front Yard common stock during the current period through profit and loss. Periods ending prior to the adoption were not impacted.

Recently issued accounting standards not yet adopted

In June 2016, the 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. The amendment 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 will require 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 expect to adopt this standard on January 1, 2020. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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
September 30, 2019				
Recurring basis (assets):				
Front Yard common stock	\$ 18,779	\$ 18,779	\$ —	\$ —
December 31, 2018				
Recurring basis (assets):				
Front Yard common stock	\$ 14,182	\$ 14,182	\$ —	\$ —

We did not transfer any assets from one level to another level during the nine months ended September 30, 2019 or during the year ended December 31, 2018.

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 September 30, 2019 and December 31, 2018, 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
	September 30, 2019			
Front Yard common stock	\$ 20,596	\$ —	\$ (1,817)	\$ 18,779
December 31, 2018				
Front Yard common stock	\$ 20,596	\$ —	\$ (6,414)	\$ 14,182

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. Our office leases are generally for terms of one to five years and typically include renewal options, which we consider when in determining our lease right-of-use assets and lease liabilities to the extent that a renewal option is reasonably certain of being exercised. We do not record lease right-of-use assets or lease liabilities for leases with an initial maturity of one year or less. Along with rents, we are generally required to pay common area maintenance, property taxes and insurance, each of which vary from period to period and are therefore expensed as incurred.

As of September 30, 2019, our weighted average remaining lease term, including applicable extensions, was 9.3 years. We applied a discount rate of 8.4% 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 and nine months ended September 30, 2019, we recognized rent expense of \$0.1 million and \$0.4 million, respectively, related to long-term operating leases, and we recognized rent expense \$0.1 million and \$0.2 million during the

three and nine months ended September 30, 2019, respectively related to short-term operating leases. We include rent expense as a component of general and administrative expenses.

The following table presents a maturity analysis of our operating leases as of September 30, 2019 (\$ in thousands):

	Operating Lease Liabilities
2019 (1)	\$ 319
2020	630
2021	650
2022	675
2023	703
Thereafter	3,682
Total lease payments	<u>6,659</u>
Less: interest	2,126
Lease liabilities	<u>\$ 4,533</u>

(1) Excludes the nine months ended September 30, 2019.

On March 12, 2019, we entered into a lease agreement for office space in Charlotte, North Carolina. This lease commenced on August 14, 2019 and has an initial term of five years and a renewal option for an additional five year term. Monthly base rental payments during the first year are \$21,867, plus common area maintenance and other charges customary with this type of lease, and the base rental payments will increase by approximately 3% each year thereafter. Upon commencement, we recorded an operating lease right-of-use asset and a related lease liability of approximately \$1.8 million.

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, 2018. 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. There have been no material updates since our Quarterly Report on Form 10-Q for the second quarter of 2019; therefore, we are restating the description of the previously reported matter below:

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.

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.

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. 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 and nine months ended September 30, 2019 and 2018;
- **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 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 on each of January 23, 2020, 2021 and 2022, subject to forfeiture or acceleration.

On February 20, 2018, we granted 25,074 shares of restricted stock to members of management with a weighted average grant date fair value per share of \$64.05. The restricted stock will vest in three equal annual installments, the first of which occurred on February 20, 2019 with remaining installments vesting in February 2020 and 2021, 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. During the nine months ended September 30, 2019 and 2018, we granted 12,693 and 1,866 shares of restricted stock, respectively, to our Directors, with a weighted average grant date fair value per share of \$14.18 and \$64.30, respectively.

We recorded \$0.6 million and \$1.9 million of compensation expense related to our grants of restricted stock for the three and nine months ended September 30, 2019, respectively, and we recorded \$1.1 million and \$3.7 million of compensation expense related to our grants of restricted stock for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019 and December 31, 2018, we had an aggregate \$1.7 million and \$1.8 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.0 year and 1.6 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 September 30, 2019 and December 31, 2018, we accrued no interest or penalties associated with any unrecognized tax benefits, nor did we recognize any interest expense or penalties during the nine months ended September 30, 2019 and 2018.

