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Altisource Asset Management Corp
Form 10-Q
May 08, 2018

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

OR

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

COMMISSION FILE NUMBER: 001-36063

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

UNITED STATES VIRGIN ISLANDS 66-0783125
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5100 Tamarind Reef
Christiansted, United States Virgin Islands 00820
(Address of principal executive office)

(340) 692-1055
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company
Emerging Growth Company

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

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

As of May 2, 2018, 1,611,747 shares of our common stock were outstanding (excluding 1,218,714 shares held as treasury stock).

Altisource Asset Management Corporation

March 31, 2018

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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, unless otherwise indicated.

Special note on forward-looking statements

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

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

- our ability to implement our business strategy and the business strategy of Front Yard;
- our ability to retain Front Yard as a client;
- our ability to retain and maintain our strategic relationships;
- the ability of Front Yard to generate a return on invested capital in excess of applicable hurdle rates under our management;
- our ability to obtain additional asset management clients;
- our ability to effectively compete with our competitors;
- Front Yard's ability to complete future or pending transactions;
- the failure of our service providers to effectively perform their obligations under their agreements with us;
- the failure of Front Yard's service providers to effectively perform their obligations under their agreements with Front Yard;
- general economic and market conditions; and
- governmental regulations, taxes and policies.

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

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Part I

Item 1. Financial statements (unaudited)

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

	March 31, 2018 (unaudited)	December 31, 2017
Current assets:		
Cash and cash equivalents	\$ 29,115	\$ 33,349
Short-term investments	432	625
Front Yard common stock	16,326	19,266
Receivable from Front Yard	4,027	4,151
Prepaid expenses and other assets	1,440	1,022
Total current assets	51,340	58,413
Other non-current assets	1,527	1,974
Total assets	\$ 52,867	\$ 60,387
Current liabilities:		
Accrued salaries and employee benefits	\$ 2,045	\$ 5,651
Accounts payable and other accrued liabilities	1,471	2,085
Total liabilities	3,516	7,736
Commitments and contingencies (Note 3)	—	—
Redeemable preferred stock:		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of March 31, 2018 and December 31, 2017; redemption value \$250,000	249,597	249,546
Stockholders' deficit:		
Common stock, \$0.01 par value, 5,000,000 authorized shares; 2,830,461 and 1,611,747 shares issued and outstanding, respectively, as of March 31, 2018 and 2,815,122 and 1,599,210 shares issued and outstanding, respectively, as of December 31, 2017	28	28
Additional paid-in capital	39,025	37,765
Retained earnings	33,225	38,970
Accumulated other comprehensive loss	—	(1,330)
Treasury stock, at cost, 1,218,714 shares as of March 31, 2018 and 1,215,912 shares as of December 31, 2017	(272,524)	(272,328)
Total stockholders' deficit	(200,246)	(196,895)
Total liabilities and equity	\$ 52,867	\$ 60,387

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2018	2017
Revenues:		
Management fees from Front Yard	\$3,727	\$4,211
Conversion fees from Front Yard	63	604
Expense reimbursements from Front Yard	262	196
Total revenues	4,052	5,011
Expenses:		
Salaries and employee benefits	4,214	4,687
Legal and professional fees	352	684
General and administrative	947	1,157
Total expenses	5,513	6,528
Other (loss) income:		
Change in fair value of Front Yard common stock	(2,940)	—
Dividend income on Front Yard common stock	244	244
Other income	43	12
Total other (loss) income	(2,653)	256
Loss before income taxes	(4,114)	(1,261)
Income tax expense	250	57
Net loss	(4,364)	(1,318)
Amortization of preferred stock issuance costs	(51)	(52)
Net loss attributable to common stockholders	\$(4,415)	\$(1,370)
Loss per share of common stock – basic:		
Loss per basic share	\$(2.75)	\$(0.89)
Weighted average common stock outstanding – basic	1,603,898	1,545,555
Loss per share of common stock – diluted:		
Loss per diluted share	\$(2.75)	\$(0.89)
Weighted average common stock outstanding – diluted	1,603,898	1,545,555

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2018	2017
Net loss	\$ (4,364)	\$ (1,318)
Other comprehensive (loss) income:		
Change in fair value of Front Yard common stock (Note 1)	—	6,839
Other comprehensive (loss) income, before tax effect	—	6,839
Tax expense of other comprehensive (loss) income	—	(1,608)
Total other comprehensive (loss) income	—	5,231
Comprehensive (loss) income	\$ (4,364)	\$ 3,913

See accompanying notes to condensed consolidated financial statements.

