

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, 2021

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)

**U.S. Virgin Islands**  
(State or other jurisdiction of incorporation or organization)

**66-0783125**  
(I.R.S. Employer Identification No.)

**5100 Tamarind Reef**  
**Christiansted, U.S. Virgin Islands 00820**  
(Address of principal executive office)

**(704) 275-9113**  
(Registrant's telephone number, including area code)

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

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

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

As of November 5, 2021, 2,055,561 shares of our common stock were outstanding (excluding 1,360,980 shares held as treasury stock).

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**Altisource Asset Management Corporation**  
**September 30, 2021**  
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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, and our officers, directors and authorized spokespersons may make, “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 business, operations, results or financial condition 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 successfully engage in new businesses;
- our search for a permanent Chief Executive Officer;
- our ability to develop and implement new businesses or, to the extent such businesses are developed, our ability to make them successful or sustain the performance of any such businesses;
- our ability to retain and maintain our strategic relationships;
- our ability to obtain additional asset management clients;
- the potential for the COVID-19 pandemic to adversely affect our business, financial position, operations, business prospects, customers, employees and third-party service providers;
- our ability to effectively compete with our competitors;
- the failure of our service providers to effectively perform their obligations under their agreements with us;
- our ability to integrate newly acquired business;
- developments in the litigation regarding our redemption obligations under the Certificate of Designations of our Series A Convertible Preferred Stock (the “Series A Shares”), including our ability to obtain declaratory relief confirming that we were not obligated to redeem any of the Series A Shares on the March 15, 2020 redemption date if we do not have funds legally available to redeem all, but not less than all, of the Series A Shares requested to be redeemed on that redemption date;
- general economic and market conditions; and
- the failure of our information technology systems, a breach thereto, and our ability to integrate and improve those systems at a pace fast enough to keep up with competitors and security threats.

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, 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, 2020.

## 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, 2021 (unaudited)	December 31, 2020
<b>Current assets:</b>		
Cash and cash equivalents	\$ 84,544	\$ 41,623
Front Yard common stock, at fair value	—	47,355
Receivable from Front Yard	—	3,414
Prepaid expenses and other assets	2,883	3,328
Current assets held for sale	—	894
Total current assets	87,427	96,614
<b>Non-current assets:</b>		
Right-of-use lease assets	860	656
Other non-current assets	476	503
Non-current assets held for sale	—	1,979
Total non-current assets	1,336	3,138
Total assets	\$ 88,763	\$ 99,752
<b>Current liabilities:</b>		
Accrued salaries and employee benefits	\$ 467	\$ 2,539
Accounts payable and accrued liabilities	2,879	9,152
Short-term lease liabilities	133	75
Current liabilities held for sale	—	1,338
Total current liabilities	3,479	13,104
<b>Non-current liabilities:</b>		
Long-term lease liabilities	757	600
Other non-current liabilities	2,697	1,027
Non-current liabilities held for sale	—	1,599
Total non-current liabilities	3,454	3,226
Total liabilities	6,933	16,330
<b>Commitments and contingencies (Note 6)</b>	—	—
<b>Redeemable preferred stock:</b>		
Preferred stock, \$0.01 par value, 250,000 and 250,000 shares issued as September 30, 2021 and December 31, 2020, respectively. 150,000 shares outstanding and \$150,000 redemption value as of September 30, 2021 and 250,000 shares outstanding and \$250,000 redemption value as of December 31, 2020.	150,000	250,000
<b>Stockholders' deficit:</b>		
Common stock, \$0.01 par value, 5,000,000 authorized shares; 3,416,541 and 2,055,561 shares issued and outstanding, respectively, as of September 30, 2021 and 2,966,207 and 1,650,212 shares issued and outstanding, respectively, as of December 31, 2020	34	30
Additional paid-in capital	143,490	46,574
Retained earnings	65,841	63,426
Accumulated other comprehensive loss	54	(65)
Treasury stock, at cost, 1,360,980 shares as of September 30, 2021 and 1,315,995 shares as of December 31, 2020	(277,589)	(276,543)
Total stockholders' deficit	(68,170)	(166,578)
Total liabilities and equity	\$ 88,763	\$ 99,752

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,	
	2021	2020	2021	2020
<b>Expenses:</b>				
Salaries and employee benefits	\$ 878	\$ 1,668	\$ 4,078	\$ 8,081
Legal and professional fees	3,725	1,455	8,265	4,681
General and administrative	585	559	1,949	1,709
Total expenses	5,188	3,682	14,292	14,471
<b>Other income (loss):</b>				
Change in fair value of Front Yard common stock	—	65	146	(5,848)
Dividend income on Front Yard common stock	—	—	—	244
Change in fair value of equity securities	(3,310)	—	—	—
Dividend income	20	—	3,061	—
Gain on sale of equity securities	1,987	—	8,347	—
Interest expense	—	—	(60)	—
Other income	8	5	147	29
Total other income (loss)	(1,295)	70	11,641	(5,575)
Net income (loss) from continuing operations before income taxes	(6,483)	(3,612)	(2,651)	(20,046)
Income tax (benefit) expense	(786)	(523)	1,175	(1,091)
Net income (loss) from continuing operations	(5,697)	(3,089)	(3,826)	(18,955)
<b>Discontinued operations:</b>				
Income from operations related to Front Yard, net of tax	—	14,843	—	19,117
Gain on disposal of operations related to Front Yard	—	—	7,485	—
Income tax expense related to disposal	—	—	1,272	—
Net gain on discontinued operations	—	14,843	6,213	19,117
Net income (loss)	(5,697)	11,754	2,387	162
Amortization of preferred stock issuance costs	—	—	—	(42)
Net income (loss) attributable to common stockholders	\$ (5,697)	\$ 11,754	\$ 2,387	\$ 120
<b>Continuing operations earnings per share</b>				
Net income (loss) from continuing operations	\$ (5,697)	(3,089)	(3,826)	(18,955)
Reverse amortization of preferred stock issuance costs	—	—	—	42
Gain on preferred stock transaction	16,101	—	87,984	—
Numerator for earnings per share from continuing operations	\$ 10,404	\$ (3,089)	\$ 84,158	\$ (18,913)
<b>Discontinued operations earnings per share</b>				
Net income from discontinued operations	\$ —	\$ 14,843	\$ 6,213	\$ 19,117
<b>Earnings (loss) per share of common stock – basic:</b>				
Continuing operations – basic	\$ 5.06	\$ (1.89)	\$ 42.41	\$ (11.69)
Discontinued operations – basic	—	9.09	3.13	11.76
Earnings (loss) per basic common share	\$ 5.06	\$ 7.20	\$ 45.54	\$ 0.07
Weighted average common stock outstanding – basic	2,055,561	1,632,117	1,984,294	1,625,727
<b>Earnings (loss) per share of common stock – diluted:</b>				
Continuing operations – diluted	\$ 4.76	\$ (1.89)	\$ 39.06	\$ (11.69)
Discontinued operations – diluted	—	9.09	2.88	11.76
Earnings (loss) per diluted common share	\$ 4.76	\$ 7.20	\$ 41.94	\$ 0.07
Weighted average common stock outstanding – diluted	2,187,585	1,632,117	2,154,597	1,625,727

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ (5,697)	\$ 11,754	\$ 2,387	\$ 162
Other comprehensive loss:				
Currency translation adjustments, net	—	42	(6)	(51)
Total other comprehensive loss:	—	42	(6)	(51)
Comprehensive income (loss)	<u>\$ (5,697)</u>	<u>\$ 11,796</u>	<u>\$ 2,381</u>	<u>\$ 111</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 Loss	Treasury Stock	Total Stockholders' Deficit
	Number of Shares	Amount					
<b>December 31, 2020</b>	2,966,207	\$ 30	\$ 46,574	\$ 63,426	\$ (65)	\$ (276,543)	\$ (166,578)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	153,429	2	(2)	—	—	(800)	(800)
Share-based compensation	—	—	2,446	—	—	(219)	2,227
Currency translation adjustments, net	—	—	—	—	(2)	—	(2)
Acquisition and disposition of subsidiaries	—	—	—	28	125	—	153
Preferred stock conversion	288,283	2	78,935	—	—	—	78,937
Net income	—	—	—	5,856	—	—	5,856
<b>March 31, 2021</b>	3,407,919	34	127,953	69,310	58	(277,562)	(80,207)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	8,622	—	—	—	—	—	—
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(27)	(27)
Share-based compensation	—	—	(581)	—	—	—	(581)
Currency translation adjustments, net	—	—	—	—	(4)	—	(4)
Net income	—	—	—	2,228	—	—	2,228
<b>June 30, 2021</b>	3,416,541	34	127,372	71,538	54	(277,589)	(78,591)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	—	—	17	—	—	—	17
Preferred stock conversion	—	—	16,101	—	—	—	16,101
Net income (loss)	—	—	—	(5,697)	—	—	(5,697)
<b>September 30, 2021</b>	3,416,541	\$ 34	\$ 143,490	\$ 65,841	\$ 54	\$ (277,589)	\$ (68,170)

See accompanying notes to condensed consolidated financial statements.