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

	September 30, 2019	December 31, 2018
Deferred tax assets:		
Stock compensation	\$ 146	\$ 199
Accrued expenses	522	619
Front Yard common stock	419	1,482
Net operating losses	219	184
Other	53	35
	<u>1,359</u>	<u>2,519</u>
Deferred tax liability:		
Depreciation	4	10
	<u>1,355</u>	<u>2,509</u>
Valuation allowance	(763)	(1,877)
Deferred tax asset, net	<u>\$ 592</u>	<u>\$ 632</u>

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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Numerator				
Net loss attributable to stockholders	\$ (3,523)	\$ (1,155)	\$ (1,074)	\$ (6,586)
Amortization of preferred stock issuance costs	(52)	(52)	(155)	(155)
Numerator for basic and diluted EPS – net loss attributable to common stockholders	(3,575)	(1,207)	(1,229)	(6,741)
Denominator				
Weighted average common stock outstanding – basic	1,590,739	1,613,413	1,587,448	1,609,932
Weighted average common stock outstanding – diluted	1,590,739	1,613,413	1,587,448	1,609,932
Loss per basic common share	\$ (2.25)	\$ (0.75)	\$ (0.77)	\$ (4.19)
Loss per diluted common share	\$ (2.25)	\$ (0.75)	\$ (0.77)	\$ (4.19)

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Numerator				
Reversal of amortization of preferred stock issuance costs	\$ 52	\$ 52	\$ 155	\$ 155
Denominator				
Stock options	11,527	21,194	13,087	24,109
Restricted stock	13,926	47,888	25,056	37,698
Preferred stock, if converted	200,000	200,000	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.

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>.

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

On May 7, 2019, we amended and restated our asset management agreement with Front Yard (the “Amended AMA”). We believe the Amended AMA provides an improved fee structure that provides AAMC with growing management fee revenues while encouraging growth and performance at Front Yard, subject to certain performance thresholds and an aggregate fee cap aimed to prevent the management fees from increasing Front Yard's general and administrative expenses above industry standards, based on the size of Front Yard’s gross real estate asset base. Importantly, the Amended AMA also provides for a termination option that would, if exercised, provide an industry-standard termination fee to AAMC that did not exist prior to the amendment, while providing Front Yard with the flexibility to further internalize if the Front Yard board of directors determines it is in its stockholders’ best interest to do so. For further details of the Amended AMA, refer to Item 1 - Financial Statements (Unaudited) - Note 5, “Related-Party Transactions.”

Management Overview

During the third quarter of 2019, we continued to assist Front Yard in identifying and addressing operational inefficiencies that arose in connection with the transfer of the nearly 12,000 remaining externally managed homes to its internal property management platform. We focused our efforts on improving unit turn timelines, increasing occupancy, reducing repair and maintenance expense and increasing collections of overdue rent balances. As a result of these transition-related challenges, Front Yard's operating metrics were negatively impacted during the third quarter. We believe we have made substantial progress in addressing and mitigating the issues surrounding unit turns, occupancy, repair and maintenance and collections, and we expect to see improvement in Front Yard's operational results in the coming quarters.

We have continued to target optimized performance of Front Yard's SFR portfolio by marketing certain of its rental properties for sale that do not meet its strategic objectives. During the quarter ended September 30, 2019, we managed Front Yard's sale of 106 non-core rental homes on an individual basis, and we have identified 229 non-core rental properties for sale as of September 30, 2019. Front Yard also disposed of 20 non-rental REO properties, and Front Yard had 42 non-rental REO properties remaining to be sold as of September 30, 2019. In addition, on October 7, 2019, Front Yard entered into an agreement to sell 47 of the 52 remaining mortgage loans in its portfolio for an aggregate sales price of \$3.5 million. We believe these non-core asset sales will allow Front Yard to improve its operating efficiency, further simplify its statement of operations and balance sheet, recycle capital that it may use to purchase pools of stabilized rental homes at attractive yields, repurchase its common stock, pay down its debt or utilize the proceeds for such other purposes that are determined to best serve its stockholders.

We believe the foregoing developments continue to be critical to our strategy of building long-term stockholder value for Front Yard through the creation and efficient management of a large portfolio of internally managed SFR homes that we target

operating for Front Yard at an attractive yield. To the extent Front Yard is successful in implementing this strategy under our management, the management fees under the Amended AMA we earn should be positively impacted.

Asset Management Agreement with Front Yard

For details of our asset management agreements 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. 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 and nine months ended September 30, 2019 and 2018.