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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		Total Stockholders' Deficit
	Number of Shares	Amount			Other Comprehensive Loss	Treasury Stock	
December 31, 2017	2,815,122	\$ 28	\$ 37,765	\$ 38,970	\$ (1,330)	\$(272,328)	\$(196,895)
Cumulative effect of adoption of ASU 2016-01 (Note 1)	—	—	—	(1,330)	1,330	—	—
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	15,339	—	3	—	—	—	3
Treasury shares repurchased	—	—	—	—	—	(196)	(196)
Amortization of preferred stock issuance costs	—	—	—	(51)	—	—	(51)
Share-based compensation	—	—	1,257	—	—	—	1,257
Net loss	—	—	—	(4,364)	—	—	(4,364)
March 31, 2018	2,830,461	\$ 28	\$ 39,025	\$ 33,225	\$ —	\$(272,524)	\$(200,246)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated		Total Stockholders' Deficit
	Number of Shares	Amount			Other Comprehensive (Loss) Income	Treasury Stock	
December 31, 2016	2,637,629	\$ 26	\$ 30,696	\$ 46,145	\$ (2,662)	\$(266,484)	\$(192,279)
Common shares issued under share-based compensation plans, net of shares withheld for employee taxes	102,919	1	66	—	—	—	67
Treasury shares repurchased	—	—	—	—	—	(3,996)	(3,996)
Amortization of preferred stock issuance costs	—	—	—	(52)	—	—	(52)
Share-based compensation	—	—	2,169	—	—	—	2,169
Change in fair value of Front Yard common stock	—	—	—	—	5,231	—	5,231
Net loss	—	—	—	(1,318)	—	—	(1,318)
March 31, 2017	2,740,548	\$ 27	\$ 32,931	\$ 44,775	\$ 2,569	\$(270,480)	\$(190,178)

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2018	2017
Operating activities:		
Net loss	\$(4,364)	\$(1,318)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1,257	2,169
Change in fair value of Front Yard common stock	2,940	—
Depreciation	109	—
Changes in operating assets and liabilities:		
Related party receivables	124	175
Prepaid expenses and other assets	(418)	(546)
Other non-current assets	352	—
Accrued salaries and employee benefits	(3,606)	(3,141)
Accounts payable and other accrued liabilities	(614)	(3,139)
Net cash used in operating activities	(4,220)	(5,800)
Investing activities:		
Proceeds of maturities of short-term investments	193	—
Investment in property, plant and equipment	(14)	—
Net cash provided by investing activities	179	—
Financing activities:		
Proceeds from stock option exercises	3	363
Repurchase of common stock	(196)	(3,996)
Payment of tax withholdings on stock option exercises	—	(296)
Net cash used in financing activities	(193)	(3,929)
Net change in cash and cash equivalents	(4,234)	(9,729)
Cash and cash equivalents as of beginning of the period	33,349	40,584
Cash and cash equivalents as of end of the period	\$29,115	\$30,855
Supplemental disclosure of cash flow information		
Income taxes paid	\$330	\$662

See accompanying notes to condensed consolidated financial statements.

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Altisource Asset Management Corporation
Notes to Condensed Consolidated Financial Statements
March 31, 2018
(Unaudited)

1. Organization and Basis of Presentation

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

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

On March 31, 2015, we entered into the AMA, under which we are the exclusive asset manager for Front Yard for an initial term of 15 years from April 1, 2015, with two potential five-year extensions. The AMA provides for a fee structure in which we are entitled to a base management fee, an incentive management fee and a conversion fee for mortgage loans and real estate owned (“REO”) properties that become rental properties for the first time during each quarter. Accordingly, our operating results continue to be highly dependent on Front Yard’s operating results. See Note 4 for additional details of the AMA.