	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Deficit
	Number of Shares	Amount					
<b>December 31, 2019</b>	2,897,177	\$ 29	\$ 44,646	\$ 23,662	\$ (33)	\$ (276,232)	\$ (207,928)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	39,562	—	4	—	—	—	4
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(196)	(196)
Amortization of preferred stock issuance costs	—	—	—	(42)	—	—	(42)
Share-based compensation	—	—	477	—	—	—	477
Currency translation adjustments, net	—	—	—	—	(89)	—	(89)
Net loss	—	—	—	(3,757)	—	—	(3,757)
<b>March 31, 2020</b>	2,936,739	29	45,127	19,863	(122)	(276,428)	(211,531)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	5,858	—	10	—	—	—	10
Share-based compensation	—	—	393	—	—	—	393
Currency translation adjustments, net	—	—	—	—	(4)	—	(4)
Net loss	—	—	—	(7,835)	—	—	(7,835)
<b>June 30, 2020</b>	2,942,597	29	45,530	12,028	(126)	(276,428)	(218,967)
Share-based compensation	—	—	335	—	—	—	335
Currency translation adjustments, net	—	—	—	—	42	—	42
Net income	—	—	—	11,754	—	—	11,754
<b>September 30, 2020</b>	2,942,597	\$ 29	\$ 45,865	\$ 23,782	\$ (84)	\$ (276,428)	\$ (206,836)

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,	
	2021	2020
<b>Operating activities:</b>		
Net income (loss)	\$ 2,387	\$ 162
Less: Income from discontinued operations, net of tax	6,213	19,117
Income (loss) from continuing operations	(3,826)	(18,955)
Adjustments to reconcile net income (loss) from continuing operations to net cash from (used in) operating activities:		
Depreciation	237	265
Change in fair value of Front Yard common stock	(146)	5,848
Share-based compensation	1,883	1,205
Amortization of operating lease right-of-use assets	105	57
Dividend income	(3,061)	—
Change in fair value of equity securities	—	—
Gain on securities	(8,347)	—
Changes in operating assets and liabilities, net of effects from discontinued operations and acquisition of subsidiary:		
Receivable from Front Yard	3,414	(29,953)
Prepaid expenses and other assets	(990)	(754)
Other non-current assets	1,614	(59)
Accrued salaries and employee benefits	(2,061)	229
Accounts payable and accrued liabilities	(7,650)	(1,341)
Contract liability to Front Yard	—	33,733
Other non-current liabilities and operating lease liabilities	1,885	(51)
Net cash (used in) continuing operations	(16,943)	(9,776)
Net cash from discontinued operations	5,439	19,055
Net cash (used in) operating activities	(11,504)	9,279
<b>Investing activities:</b>		
Purchase of equity securities	(96,950)	—
Dividends received	3,061	—
Proceeds from sale of equity securities	152,796	—
Investment in property and equipment	(511)	(23)
Net cash from (used in) continuing operations	58,396	(23)
Net cash from discontinued operations	511	3,638
Net cash from investing activities	58,907	3,615
<b>Financing activities:</b>		
Proceeds from borrowed funds	28,549	—
Repayment of borrowed funds	(28,549)	—
Settlement of preferred stock	(3,740)	—
Proceeds and payment of tax withholding on stock options exercised, net	5	14
Shares withheld for taxes upon vesting of restricted stock	(1,046)	(196)
Net payment to subsidiaries included in disposal group	(80)	(130)
Net cash from (used in) continuing operations	(4,861)	(312)
Net cash from (used in) discontinued operations	80	130
Net cash (used in) financing activities	(4,781)	(182)
Net change in cash and cash equivalents	42,622	12,712
Effect of exchange rate changes on cash and cash equivalents	115	(38)
<b>Consolidated cash and cash equivalents, beginning of period</b>	<b>41,807</b>	<b>19,965</b>
<b>Consolidated cash and cash equivalents, end of the period</b>	<b>\$ 84,544</b>	<b>\$ 32,639</b>

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Condensed Consolidated Statements of Cash Flows (Continued)**

(In thousands)  
(Unaudited)

	Nine months ended September 30,	
	2021	2020
<b>Supplemental disclosure of cash flow information (continuing and discontinued operations):</b>		
Cash paid for interest	\$ 60	\$ —
Income taxes paid	812	346
Right-of-use lease assets recognized - operating leases	308	—
<b>Reconciliation of cash and cash equivalents to consolidated balance sheets:</b>		
Cash and cash equivalents	\$ 84,544	\$ 9,816
Cash and cash equivalents included in assets of discontinued operations	—	22,823
<b>Consolidated cash and cash equivalents</b>	<b>\$ 84,544</b>	<b>\$ 32,639</b>

See accompanying notes to condensed consolidated financial statements.

**Altisource Asset Management Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2021**  
**(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 client has been 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 periods in fiscal year 2020 was generated through our asset management agreements with Front Yard.

### Asset Management Agreements and Termination Agreement with Front Yard

On May 7, 2019, we entered into the Amended and Restated Asset Management Agreement (the “Amended AMA”) with Front Yard and Front Yard Residential L.P. (“FYR LP”), under which we were provided to be the exclusive asset manager for Front Yard for an initial term of five years. The Amended AMA had the option to renew automatically each year thereafter for an additional one-year term, subject in each case to certain termination provisions. The Amended AMA provided for a fee structure in which we were entitled to a Base Management Fee and a potential Incentive Fee.

On August 13, 2020, AAMC, Front Yard and FYR LP entered into a Termination and Transition Agreement (the “Termination Agreement”), under which, on December 31, 2020 (the “Termination Date”):

- Front Yard agreed to acquire on January 1, 2021, the equity interests of AAMC's India subsidiary. Additionally, Front Yard acquired the equity interests of AAMC's Cayman Islands subsidiary, the right to solicit and hire designated AAMC employees that had oversight of the management of Front Yard's business and other assets of AAMC that were used in connection with the operation of Front Yard's business (the “Disposal Group”) for an aggregate purchase price of \$8.2 million.
- In satisfaction of the amounts payable in Front Yard stock, we received 1,298,701 shares of Front Yard common stock. We recorded a nominal gain on the shares received.
- AAMC assigned its office lease in Charlotte, North Carolina. Certain assets related to the lease, primarily office and employee-related equipment were written off, none of which were individually material, and were recorded through other income (loss).
- Two business days prior to the Termination Date, Mr. Ellison resigned as Co-Chief Executive Officer of AAMC.

We have concluded that the Disposal Group met the held-for-sale criteria and have therefore classified the Disposal Group as held for sale on our condensed consolidated balance sheets. The termination of the Amended AMA and the sale of the Disposal Group also represents a significant strategic shift that will have a major effect on our operations and financial results. Therefore, we have classified the results of operations related to Front Yard as discontinued operations in our condensed consolidated statements of operations.

On January 1, 2021, we completed the sale of our India subsidiary and recognized a one-time gain before tax of \$7.5 million on the disposal. Following the sale of the Disposal Group on January 1, 2021, no further activity has been recognized as discontinued operations in our condensed consolidated financial results. For further information, please see [Note 2](#).