Three and Nine Months Ended September 30, 2019 Compared to Three and Nine Months Ended September 30, 2018

Management Fees and Expense Reimbursements

We recognized base management fees from Front Yard of \$3.6 million and \$10.7 million during the three and nine months ended September 30, 2019, respectively, compared to \$3.6 million and \$11.0 million during the three and nine months ended September 30, 2018, respectively. The decrease in base management fees is primarily driven by a reduction in Front Yard's average invested capital (as defined in the Former AMA). Under the Amended AMA, the Base Management Fee is subject to a Minimum Base Fee of \$3.6 million per quarter.

We recognized conversion fees from Front Yard of \$0 and \$29,000 during the three and nine months ended September 30, 2019, respectively, compared to \$35,000 and \$151,000 during the three and nine months ended September 30, 2018, respectively. This decrease is primarily due to fewer loans and REO properties converting to rental properties as we continue to pare the small number of remaining legacy assets of Front Yard. Under the Amended AMA, we will no longer receive conversion fees from Front Yard.

We recognized expense reimbursements due from Front Yard of \$0.3 million and \$0.9 million during the three and nine months ended September 30, 2019, respectively, compared to \$0.3 million and \$0.8 million during the three and nine months ended September 30, 2018, respectively. Expense reimbursements relate primarily to travel and other out-of-pocket costs in managing Front Yard's business and the employment costs related to the General Counsel dedicated to Front Yard.

Due to our entry into the Amended AMA, we expect that the aggregate management fees we receive may increase over time as we grow Front Yard's SFR portfolio.

Salaries and Employee Benefits

Salaries and employee benefits were \$4.2 million and \$4.6 million during the three months ended September 30, 2019 and 2018, respectively. The decrease in salaries and benefits during the three months ended September 30, 2019 is primarily due to reduced share-based compensation expense related to restricted stock grants to management, partially offset by higher salaries and benefits associated with increased headcount.

Salaries and employee benefits were \$12.9 million and \$13.3 million during the nine months ended September 30, 2019 and 2018, respectively. The decrease in salaries and benefits during the nine months ended September 30, 2019 is primarily due to reduced share-based compensation expense related to restricted stock grants to management, partially offset by higher salaries and benefits associated with increased headcount.

Legal and Professional Fees

Legal and professional fees were \$0.4 million and \$0.5 million during the three months ended September 30, 2019 and 2018, respectively. This decrease is primarily due to the non-recurrence of litigation-related expenses incurred in 2018.

Legal and professional fees were \$2.1 million and \$1.3 million during the nine months ended September 30, 2019 and 2018, respectively. This increase is primarily due to an increase in legal and consulting fees related to the negotiation and amendment of the asset management agreement.

General and Administrative Expenses

General and administrative expenses were \$1.1 million and \$1.0 million during the three months ended September 30, 2019 and 2018, respectively. This increase is primarily due to increased occupancy costs related to new, larger office space to accommodate increased headcount and technology costs as we brought certain IT functions in-house, partially offset by lower travel costs during 2019.

General and administrative expenses were \$3.0 million and \$2.8 million during the nine months ended September 30, 2019 and 2018, respectively. This increase is primarily due to increased occupancy costs related to new, larger office space to accommodate increased headcount and technology costs as we bring certain IT functions in-house, partially offset by lower travel costs during 2019.

Change in Fair Value of Front Yard Common Stock

The change in fair value of Front Yard common stock was \$(1.1) million compared to \$0.7 million during the three months ended September 30, 2019 and 2018, 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 (the "NYSE").

The change in fair value of Front Yard common stock was \$4.6 million compared to \$(1.6) million during the nine months ended September 30, 2019 and 2018, 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 NYSE.

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 September 30, 2019 and 2018, and \$0.7 million for each of the nine-month periods ended September 30, 2019 and 2018. 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 September 30, 2019, we had cash and cash equivalents of \$21.6 million and short-term investments of \$1.0 million compared to cash and cash equivalents of \$27.2 million and short-term investments of \$0.6 million as of December 31, 2018. The reduction in the cash and cash equivalents in 2019 was primarily due to payment of annual incentive compensation, ongoing salaries and benefits, dividends on preferred stock issued under the 2016 Employee Preferred Stock Program and general corporate expenses in excess of revenues. At September 30, 2019, we also had \$18.8 million in Front Yard common stock, an increase from \$14.2 million as of December 31, 2018, due solely to the increase in Front Yard's stock price during the first nine months of 2019. 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 we are continuing to generate asset management fees under the AMA and receive dividend income 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.