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

Basis of presentation and use of estimates

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

The unaudited interim condensed consolidated financial statements and accompanying unaudited condensed consolidated financial information, in our opinion, contain all adjustments that are of a normal recurring nature and are necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. The interim results are not necessarily indicative of results for a full year. We have omitted certain notes and other information from the interim condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements included within our 2017 Annual Report on Form 10-K, which was filed with the SEC on March 1, 2018.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Preferred stock

Issuance of Series A Convertible Preferred Stock in 2014 Private Placement

During the first quarter of 2014, we issued 250,000 shares of convertible preferred stock for \$250.0 million (“Series A Preferred Stock”) to institutional investors. All of the outstanding shares of Series A Preferred Stock are redeemable by us in March 2020, the sixth anniversary of the date of issuance, and every five years thereafter. On these same redemption dates, each holder of Series A Preferred Stock may potentially cause us to redeem all the shares of Series A Preferred Stock held by such holder at a

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redemption price equal to \$1,000 per share from funds legally available therefor. Accordingly, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

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

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

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

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

Issuance of Preferred Stock under the 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.

To date, we have issued an aggregate of 900 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 the holder's termination of service with the Company for any reason; therefore, at each of March 31, 2018 and December 31, 2017, we included the redemption value of these shares of \$9,000 within accounts payable and accrued liabilities in our condensed consolidated balance sheets. In February 2018, our Board of Directors declared and paid an aggregate of \$0.9 million of dividends on these shares of preferred stock, and in March 2017, our Board of Directors declared and paid an aggregate of \$0.6 million of dividends on these shares of preferred stock. Such dividends are included in salaries and employee benefits in our condensed consolidated statements of operations.

Revenue recognition

Under the AMA, we administer Front Yard's business activities and day-to-day operations and provide corporate governance services to Front Yard. The base management fees are earned by us ratably throughout the applicable quarter and are based on a percentage of Front Yard's average invested capital (as defined in the AMA). In the event that Front Yard's performance exceeds certain hurdles, we would be entitled to an incentive management fee based on a percentage of Front Yard's earnings in excess of such hurdle (see Note 4).

We have evaluated the nature of the services provided to Front Yard and have determined that such services constitute a series of distinct services that should be accounted for as a single performance obligation completed over time, which is

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simultaneously performed by us and consumed by Front Yard. Therefore, base management fees and incentive management fees, if any, are earned ratably over the applicable fiscal quarter.

We also receive conversion fees based on a percentage of the fair value of properties that become rented for the first time in each quarter. Such conversion fees are earned by us in the quarter that the conversion to rentals occurs. In addition, we receive expense reimbursements from Front Yard for the compensation and benefits of the General Counsel dedicated to Front Yard and certain other out-of-pocket expenses incurred on Front Yard's behalf. These expense reimbursements are earned by us at the time the underlying expense is incurred.

We have determined that each of the above-described components of our revenues derived from the AMA are variable consideration, and we recognize each component of this revenue on a quarterly basis.

Recently issued accounting standards

Adoption of recent accounting standards

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09, Compensation - Stock Compensation (Topic 718). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company has adopted the provisions of ASU 2017-09 effective January 1, 2018. This adoption had no significant effect on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The amendments in ASU 2016-15 should be applied on a modified retrospective transition basis. The Company has adopted the provisions of ASU 2016-15 effective January 1, 2018. This adoption had no significant effect on our condensed consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which effectively delayed the adoption date of ASU 2014-09 by one year. In 2016 and 2017, the FASB issued accounting standards updates that amended several aspects of ASU 2014-09. ASU 2014-09, as amended, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Management performed an analysis of the AMA (our sole source of revenue within the scope of ASU

2014-09) and the related compensation and service obligations performed pursuant to the AMA. The Company determined that its policy for recognition of management fees, conversion fees and expense reimbursements prior to our adoption is consistent with the updated revenue recognition requirements of ASU 2014-09, as amended. Therefore, our adoption of ASU 2014-09 effective January 1, 2018 had no significant impact on our previous or current revenue recognition practices. As a result, our application of the modified retrospective method of adoption resulted in no cumulative adjustment effective January 1, 2018.