## **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.

In management's opinion, the unaudited interim condensed consolidated financial statements 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 Annual Report on Form 10-K for the year ended December 31, 2020.

### Use of estimates

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

## **Redeemable Preferred stock**

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

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

Between January 31, 2020 and February 3, 2020, we received purported notices from holders of our Series A Shares requesting us to redeem an aggregate of \$250.0 million liquidation preference of our Series A Shares on March 15, 2020. We did not have legally available funds to redeem all of the Series A Shares on March 15, 2020. As a result, we do not believe, under the terms of the Certificate, that we were (or are) obligated to redeem any of the Series A Shares under the Certificate, and, consistent with the exclusive forum provisions of our Third Amended and Restated Bylaws, on January 27, 2020, we filed a claim for declaratory relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor Capital Group, LP and certain of its funds and managed accounts (collectively, "Luxor") to confirm our interpretation of the Certificate. Luxor has removed the action to the U.S District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is fully briefed and pending. On May 15, 2020, Luxor moved to dismiss AAMC's declaratory judgment complaint. That motion has been fully briefed and submitted to the Court as of July 29, 2020.

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

\$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. On May 25, 2020, Luxor's complaint was amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, "Putnam"), which also invested in the Series A Shares, as plaintiff. Putnam held 81,800 Series A Shares. Collectively, Luxor and Putnam seek a recovery of no less than \$226,012,000 in damages, which is equal to the amount Luxor and Putnam would receive if AAMC redeemed all of Luxor's and Putnam's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of their costs and expenses in the lawsuit. In the alternative, Luxor and Putnam seek a return of the initial purchase price of \$231,800,000 for the Series A Shares, as well as payment of their costs and expenses in the lawsuit. On June 12, 2020, AAMC moved to dismiss the Amended Complaint in favor of AAMC's first-filed declaratory judgment action in the U.S. Virgin Islands. On August 4, 2020, the court denied AAMC's motion to dismiss.

On February 17, 2021, the Company entered into a settlement agreement dated as of February 17, 2021 (the "Putnam Agreement") with Putnam. Pursuant to the Putnam Agreement, AAMC and Putnam agreed to exchange all of Putnam's 81,800 Series A Shares for 288,283 shares of AAMC's common stock. AAMC agreed to pay to Putnam \$1,636,000 within three business days of the effective date of the Putnam Agreement and \$1,227,000 on the one-year anniversary of the effective date of the Putnam Agreement, and in return Putnam agreed to release AAMC from all claims related to the Series A Shares and enter into a voting rights agreement as more fully described in the Putnam Agreement. Finally, AAMC granted to Putnam a most favored nations provision with respect to future settlements of the Series A Shares. As a result of this settlement, we recognized a one-time gain directly to Additional paid in capital of \$71.9 million.

On August 27, 2021, the Company entered into a settlement agreement (the "Wellington Agreement") with certain funds managed by Wellington Management Company LLP (collectively, "Wellington"). Under the Wellington Agreement, the Company agreed to pay Wellington \$2,093,000 in exchange for 18,200 Series A Shares held by Wellington, and in return Wellington agreed to release AAMC from all claims related to the Series A Shares. As a result of this settlement, we recognized a one-time gain directly to Additional paid in capital of \$16.1 million gain.

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

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

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

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

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

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

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

## *2016 Employee Preferred Stock Plan*

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

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

We have issued shares of preferred stock under the Employee Preferred Stock Plan to certain of our USVI employees. These shares of preferred stock are mandatorily redeemable by us in the event of such employee's termination of service with the Company for any reason. At September 30, 2021 and December 31, 2020, we had 1,200 and 1,100 shares outstanding, respectively, and we included the redemption value of these shares of \$12,000 and \$11,000, respectively, within accounts payable and accrued liabilities in our condensed consolidated balance sheets. In January 2021, our Board of Directors declared and paid an aggregate of \$1.6 million (in relation to the 2020 fiscal year) of dividends on these shares of preferred stock. Such dividends are included in salaries and employee benefits in our condensed consolidated statements of operations.

### **Recently issued accounting standards**

#### *Adoption of recent accounting standards*

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

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

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

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” which provides practical expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, and other transactions that reference the London interbank offered rate (“LIBOR”) or another reference rate expected to be discontinued as a result of reference rate reform. These amendments are not applicable to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. ASU No. 2020-04 is effective as of March 12, 2020 through December 31, 2022 and may be applied to contract modifications and hedging relationships from the beginning of an interim period that includes or is subsequent to March 12, 2020. We will adopt this standard when LIBOR is discontinued. We are evaluating the impact the new standard will have on our consolidated financial statements and related disclosures, but do not anticipate a material impact.

## 2. Discontinued Operations

On August 13, 2020, AAMC and Front Yard entered into Termination and Transition Agreement, pursuant to which they agreed to effectively internalize the asset management function of Front Yard. Pursuant to the agreement, Front Yard has acquired the equity interests of AAMC's India subsidiary, the equity interests of AAMC's Cayman Islands subsidiary, the right to solicit and hire designated AAMC employees that oversaw the management of Front Yard's business and other assets of AAMC that are used in connection with the operation of Front Yard's business.

On December 31, 2020, in connection with the Termination Agreement, the company completed the assignment of our lease in Charlotte, North Carolina to Front Yard. Additionally, on December 31, 2020, we completed the sale of our Cayman Islands subsidiary.

On January 1, 2021, in connection with the Termination Agreement, the company completed the sale of our India subsidiary.

The carrying value of major classes of assets and liabilities related to our discontinued operations that constitute the Disposal Group at September 30, 2021 and December 31, 2020 were as follows (\$ in thousands):

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
	(unaudited)	
<b>Current assets held for sale:</b>		
Cash and cash equivalents	\$ —	\$ 184
Prepaid expenses and other assets	—	710
Total current assets held for sale	—	894
<b>Non-current assets held for sale:</b>		
Right-of-use lease assets	—	1,612
Other non-current assets	—	367
Total non-current assets held for sale	—	1,979
Total assets held for sale	\$ —	\$ 2,873
<b>Current liabilities held for sale:</b>		
Accrued salaries and employee benefits	\$ —	\$ 910
Accounts payable and accrued liabilities	—	300
Short-term lease liabilities	—	128
Total current liabilities held for sale	—	1,338
<b>Non-current liabilities held for sale:</b>		
Non-current lease liabilities	—	1,599
Total non-current liabilities held for sale	—	1,599
Total liabilities held for sale	\$ —	\$ 2,937



Discontinued operations includes (i) the management fee revenues generated under our asset management agreements with Front Yard, (ii) expense reimbursements from Front Yard and the underlying expenses, (iii) the results of operations of our India and Cayman Islands subsidiaries, (iv) the employment costs associated with certain individuals wholly dedicated to Front Yard and (v) the costs associated with our lease in Charlotte, North Carolina, that was assumed by Front Yard on December 31, 2020. The operating results of these items are presented in our consolidated statements of operations as discontinued operations for all periods presented and revenues and expenses directly related to discontinued operations were eliminated from our ongoing operations.

The following table details the components comprising net income from our discontinued operations (\$ in thousands):

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Revenues from discontinued operations:</b>				
Management fees from Front Yard	\$ —	\$ 3,584	\$ —	\$ 10,752
Termination fee from Front Yard	—	12,267	—	12,267
Expense reimbursements from Front Yard	—	626	—	1,707
Total revenues from discontinued operations	—	16,477	—	24,726
<b>Expenses from discontinued operations:</b>				
Salaries and employee benefits	—	910	—	3,867
Legal and professional fees	—	67	—	180
General and administrative	—	334	—	1,171
Total expenses from discontinued operations	—	1,311	—	5,218
<b>Other income (loss) from discontinued operations:</b>				
Gain on disposal	—	—	7,485	—
Other income (loss)	—	(6)	—	24
Total other income (loss) from discontinued operations	—	(6)	7,485	24
Net income from discontinued operations before income taxes	—	15,160	7,485	19,532
Income tax expense	—	317	1,272	415
Net income from discontinued operations	\$ —	\$ 14,843	\$ 6,213	\$ 19,117

The following table details cash flow information related to our discontinued operations for the periods indicated (\$ in thousands):

	<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
Total operating cash flows from discontinued operations	\$ 5,439	\$ 19,055
Total investing cash flows from discontinued operations	511	3,638
Total financing cash flows from discontinued operations	80	130

### 3. Fair Value of Financial Instruments

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

	Carrying Amount	Level 1 Quoted Prices in Active Markets	Level 2 Observable Inputs Other Than Level 1 Prices	Level 3 Unobservable Inputs
<b>December 31, 2020</b>				
Recurring basis (assets):				
Front Yard common stock	47,355	47,355	—	—

As of September 30, 2021, the Company had sold its investments in securities and there no securities outstanding. We did not transfer any assets from one level to another level during the year ended December 31, 2020. The fair value of our holdings in Front Yard common stock is based on unadjusted quoted prices from active markets.