We are continuing to monitor our cash and liquidity as it pertains to the optional redemption rights provided to holders by our outstanding shares of Series A Preferred Stock, as referred to in Item 1 - Financial statements (unaudited) - "Note 1. Organization and basis of presentation - Preferred Stock." The certificate of designations for the Series A Preferred Stock provides that each holder has the right to give notice requiring us to redeem all the shares of Series A Preferred Stock held by such holder. Depending on the date of such notice, the redemption date will fall on or within 15 business days after March 15, 2020. The redemption right will be exercisable every five years thereafter until the mandatory redemption date in 2044. If we are required to redeem a holder's 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. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

If holders of the Series A Preferred Stock were to exercise their rights to require us to redeem their shares of Series A Preferred Stock and we do not have funds legally available to pay the full redemption prices, our obligation to make such payment at such time would be limited by reference to the number of shares as to which redemption notices are validly delivered and the amount of funds legally available therefor. If, as we expect, the amount of such funds is insufficient to satisfy all redemptions, we do not expect to be able to increase such funds in any material amount, if at all, by raising debt or equity capital or taking other actions. Accordingly, we have been managing our cash in expectation of receiving redemption notices, subject to the needs of our ongoing business, including the maintenance of adequate working capital to run our business. To that end, we have ceased repurchasing shares of our common stock and do not intend to resume any such repurchases until we reconsider the issue after the first potential March 2020 redemption date for our Series A Preferred Stock.

As previously disclosed, we are also considering other measures to deal with the possible optional redemption of shares of our Series A Preferred Stock, including engaging in negotiations with the holders thereof to buy back such shares at a substantial

discount to the redemption price and/or modify the terms of the Series A Preferred Stock. There is no certainty as to whether any such negotiations will lead to an agreement with such holders to buy back or modify the terms of the Series A Preferred Stock or, if there were such an agreement, what the terms of such agreement would be. We do not intend to disclose any information with respect to the existence or status of any such negotiations, or to otherwise update this paragraph, until either an agreement with such holders is announced or we are no longer considering or engaging in any such negotiations.

Treasury Shares

At September 30, 2019, 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):

	Nine months ended September 30,	
	2019	2018
Net cash used in operating activities	\$ (4,823)	\$ (3,078)
Net cash (used in) provided by investing activities	(569)	269
Net cash used in financing activities	(201)	(346)
Net change in cash and cash equivalents	\$ (5,593)	\$ (3,155)

Net cash used in operating activities for the nine months ended September 30, 2019 and 2018 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 used in investing activities for the nine months ended September 30, 2019 consisted primarily of investments in short-term investments, partially offset by proceeds from the maturities of short-term investments. Net cash provided by investing cash flows during the nine months ended September 30, 2018 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 nine months ended September 30, 2019 primarily related to shares withheld for taxes upon vesting of restricted stock. Net cash used in financing activities for the nine months ended September 30, 2018 primarily related to shares withheld for taxes upon vesting of restricted stock and repurchases of our common stock.

Off-balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2019 or December 31, 2018.

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, 2018 as filed with the SEC on February 27, 2019.

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, 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.

Item 4. Controls and procedures

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

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, management has determined that the Company's disclosure controls and procedures were effective as of September 30, 2019.

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 September 30, 2019 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

Information regarding reportable legal proceedings is contained in Part I, “Item 3. Legal Proceedings” in our [Annual Report on Form 10-K](#) for the year ended December 31, 2018. There have been no material updates since our quarterly report on Form 10-Q for the second quarter of 2019; therefore, we are restating the description of the previously reported matter below:

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.

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.

Item 1A. Risk factors

There have been no material changes in our risk factors since December 31, 2018 other than the risk factors provided below in connection with the Amended AMA and AAMC’s relationship with Front Yard and in connection with AAMC’s outstanding Series A Preferred Stock. 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, 2018 filed on February 27, 2019.