Recently issued accounting standards not yet adopted

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position and also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows

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arising from leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within those fiscal years. Early adoption is permitted. The amendments in ASU 2016-02 should be applied on a modified retrospective transition basis, and a number of practical expedients may apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. We are currently evaluating the impact of this ASU on our consolidated financial statements; however, upon adoption, we expect to recognize a right-of-use asset and a related lease liability on our consolidated balance sheet for the leases we currently classify as operating leases.

2. Fair Value of Financial Instruments

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

	Level 1	Level 2	Level 3
	Quoted	Observable	
	Prices in	Inputs	Unobservable
Carrying	Active	Other Than	Inputs
Amount	Markets	Level 1	
		Prices	
March 31, 2018			
Recurring basis (assets):			
Front Yard common stock	\$ 16,326	\$ 16,326	\$ —
December 31, 2017			
Recurring basis (assets):			
Front Yard common stock	\$ 19,266	\$ 19,266	\$ —

We did not transfer any assets from one level to another level during the three months ended March 31, 2018 or during the year ended December 31, 2017.

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

We held 1,624,465 shares of Front Yard's common stock at each of March 31, 2018 and December 31, 2017, representing approximately 3.0% of Front Yard's then-outstanding common stock at each date. All of our shares of Front Yard's common stock were acquired in open market transactions. We received dividends on Front Yard's common stock of \$0.2 million during each of the three months ended March 31, 2018 and 2017.

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Front Yard common stock	\$ 20,596	\$ —	\$ 4,270	\$ 16,326
December 31, 2017				
Front Yard common stock	\$ 20,596	\$ —	\$ 1,330	\$ 19,266

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3. Commitments and Contingencies

Litigation, claims and assessments

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party during 2018:

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al.

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

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff, and lead plaintiff filed an amended complaint on June 19, 2015.

AAMC and Mr. Erbey filed a motion to dismiss the amended complaint for failure to state a claim upon which relief can be granted, and on April 6, 2017, the Court issued an opinion and order granting defendants' motion to dismiss.

On May 1, 2017, Plaintiff filed a motion for leave to amend the complaint and, at the same time, filed a proposed first amended consolidated complaint. AAMC and Mr. Erbey opposed the motion, and on July 5, 2017, the Court issued an opinion and order denying with prejudice the motion of the Plaintiff for leave to file the first amended consolidated complaint.

On July 7, 2017, Plaintiff filed a notice of appeal with the Third Circuit Court of Appeals with respect to the federal district court's April 6, 2017 memorandum and order granting Defendants' motion to dismiss, the April 6, 2017 order granting Defendants' motion to dismiss and the July 5, 2017 order denying with prejudice Plaintiff's motion for leave to file the first amendment consolidated complaint in the matter. On September 18, 2017, Appellant filed its appeal brief, and briefing on the appeal motion was completed on November 15, 2017. Oral argument on the appeal has been scheduled for May 24, 2018.

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

Kanga v. Altisource Asset Management Corporation, et al.