At December 31, 2020, we held 2,923,166 shares of Front Yard's common stock representing approximately 4.9% of Front Yard's then-outstanding common stock. We previously acquired 1,624,465 shares of Front Yard's common stock in open market transactions, and on December 31, 2020, we received 1,298,701 shares of Front Yard's common stock in connection with the transactions contemplated in the Termination Agreement with Front Yard. On January 11, 2021, Front Yard completed its previously announced merger, and all 2,923,166 shares were sold.

Investment gains/losses in the third quarter and nine months ended of 2021 and 2020 are summarized as follows (\$ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Equity securities:				
Change in unrealized gains (losses) during the period on securities held at the end of the end of the period	\$ (3,310)	\$ —	\$ —	\$ —
Investment gains on securities sold during the period	1,987	—	8,347	—
	(1,323)	—	8,347	—
Front Yard common stock:				
Change in unrealized losses during the period on securities held at the end of the period	—	65	—	(5,848)
Investment gains on securities sold during the period	—	—	146	—
	—	65	146	(5,848)
<b>Total change in fair value of equity securities and Front Yard common stock</b>	<b>\$ (1,323)</b>	<b>\$ 65</b>	<b>\$ 8,493</b>	<b>\$ (5,848)</b>

Investment gains and losses include unrealized gains and losses from changes in fair values during the period on positions that we still own, as well as gains and losses on positions sold during the period. As reflected in the condensed consolidated statements of cash flows, we received proceeds from sales of Front Yard common stock of \$47.5 million in the nine months ended September 30, 2021 and zero in the nine months ended September 30, 2020. In the preceding table, investment gains/losses on equity securities sold during the period reflect the difference between the sales proceeds and the fair value of the equity securities sold at the beginning of the applicable quarterly period.

A summary of the year-to-date activity of Front Yard common stock and equity securities is presented in the table below (\$ in thousands):

	<b>Front Yard Common Stock</b>		<b>Equity Securities</b>	
	<b>Shares</b>	<b>Cost</b>	<b>Shares</b>	<b>Cost</b>
<b>December 31, 2020</b>	2,923	\$ 41,635	—	\$ —
Purchased	—	—	8,123	96,950
Sold	(2,923)	(41,635)	(8,123)	(96,950)
<b>September 30, 2021</b>	—	\$ —	—	\$ —

A summary of the cost basis, fair value and the corresponding amounts of gross unrealized gains and losses recognized as of the dates indicated are presented in the table below (\$ in thousands):

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2020</b>				
Front Yard common stock	\$ 41,635	\$ 5,720	\$ —	\$ 47,355

#### 4. Borrowings

In 2021, the Company began borrowing under a standard margin arrangement with our banking institution. The margin account is secured by the securities held in our brokerage account with this institution. As of September 30, 2021, the Company liquidated its security holdings and the margin arrangement has been repaid.

We paid interest on all of our borrowings each month when a balance was owed. As of September 30, 2021, the average annualized interest rate on borrowings under our borrowing agreements was 1.10%, with the rate based on 1 month LIBOR plus 1.00%.

#### 5. Leases

We lease office space under operating leases in Christiansted, U.S. Virgin Islands, and Bengaluru, India.

As of September 30, 2021 and December 31, 2020, our weighted average remaining lease term, including applicable extensions, was 5.3 years and 7.5 years, respectively, and we applied a discount rate of 7.0% and 7.0%, respectively, to our office leases. We determine the discount rate for each lease to be either the discount rate stated in the lease agreement or our estimated rate that we would be charged to finance real estate assets.

During the three and nine months ended September 30, 2021, we recognized rent expense of \$50,000 and \$150,000, respectively, related to long-term operating leases. We have had no short-term rent expense in 2021 reporting periods. During the three and nine months ended September 30, 2020, we recognized rent expense of \$200,000 and \$500,000, respectively, related to long term operating leases and \$27,000 and \$81,000, respectively, related to short-term operating leases. We include rent expense as a component of general and administrative expenses.

The following table presents our future lease obligations under our operating leases as of September 30, 2021 (\$ in thousands):

	<b>Operating Lease Liabilities</b>
2021 (1)	\$ 47
2022	194
2023	205
2024	209
2025	206
Thereafter	207
Total lease payments	1,068
Less: interest	177
Lease liabilities	<u>\$ 891</u>

(1) Excludes the nine months ended September 30, 2021.

## 6. 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, 2020. We establish reserves for specific legal proceedings when we determine that the likelihood of an outcome is probable and the amount of loss can be reasonably estimated. We do not currently have any reserves for our legal proceedings. The following updates and restates the description of the previously reported matters:

#### Litigation regarding Luxor Capital Group, LP and certain of its managed funds and accounts (“Luxor”)

##### AAMC (plaintiff) v. Luxor (defendant)

On January 27, 2020, AAMC filed a complaint for declaratory judgment relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor Capital Group, LP and certain of its funds and managed accounts (collectively, “Luxor”) regarding AAMC’s redemption obligations under the Certificate of Designations (the “Certificate”) of AAMC’s Series A Convertible Preferred Stock (the “Series A Shares”). Under the Certificate, holders of the Series A Shares are permitted on March 15, 2020 and on each successive five-year anniversary of March 15, 2020 to request AAMC, upon not less than 15 nor more than 30 business days’ prior notice, to redeem all but not less than all of their Series A Shares out of legally available funds. AAMC seeks a declaration that AAMC is not required to redeem any of Luxor’s Series A Shares on a redemption date if AAMC does not have legally available funds to redeem all of Luxor’s Series A Shares on such redemption date. Luxor has removed the action to the U.S District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is fully briefed and pending decision. On May 15, 2020, Luxor moved to dismiss AAMC’s declaratory judgment complaint. That motion has been fully briefed and submitted to the Court as of July 29, 2020.

##### Luxor (plaintiff) v. AAMC (defendant)

On February 3, 2020, Luxor filed a complaint in the Supreme Court of the State of New York, County of New York, against AAMC for breach of contract, specific performance, unjust enrichment, and related damages and expenses. The complaint alleges that AAMC’s position that it would not redeem any of Luxor’s Series A Shares on the March 15, 2020 redemption date is a material breach of AAMC’s redemption obligations under the Certificate. Luxor seeks an order requiring AAMC to redeem its Series A Shares, recovery of no less than \$144,212,000 in damages, which is equal to the amount Luxor would receive if AAMC redeemed all of Luxor’s Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of its costs and expenses in the lawsuit. In the alternative, Luxor seeks a return of its initial purchase price of \$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. On May 25, 2020, Luxor’s complaint was amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, “Putnam”), which also invested in the Series A Shares, as plaintiffs. Putnam held 81,800 Series A Shares.

On February 17, 2021, AAMC entered into the Putnam Agreement, as a result Putnam is no longer a party to the Luxor litigation.- See Note 1 for more information on the Putnam Agreement.

#### Luxor Books and Records Demand

On April 26, 2021, Luxor, which holds 144,212 Series A Shares, sent a letter to the Company demanding, under the common law of the USVI, the right to inspect certain books and records of the Company (the “Demand”). According to Luxor, the purpose of the Demand is to investigate whether the Company’s Board of Directors may have considered or engaged in transactions with or at the direction of a significant shareholder of the Company or whether the Company’s Board of Directors and/or Company management may have mismanaged the Company or engaged in wrongdoing, may not have properly discharged their fiduciary duties, or may have conflicts of interest. Luxor further alleges that it seeks an inspection of the Company books and records to determine whether the current directors should continue to serve on the Company’s board or whether a derivative suit should be filed.