Because we derive our revenues from Front Yard pursuant to the Amended AMA, 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. As part of the negotiations of 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 AMA. The new termination provisions replaced the terms of the Former AMA that enabled Front Yard to terminate AAMC following a Front Yard “change of control” or certain other customary termination events without paying a termination fee payable to AAMC. As partial consideration for the new management fee terms and termination fee provisions in the Amended AMA, Front Yard was given the ability to terminate the Amended AMA at any time and for any reason. 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 we earn under the Amended AMA could be reduced, during a Front Yard transition period at the option of Front Yard of up to on-year, to our costs in providing the transition services. Following any transition period, our management fees would reduce to \$0. In addition, a portion of the Termination Fee (as defined in the

Amended AMA), up to 50% of such fee, could be payable to AAMC in stock of Front Yard over up to nine months following such termination. To the extent Front Yard pays a portion of the Termination Fee in Front Yard 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 May 21, 2019, following the settlement of a proxy contest, Front Yard announced that it had refreshed its board of directors and formed a special committee to explore strategic alternatives, including without limitation, a potential internalization of the asset management function, potential termination of AAMC and the potential sale of Front Yard. Following such measures, it is possible that Front Yard, or a successor to Front Yard in the event of a sale, could terminate the Amended AMA, potentially in the short term. Following such strategic alternatives process, if AAMC were to be terminated, such termination would have a material adverse effect on our financial condition and prospects. AAMC may not be able to replace the lost revenues from Front Yard with a revenue stream from alternative sources on a timely basis or at all, which would have a material, adverse effect on us.

The terms of our outstanding 250,000 shares of Series A Preferred Stock may require us to take certain actions adverse to us and/or make payments to the holders of such shares in connection with potential Series A Preferred Stock redemptions, the first of which could occur in March 2020. Any potential negotiation efforts with the holders of such Series A Preferred Stock could be unsuccessful or untimely.

The certificate of designations for the Series A Preferred Stock provides that each holder has the right to give notice requiring us to redeem all the shares of Series A Preferred Stock held by such holder. Depending on the date of such notice, the redemption date will fall on or within 15 business days after March 15, 2020. The redemption right will be exercisable every five years thereafter until the mandatory redemption date in 2044. If we are required to redeem a holder's shares, we are required to do so for cash at a price equal to \$1,000 per share (the issuance price, which totals \$250.0 million) out of funds legally available therefor.

If holders of the Series A Preferred Stock were to exercise their rights to require us to redeem their shares of Series A Preferred Stock and we do not have funds legally available to pay the full redemption prices, our obligation to make such payment at such time would be limited by reference to the number of shares as to which redemption notices are validly delivered and the amount of funds legally available therefor. If, as we expect, the amount of such funds is insufficient to satisfy all redemptions, we do not expect to be able to increase such funds in any material amount, if at all, by raising debt or equity capital or taking other actions. Accordingly, we have been managing our cash in expectation of receiving redemption notices, subject to the needs of our ongoing business, including the maintenance of adequate working capital to run our business. To the extent that we are required to make redemption payments, even though such payments would be limited to funds legally available therefor, any such payments would reduce our liquidity and capital resources, which could have a material adverse effect on our ability to run our business, generate new revenue streams and attract and retain employees.

As previously disclosed, we are also considering other measures to deal with the possible optional redemption of shares of our Series A Preferred Stock, including engaging in negotiations with the holders thereof to buy back such shares at a substantial discount to the redemption price and/or modify the terms of the Series A Preferred Stock. There is no certainty as to whether any such negotiations will lead to an agreement with such holders to buy back or modify the terms of the Series A Preferred Stock or, if there were such an agreement, what the terms of such agreement would be. If we are unsuccessful in any such negotiations with the holders of the Series A Preferred Stock, such shares would remain outstanding for the applicable redemption dates or potentially subject us to claims by the holders of such shares, each of which could have a material adverse effect on us.

Item 4. Mine safety disclosures

Not applicable.

Item 6. Exhibits**Exhibits**

Exhibit Number	Description
2.1	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
3.1	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
3.2	Second Amended and Restated Bylaws of Altisource Asset Management Corporation adopted on July 24, 2019 (incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2019).
3.3	Certificate of Designations establishing the Company's Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2014).
31.1*	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2*	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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: November 6, 2019

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: November 6, 2019

By: /s/ George G. Ellison
George G. Ellison
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: November 6, 2019

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

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

The undersigned, the 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 September 30, 2019 ("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: November 6, 2019

By: /s/ George G. Ellison
George G. Ellison
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 September 30, 2019 (“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: November 6, 2019

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