On May 10, 2021, the Company sent a letter responding to the Demand and declining to provide the Company’s books and records for inspection (the “Response”). The Response states that Luxor does not have a credible basis for the Demand, which is required under the USVI common law; that, as preferred shareholders with no voting rights, Luxor’s purpose for the Demand is not reasonably related to Luxor’s interests as shareholders of the Company because Luxor cannot vote in connection with Board elections or business transactions of the Company; and that Luxor’s Demand serves only to personally benefit Luxor in its private suit against the Company.

#### Executive Arbitrations

##### Former Chief Executive Officer, Indroneel Chatterjee

On May 3, 2021, Mr. Chatterjee, commenced an arbitration against the Company and each of its directors. The arbitration complaint alleges that the Company’s April 16, 2021 for cause termination of Mr. Chatterjee was in breach of Mr. Chatterjee’s Amended and Restated Employment Agreement and made extra contractual claims against the Company for not affording Mr. Chatterjee a “fair procedure” and placed him in a “false light” by disclosing Mr. Chatterjee’s termination in its public announcement of the for cause termination. In addition, the arbitration complaint also asserts a tort claim against each of the Company’s directors relating to that termination and against the Company for its April 16, 2021 public announcement of the for cause termination. Mr. Chatterjee’s arbitration complaint seeks unspecified damages for his contract claims including for loss of income, stock and bonus, and punitive damages on his tort claims. On June 10, 2021, the Company and its directors responded to the arbitration complaint and advanced counterclaims against Mr. Chatterjee. On October 20, 2021, the arbitrator granted the Company’s motion to dismiss with respect to Mr. Chatterjee’s “fair procedure” and “false light” claims, but denied the motion to dismiss the tort claim against each of the directors. The arbitrator has set a trial date for October 24-28, 2022. The Company and the directors intend to vigorously defend the claims.

##### Former General Counsel, Graham Singer

On June 25, 2021, Mr. Singer commenced an arbitration against the Company and its subsidiary AAMC US, Inc. The Company had previously demanded that Mr. Singer return his signing bonus in accordance with the terms of his employment agreement. The arbitration complaint alleges that the Company discriminated against Mr. Singer regarding his compensation and the terms of his employment, allegedly in violation of U.S. Virgin Islands’ Civil Rights Act and Discrimination in Employment Act, and further alleges that the Company retaliated against Mr. Singer as a result of his complaints against Mr. Chatterjee in violation of Virgin Islands’ Whistleblowers Protection Act and Discrimination in Employment Act. The arbitration complaint also alleges that the Company failed to pay wages due to Mr. Singer, pursuant to his employment agreement, allegedly in violation of the North Carolina Wage and Hour Act. In connection with these allegations, Mr. Singer’s arbitration complaint also includes breach of contract, unjust enrichment, promissory estoppel, and breach of the covenant of good faith and fair dealing claims. Mr. Singer seeks declaratory judgment and compensatory damages based on his alleged lost wages, bonuses and equity interests, as well as liquidated damages and punitive damages in connection with emotional, reputational, and other alleged harms. The Company intends to vigorously defend the claims.

##### 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 Financial Corporation (“Ocwen”) and AAMC and certain of their subsidiaries, affiliates and related companies and to extract enormous profits at the expense of Ocwen and AAMC by attempting to damage their operations, business relationships and reputations. The complaint alleges that Defendants’ conspiratorial activities, which included short-selling activities, were designed to destroy Ocwen and AAMC, and that the Plaintiffs (including AAMC) suffered significant injury, including but not limited to lost value of their stock and/or stock holdings. The action seeks, among other things, an award of monetary damages to AAMC, including treble damages under Section 605, Title IV of the Virgin Islands Code related to the Criminally Influenced and Corrupt Organizations Act, punitive damages and an award of attorney’s and other fees and expenses.

Defendants have moved to dismiss the first amended verified complaint. Plaintiffs and AAMC have moved for leave to file a second amended verified complaint to include AAMC as a direct plaintiff, rather than as a derivative party. On March 27, 2019, the Court held oral argument on Defendants’ motions to dismiss the first amended verified complaint and Plaintiffs’ motion for leave to file the second amended verified complaint. The Court held additional oral argument on the pending motions on October 25, 2021. The Court has not yet decided the pending motions.

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

### ***COVID-19 Pandemic***

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

### **7. Share-Based Payments**

On September 20, 2021, we granted 3,000 shares of restricted stock to management with a weighted average grant date fair value per share of \$24.83. The restricted stock units will vest in three equal annual installments on September 20, 2022, 2023 and 2024 subject to forfeiture or acceleration.

On June 28, 2021, we granted 5,000 shares of restricted stock to management with a weighted average grant date fair value per share of \$19.64. The restricted stock units will vest in three equal annual installments on June 28, 2022, 2023 and 2024 subject to forfeiture or acceleration.

On February 24, 2021, we granted 82,671 shares of restricted stock to members of management with a weighted average grant date fair value per share of \$26.25. The restricted stock units immediately vested.

On October 15, 2020, we granted 10,000 shares of restricted stock to management with a weighted average grant date fair value per share of \$19.29. The restricted stock units were to vest in three equal annual installments, on October 15, 2021, 2022, and 2023. These shares were forfeited in April 2021 upon their resignations.

On January 30, 2020, in order to induce our former Chief Executive Officer to join the Company, we granted 60,000 shares of restricted stock and 60,000 stock options to our former Chief Executive Officer. The restricted stock and stock options had a weighted average grant date fair value of \$13.11 and \$10.61, respectively. The restricted stock units will vest in three equal annual installments on January 30, 2021, 2022, and 2023. On April 16, 2021, the former Chief Executive Officer was terminated for cause, and as a result, 40,000 unvested restricted stock units and 60,000 unvested options were forfeited at that date.

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 2020, we granted 8,622 shares of stock pursuant to our Equity Incentive Plans with a weighted average grant date fair value per share of \$20.87.

We recorded \$0.02 million and \$1.9 million of compensation expense related to our share-based compensation for the three and nine months ended September 30, 2021, which includes adjustments for forfeited restricted stock. We recorded \$0.3 million and \$1.2 million of compensation expense related to our share-based compensation for the three and nine months ended September 30, 2020, respectively. As of September 30, 2021 and December 31, 2020, we had an aggregate \$0.2 million and \$1.0 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.8 years and 0.9 years, respectively.

On September 11, 2020, the Board of Directors adopted, subject to stockholder approval, the Altisource Asset Management Corporation 2020 Equity Incentive Plan (the "2020 Equity Incentive Plan"). The 2020 Equity Incentive Plan supersedes our prior equity incentive plans and makes available 185,000 shares of our common stock for the granting of awards under compensatory arrangements and incentives permitted by the 2020 Equity Incentive Plan. On October 12, 2020, the 2020 Equity Incentive Plan was approved by our stockholders.

## 8. 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 ("EDC") 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 credit on our USVI-sourced income taxes until 2043. By letter dated December 21, 2020, the EDC approved a temporary waiver (the "Waiver") of the Company's minimum employment requirements to five full-time USVI employees for the period from January 1, 2021 to December 31, 2021.

At September 30, 2021, the Company had two less USVI employees than what is required under the provisions of the Waiver. The Company is also continuing to seek to hire USVI employees to meet the requirements of the Waiver. The Company's Chief Financial Officer has relocated to the USVI and General Counsel has agreed to relocate to the USVI. They will be eligible USVI employees after one year of residency.

As of September 30, 2021 and December 31, 2020, 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, 2021 and 2020.

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

	September 30, 2021	December 31, 2020
<b>Deferred tax assets:</b>		
Stock compensation	\$ 107	\$ 64
Accrued expenses	55	171
Net operating losses (1)	199	285
Lease liabilities	89	491
Other	3	44
<b>Gross deferred tax assets</b>	<b>453</b>	<b>1,055</b>
<b>Deferred tax liability:</b>		
Right-of-use lease assets	86	459
Front Yard common stock / investments	1,580	1,547
Depreciation	—	2
Other	6	5
<b>Gross deferred tax liabilities</b>	<b>1,672</b>	<b>2,013</b>
Net deferred tax asset (liability) before valuation allowance	(1,219)	(958)
Valuation allowance	(212)	(69)
<b>Deferred tax asset (liability), net</b>	<b>\$ (1,431)</b>	<b>\$ (1,027)</b>

(1) Net operating loss ("NOL") carry-forwards for tax years prior to 2018 expire in 2037. Beginning with 2018, NOLs are carried forward indefinitely.

## 9. Earnings Per Share

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Numerator</b>				
<i>Continuing operations:</i>				
Net income (loss) from continuing operations	\$ (5,697)	\$ (3,089)	\$ (3,826)	\$ (18,955)
Amortization of preferred stock issuance costs	—	—	—	(42)
Gain on preferred stock transactions	16,101	—	87,984	\$ —
Numerator for basic and diluted EPS from continuing operations – net income (loss) from continuing operations attributable to common stockholders	<u>\$ 10,404</u>	<u>\$ (3,089)</u>	<u>\$ 84,158</u>	<u>\$ (18,997)</u>
<i>Discontinued operations:</i>				
Numerator for basic and diluted EPS from discontinued operations - net gain from discontinued operations	<u>\$ —</u>	<u>\$ 14,843</u>	<u>\$ 6,213</u>	<u>\$ 19,117</u>
<i>Total:</i>				
Net income (loss)	\$ (5,697)	\$ 11,754	\$ 2,387	\$ 162
Amortization of preferred stock issuance costs	—	—	—	(42)
Gain on preferred stock transactions	16,101	—	\$ 87,984	\$ —
Numerator for basic and diluted EPS – net income (loss) attributable to common stockholders	<u>\$ 10,404</u>	<u>\$ 11,754</u>	<u>\$ 90,371</u>	<u>\$ 120</u>
<b>Denominator</b>				
Weighted average common stock outstanding – basic	2,055,561	1,632,117	1,984,294	1,625,727
Weighted average common stock outstanding – diluted	2,187,585	1,632,117	2,154,597	1,625,727
<b>Earnings (loss) per share - basic</b>				
Continuing operations – basic	\$ 5.06	\$ (1.89)	\$ 42.41	\$ (11.69)
Discontinued operations – basic	—	9.09	3.13	11.76
Earnings (loss) per basic common share	<u>\$ 5.06</u>	<u>\$ 7.20</u>	<u>\$ 45.54</u>	<u>\$ 0.07</u>
<b>Earnings (loss) per share - diluted</b>				
Continuing operations – diluted	\$ 4.76	\$ (1.89)	\$ 39.06	\$ (11.69)
Discontinued operations – diluted	—	9.09	2.88	11.76
Earnings (loss) per diluted common share	<u>\$ 4.76</u>	<u>\$ 7.20</u>	<u>\$ 41.94</u>	<u>\$ 0.07</u>



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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b><u>Numerator</u></b>				
Reversal of amortization of preferred stock issuance costs	—	\$ —	—	\$ 42
<b><u>Denominator</u></b>				
Stock options	—	5,403	—	8,167
Restricted stock	—	76,160	—	58,565
Preferred stock, if converted	—	200,000	—	200,000

## 10. Segment Information

Our primary business was to provide asset management and certain corporate governance services to institutional investors.

Because all of our revenue was derived from the services we provided to Front Yard, we operated as a single segment focused on providing asset management and corporate governance services. Prior to 2020, we reported all activity of the Company in a single segment and activity from continuing operations. In connection with the termination of the Amended AMA and subsequent sale of the Disposal Group to Front Yard, we have reclassified the Disposal Group activity as a discontinued operation effective as of the end of the third quarter of 2020. The results of operations, cash flows, and assets and liabilities of our discontinued operations and continued operations, for all periods presented in the accompanying financial statements, have been reclassified to conform to the current year presentation.

## 11. 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 (our “inception”), and we commenced operations in December 2012. In October 2013, we applied for and were granted registration by the Securities and Exchange Commission (the “SEC”) as a registered investment adviser under Section 203(c) of the Investment Advisers Act of 1940, through June 30, 2021. We have currently applied to be registered as an exempt reporting advisor with the SEC. We have historically operated in a single segment focused on providing asset management and certain corporate governance services to investment vehicles.

On August 13, 2020, AAMC, Front Yard and Front Yard Residential L.P. (“FYR LP”) entered into a Termination and Transition Agreement (the “Termination Agreement”), under which, on December 31, 2020 (the “Termination Date”):

- Front Yard agreed to acquire on January 1, 2021, the equity interests of AAMC's India subsidiary, the equity interests of AAMC's Cayman Islands subsidiary, the right to solicit and hire designated AAMC employees that had oversight of the management of Front Yard's business and other assets of AAMC that were used in connection with the operation of Front Yard's business (the “Disposal Group”) for an aggregate purchase price of \$8.2 million.
- In satisfaction of the amounts payable in Front Yard stock, we received 1,298,701 shares of Front Yard common stock. We recorded a nominal gain on the shares received.
- AAMC assigned its office lease in Charlotte, North Carolina. Certain assets related to the lease, primarily office and employee-related equipment were written off, none of which were individually material, and were recorded through other income (loss).
- Two business days prior to the Termination Date, Mr. Ellison resigned as Co-Chief Executive Officer of AAMC.

On January 1, 2021, Front Yard completed its previously announced merger. Each share of common stock of Front Yard, subject to certain exceptions, was cancelled, extinguished, and automatically converted into the right to receive cash in an amount equal to \$16.25 per share. Upon the closing of the Merger, AAMC received cash in an amount of approximately \$47.5 million for the Front Yard common stock it held at the closing date.

Given these events, we have been very actively evaluating a number of business opportunities and acquisition targets in which to potentially focus the Company's resources.

In addition to the fund management and mortgage businesses more closely related to the Company's history, management has explored separate and distinct new business lines. During the third quarter, the Company also engaged the services of an investment bank, Cowen and Company, LLC, and the law firm, Norton Rose Fulbright, LLP, to assist us in identifying and reviewing potential acquisition and merger opportunities. While no final decision has been made on the new businesses that the Company will pursue, the Company is in different stages of discussion with several potential acquisition or merger targets including cryptocurrency and brokerage related businesses.

There can be no assurances that the Company will in fact proceed with any of these business opportunities.

The Company recognizes the need to proceed as promptly as reasonably practicable with its assessment of the new business opportunities. However, the Company is no longer an “investment company” as defined under the Investment Company Act of 1940, as amended, and expects to principally remain invested in cash and government securities until it commences new businesses, either through an acquisition or a business combination. As a result, the Company has no obligation to commence a new business or enter into a business combination prior to year-end. For a discussion of the risks associated with the Company being a transient investment company, see [Item 1A - “Risk Factors”](#) in Part II of this Quarterly Report on Form 10-Q.

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

For details on the Amended AMA with Front Yard and a description of the Termination Agreement and its key terms, please see [Item 1 - Financial statements \(unaudited\) - “Note 1. Organization and Basis of Presentation”](#) and “Management Overview” above.

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

Our operating results are affected by various factors and market conditions, including the following:

## **Revenues**

Our revenues historically consisted of fees due to us under the asset management agreements with Front Yard. Under the Amended AMA, our revenues included a quarterly Base Management Fee and a potential annual Incentive Fee. During the year ended December 31, 2020, the Base Management Fee we recognized under the Amended AMA was subject to a quarterly minimum of \$3,584,000. The Company did not recognize any incentive fees.

Under the Amended AMA, our revenues also included reimbursements of certain expenses in our management of Front Yard's business, which related primarily to travel and certain operating 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) were the responsibility of AAMC and were not reimbursed by Front Yard pursuant to the Amended AMA.

In addition, we received dividends on the shares of Front Yard common stock that we owned when Front Yard declared and paid dividends to its holders of common stock. Upon the declaration of such dividends, we recorded them as other income. Lastly, we recognized changes in the fair value of our holdings of Front Yard common stock as other income or loss that was directly dependent upon fluctuations in the market price of Front Yard's common stock

In 2021, there were no fees recognized or recoveries because the Amended AMA was terminated effective December 31, 2020.

As a result of the Termination Agreement, we have classified all of our revenues from Front Yard within discontinued operations in our condensed consolidated statements of operations. See [Item 1 - Financial statements \(unaudited\) - "Note 2. Discontinued Operations"](#) for further information.

We have dividend earning assets held as Level 1 securities and have begun recognizing dividend income. See [Item 1 - Financial statements \(unaudited\) - "Note 3. Fair Value of Financial Instruments"](#) for further information.

## **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.

As a result of the Termination Agreement, we have classified certain expenses within discontinued operations in our condensed consolidated statements of operations. See [Item 1 - Financial statements \(unaudited\) - "Note 2. Discontinued Operations"](#) for further information.

## **Other Income (Loss)**

Other income (loss) is primarily driven by adjustments to fair value of our Equity securities and Dividend income earned on the positions held. Unrealized gains and losses on these equity securities will be directly dependent upon fluctuations in the market price of these securities. See [Item 3. Quantitative and qualitative disclosures about market risk](#)

## **Results of Operations**

The following sets forth discussion of our results of operations for the three and nine months ended September 30, 2021 and 2020.

### ***Results of Continuing Operations***

The following discussion compares our results of continuing operations for the three and nine months ended September 30, 2021 compared to three and nine months ended September 30, 2020. Our results of operations for the periods presented are not indicative of our expected results in future periods.

#### *Salaries and Employee Benefits*

Salaries and employee benefits were \$0.9 million and \$4.1 million during the three and nine months ended September 30, 2021, respectively, compared to \$1.7 million and \$8.1 million during the three and nine months ended September 30, 2020, respectively. This decrease is primarily due to lower expenses after the sale of Front Yard and adjustments to expense based on the executive departures in the second quarter of 2021 and the terms of their respective employment agreements which require the repayment of previously paid bonuses and forfeiture of restricted stock.

#### *Legal and Professional Fees*

Legal and professional fees were \$3.7 million and \$8.3 million during the three and nine months ended September 30, 2021, compared to \$1.5 million and \$4.7 million during the three and nine months ended September 30, 2020, respectively. This increase is primarily driven by legal and professional fees related to litigation, employment issues as well as costs incurred for the assessment and development of new business lines.

#### *General and Administrative Expenses*

General and administrative expenses were \$0.6 million and \$1.9 million during the three and nine months ended September 30, 2021, relatively unchanged from the three and nine months ended September 30, 2020.

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

The change in fair value of Front Yard common stock was \$0.0 million and \$0.1 million during the three and nine months ended September 30, 2021, compared to \$0.1 million and \$(5.8) million during the three and nine months ended September 30, 2020, respectively. These changes in fair value were due solely to changes in the market price of Front Yard's common stock, as reported on the New York Stock Exchange. Upon the closing of the Front Yard merger, the Company received cash in exchange for shares held.

#### *Change in Fair Value of Equity Securities*

Change in fair value of equity securities was \$(3.3) million and \$0.0 million during the three and nine months ended September 30, 2021. We did not hold equity securities in 2020. The decrease in third quarter 2021 is primarily due to the liquidation of the portfolio in the second and third quarters of 2021.

#### *Dividend Income*

Dividend income was \$0.0 million and \$3.1 million during the three and nine months ended September 30, 2021. No dividends were received in 2020 because no equity securities were held during that period. This increase is due to dividends declared on equity securities acquired during the 2021 reporting periods.

### ***Results of Discontinued Operations***

On August 13, 2020, we and Front Yard entered into the Termination Agreement, pursuant to which they have agreed to effectively internalize the asset management function of Front Yard. The termination of the Amended AMA and the sale of the certain assets and operations to Front Yard represents a significant strategic shift that will have a major effect on our operations and financial results. Therefore, we have classified the results of our operations related to Front Yard as discontinued operations in our condensed consolidated statements of operations. Discontinued operations includes (i) the management fee revenues generated under our asset management agreements with Front Yard, (ii) expense reimbursements from Front Yard and the underlying expenses, (iii) the results of operations of our India and Cayman Islands subsidiaries, (iv) the employment costs associated with certain individuals wholly dedicated to Front Yard and (v) the costs associated with our lease in Charlotte, North Carolina, that was assumed by Front Yard. On January 1, 2021, we completed the sale of the remainder of the Disposal Group and recorded a pre-tax gain on disposal of \$7.5 million. See [Item 1 - Financial statements \(unaudited\) - "Note 2. Discontinued Operations"](#) for further information.

We had no results from discontinued operations in the three and nine months ended September 30, 2021.

### **Liquidity and Capital Resources**

As of September 30, 2021, we had cash and cash equivalents of \$84.5 million compared to cash and cash equivalents of \$41.6 million and \$47.4 million of Front Yard common stock as of December 31, 2020.

Between January 31, 2020 and February 3, 2020, we received purported notices from holders of our Series A Shares requesting us to redeem an aggregate of \$250,000,000 liquidation preference of our Series A Shares on March 15, 2020. We did not have legally available funds to redeem all of the Series A Shares on March 15, 2020. As a result, we do not believe, under the terms of the Certificate, that we were (or are) obligated to redeem any of the Series A Shares under the Certificate, and, on January 27, 2020, we filed a claim for declaratory relief in the Superior Court of the Virgin Islands, Division of St. Croix, against Luxor to confirm our interpretation of the Certificate. Luxor has removed the action to the U.S. District Court for the Virgin Islands, and, on March 24, 2020, AAMC moved to remand the action back to the Superior Court of the Virgin Islands, Division of St. Croix. That motion is fully briefed and pending. On May 15, 2020, Luxor moved to dismiss AAMC's declaratory judgment complaint. That motion has been fully briefed and submitted to the Court as of July 29, 2020.

On February 3, 2020, Luxor filed a complaint in the Supreme Court of the State of New York, County of New York, against AAMC for breach of contract, specific performance, unjust enrichment, and related damages and expenses. The complaint alleges that AAMC's position that it will not redeem any of Luxor's Series A Shares on the March 15, 2020 redemption date is a material breach of AAMC's redemption obligations under the Certificate. Luxor seeks an order requiring AAMC to redeem its Series A Shares, recovery of no less than \$144,212,000 in damages, which is equal to the amount Luxor would receive if AAMC redeemed all of Luxor's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of its costs and expenses in the lawsuit. In the alternative, Luxor seeks a return of its initial purchase price of \$150,000,000 for the Series A Shares, as well as payment of its costs and expenses in the lawsuit. On May 25, 2020, Luxor's complaint was amended to add Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, "Putnam"), which also invested in the Series A Shares, as plaintiff. Putnam held 81,800 Series A Shares. Collectively, Luxor and Putnam seek a recovery of no less than \$226,012,000 in damages, which is equal to the amount Luxor and Putnam would receive if AAMC redeemed all of Luxor's and Putnam's Series A Shares at the redemption price of \$1,000 per share set forth in the Certificate, as well as payment of their costs and expenses in the lawsuit. In the alternative, Luxor and Putnam seek a return of the initial purchase price of \$231,800,000 for the Series A Shares, as well as payment of their costs and expenses in the lawsuit. On June 12, 2020, AAMC moved to dismiss the Amended Complaint in favor of AAMC's first-filed declaratory judgment action in the U.S. Virgin Islands. On August 4, 2020, the court denied AAMC's motion to dismiss.

On February 17, 2021, AAMC entered into a settlement agreement with Putnam (the "Putnam Agreement"). Pursuant to the Putnam Agreement, AAMC and Putnam agreed to exchange all of Putnam's 81,800 Series A Shares for 288,283 shares of AAMC's common stock. AAMC agreed to pay to Putnam \$1,636,000 within three business days of the effective date of the Putnam Agreement and \$1,227,000 on the one-year anniversary of the effective date of the Putnam Agreement, and in return Putnam agreed to release AAMC from all claims related to the Series A Shares and enter into a voting rights agreement as more fully described in the Putnam Agreement. Finally, AAMC granted to Putnam a most favored nations provision with respect to future settlements of the Series A Shares, as more fully described in the Putnam Agreement.

On August 27, 2021, the Company entered into a settlement agreement (the “Wellington Agreement”) with certain funds managed by Wellington Management Company LLP (collectively, “Wellington”). Under the Wellington Agreement, the Company agreed to pay Wellington \$2,093,000 in exchange for 18,200 Series A Shares held by Wellington, and in return Wellington agreed to release AAMC from all claims related to the Series A Shares. As a result of this settlement, we recognized a one-time gain directly to Additional paid in capital of \$16.1 million gain.

As described above, AAMC previously filed an action for declaratory relief to confirm its interpretation of the redemption provisions in the Certificate, and intends to vigorously defend itself against the claims by Luxor.

AAMC intends to continue to pursue its strategic business initiatives despite this litigation. See “[Our Company](#)” above for more information on our business initiatives. If Luxor were to prevail in its lawsuit, we may need to cease or curtail our business initiatives and our liquidity could be materially and adversely affected. For more information on the legal proceedings with Luxor, see “Item 1A. Risk Factors” and “Item 3. Legal Proceedings” in the Annual Report on Form 10-K for the year ended December 31, 2020.

### **Equity Securities**

Between February 9, 2021 and February 17, 2021, we purchased \$97 million of equity securities with \$68 million of cash on hand and \$29 million borrowed under a standard margin arrangement with our banking institution.

During the third quarter of 2021, we sold \$38.5 million in equity securities which resulted in liquidation of our portfolio. As of the third quarter 2021, the standard margin arrangement was paid in full.

### **Treasury Shares**

At September 30, 2021, 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 available for repurchases under our Board-approved repurchase plan.

### **Cash Flows**

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

	<b>Nine months ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
Net cash used in operating activities from continuing operations	\$ (16,943)	\$ (9,776)
Net cash provided by (used in) investing activities from continuing operations	58,396	(23)
Net cash used in financing activities from continuing operations	(4,861)	(312)
Total cash flows relating to continuing operations	<u>\$ 36,592</u>	<u>\$ (10,111)</u>
Net cash provided by operating activities from discontinued operations	\$ 5,439	\$ 19,055
Net cash provided by investing activities from discontinued operations	511	3,638
Net cash provided by financing activities from discontinued operations	80	130
Total cash flows relating to discontinued operations	<u>\$ 6,030</u>	<u>\$ 22,823</u>

### **Continuing Operations**

#### ***Operating Activities from Continuing Operations***

Net cash used in operating activities for the nine months ended September 30, 2021, consisted primarily of payment of annual incentive compensation, ongoing salaries, and benefits and general corporate expenses. Net cash used in operating activities for the nine months ended September 30, 2020, consisted primarily of payment of annual incentive compensation, payment of a signing bonus to the Co-Chief Executive Officer, ongoing salaries and benefits, payments of ongoing lease obligations and general corporate expenses.

### *Investing Activities from Continuing Operations*

Net cash provided by investing activities for the nine months ended September 30, 2021, consisted primarily of the sale of the Front Yard common stock and the equity securities totaling \$152.8 million offset by the purchase of securities of \$97.0 million.

### *Financing Activities from Continuing Operations*

Net cash used in financing activities for the nine months ended September 30, 2021, consisted primarily of funds borrowed and repaid under the Company's margin loan, cash used in the repurchase of the preferred shares in the Putnam Transaction and Wellington Agreement and shares withheld for taxes upon vesting of restricted stock. Net cash used in financing activities for the nine months ended September 30, 2020, primarily relates to shares withheld for taxes upon vesting of restricted stock.

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

We had no off-balance sheet arrangements as of September 30, 2021 or December 31, 2020.

### **Recent Accounting Pronouncements**

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

### **Critical Accounting Judgments**

For a discussion of 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, 2020.

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

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

#### **Investment Risk Relating to Equity Securities**

Our investments in Equity securities were concentrated in mortgage real estate investment trusts ("REITs"). These investments could exhibit volatility in prices due to, among other things, changes (or perceived changes) in interest rates, policy changes by government agencies, regulatory bodies, or the economy overall. There was also a risk that current management of any of these mortgage REITs would not anticipate, plan for or effectively navigate through potential changes in the market. Any of these factors would have had a material adverse impact on the value of the investments previously held by AAMC.

### **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 Interim Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Interim Chief Executive Officer and Chief Financial Officer has 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, 2021.

***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, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on Controls***

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



## Part II

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

For a description of the Company's legal proceedings, refer to [Item 1 - Financial Statements \(Unaudited\) - Note 6, "Commitments and Contingencies"](#) of the interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

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

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

Until we engage in a new business or business combination, we expect all or substantially all of our assets will be cash and governmental securities and this will adversely affect our results of operations

We expect all or substantially all of our assets will be invested in cash and government securities until we engage in a new business or complete a business combination. We have received, and expect to continue to receive, no or minimal interest income on these investments. As a result, until we engage in a new business or complete a business combination, we expect our expenses to significantly exceed our interest income.

***We may be unable to establish new businesses and, even if we do establish new businesses, they may not be profitable.***

We are currently exploring entering into a variety of new businesses. Until we engage in a new business, we expect our assets to be principally invested in cash and government securities. We may be unable to engage in new businesses or even if we engage in new businesses, they may not be profitable.

In establishing a new business, we are subject to all the risks associated with establishing new businesses. We need to be able to hire and retain quality personnel, compete with established companies and effectively market ourselves. We may be unable to successfully launch or profitably operate a new business.

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

None.

### **Item 3. Defaults upon senior securities**

None.

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

Not applicable.

**Item 5. Other Information*****Appointment of General Counsel and Chief Compliance Officer***

On September 20, 2021, Kevin Sullivan commenced employment with the Company as General Counsel and Chief Compliance Officer. Prior to joining the Company, Mr. Sullivan served as Vice President and Senior Counsel for Goldman Sachs & Co. LLC (“Goldman Sachs”) and Assistant Secretary of The Goldman Sachs Group Inc., the parent company of Goldman Sachs. During his more than 15 years at Goldman Sachs, Mr. Sullivan was responsible for advising Goldman Sachs in a multitude of areas, including financial reporting, disclosure and internal controls, corporate treasury, securities offerings, investor and media relations and investment banking. Prior to joining Goldman Sachs, Mr. Sullivan was an associate at Skadden, Arps, Slate, Meagher & Flom LLP in New York working in the corporate finance and mergers and acquisitions practice areas. Mr. Sullivan holds a J.D. from the University of Virginia School of Law and a B.A. from Amherst College.

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

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">2.1</a>	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
<a href="#">3.1</a>	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
<a href="#">3.2</a>	Third Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K filed with the SEC on February 28, 2020).
<a href="#">3.3</a>	Certificate of Designations establishing the Company's Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2014).
<a href="#">4.1</a>	Description of Securities (incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-K filed with the SEC on March 3, 2021).
<a href="#">31.1</a> *	Certification of Interim Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
<a href="#">31.2</a> *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
<a href="#">32.1</a> *†	Certification of Interim Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
<a href="#">32.2</a> *†	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS*	Inline XBRL Instance Document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

\* Filed herewith.

† This Certification is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

### Signatures

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

Altisource Asset Management Corporation

Date: November 15, 2021

By: /s/ Thomas K. McCarthy  
Thomas K. McCarthy  
Interim Chief Executive Officer

Date: November 15, 2021

By: /s/ Stephen Ramiro Krallman  
Stephen Ramiro Krallman  
Chief Financial Officer

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

I, Thomas K. McCarthy, 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 15, 2021

By:         /s/        Thomas K. McCarthy          
Thomas K. McCarthy  
Interim Chief Executive Officer

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

I, Stephen Ramiro Krallman, 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 officers 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 officers 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 15, 2021

By:           /s/          Stephen Ramiro Krallman            
Stephen Ramiro Krallman  
Chief Financial Officer

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

The undersigned, the Interim 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, 2021 (“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 15, 2021

By:           /s/          Thomas K. McCarthy            
Thomas K. McCarthy  
Interim 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, 2021 (“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 15, 2021

By:           /s/ Stephen Ramiro Krallman            
Stephen Ramiro Krallman  
Chief Financial Officer