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

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

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

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4. Related Party Transactions

Asset management agreement with Front Yard

Pursuant to our AMA, we design and implement Front Yard's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Front Yard's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Front Yard's day-to-day operations; (2) defining investment criteria in Front Yard's investment policy in cooperation with its Board of Directors; (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities; (4) analyzing and executing sales of REO properties and residential mortgage loans; (5) overseeing the renovation, leasing and property management of Front Yard's SFR properties performed by its property managers; (6) overseeing the servicing of Front Yard's residential mortgage loan portfolios; (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

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

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

Base Management Fee. We are entitled to a quarterly base management fee equal to 1.5% of the product of (i) Front Yard's average invested capital (as defined in the AMA) for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 single-family rental properties actually rented ("Rental Properties"). The base management fee percentage increases to 1.75% of average invested capital while Front Yard has between 2,500 and 4,499 Rental Properties and increases to 2.0% of invested capital while Front Yard has 4,500 or more Rental Properties;

Incentive Management Fee. We are entitled to a quarterly incentive management fee equal to 20% of the amount by which Front Yard's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Front Yard) exceeds an annual hurdle return rate of between 7.0% and 8.25% (or 1.75% and 2.06% per quarter), depending on the 10-year treasury rate. To the extent Front Yard has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly return hurdle for the next quarter before we are entitled to an incentive management fee. The incentive management fee increases to 22.5% while Front Yard has between 2,500 and 4,499 Rental Properties and increases to 25% while Front Yard has 4,500 or more Rental Properties. Front Yard has the flexibility to pay up to 25% of the incentive management fee to us in shares of its common stock; and

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Conversion Fee. We are entitled to a quarterly conversion fee equal to 1.5% of assets converted into leased single-family homes by Front Yard for the first time during the applicable quarter.

Because Front Yard has more than 4,500 Rental Properties, we are entitled to receive a base management fee of 2.0% of Front Yard's invested capital and a potential incentive management fee percentage of 25% of the amount by which Front Yard exceeds its then-required return on invested capital threshold.

No incentive management fee under the AMA has been earned by us for the first quarter of 2018 because Front Yard's return on invested capital (as defined in the AMA) was below the cumulative required hurdle rate. As of March 31, 2018, Front Yard's aggregate return shortfall under the AMA was approximately 50.01% of invested capital. As each quarter with a shortfall rolls off the trailing seven quarters, the aggregate shortfall will change by the difference in the quarter that rolls off versus the most recently completed quarter.

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

The AMA requires that we are the exclusive asset manager for Front Yard for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Front Yard achieving an average annual return on invested capital of at least 7.0%. Front Yard's termination rights under the AMA are significantly limited. Neither party is entitled to terminate the AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Front Yard "for cause" for certain events such as a material breach of the AMA and failure to cure such breach, (b) Front Yard for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the AMA or (c) Front Yard in connection with certain change of control events.

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

On March 23, 2017, we completed the repurchase of an aggregate of 50,000 shares of common stock from an affiliated fund of Luxor Capital Partners Group ("Luxor") in a block trade at a price of \$52.50 per share, or an aggregate of \$2.6 million, pursuant to our previously reported \$300.0 million stock repurchase program. Luxor may be considered a related party of the Company because a Luxor partner is a member of our Board of Directors. Following the transaction, the Company now holds the acquired shares as treasury shares.

5. Share-Based Payments

On February 20, 2018, we granted 25,074 shares of restricted stock to members of management with a weighted average grant date fair value per share of \$64.05. The restricted stock units will vest in three equal annual installments on each of February 20, 2019, 2020 and 2021, subject to forfeiture or acceleration.

On March 7, 2017, we granted 20,205 shares of restricted stock to members of management with a weighted average grant date fair value of \$78.58 per share. The restricted stock units vest in three equal annual installments, the first of which occurred on March 7, 2018 with the remaining installments vesting in March 2019 and 2020, subject to forfeiture or acceleration.

Our Directors each received 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. No dividends are paid on the shares until the award is issued.

We recorded \$1.3 million and \$2.2 million of compensation expense related to our grants of restricted stock for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, we had an aggregate \$4.9 million and \$4.5 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.3 years and 1.2 years, respectively.

6. Income Taxes

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

As of March 31, 2018 and December 31, 2017, we accrued no interest or penalties associated with any unrecognized tax benefits, nor did we recognize any interest expense or penalty during the three months ended March 31, 2018 and 2017.

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7. Earnings Per Share

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

	Three months ended March 31,		2017	
	2018			
Numerator				
Net loss	\$	(4,364)	(1,318)	
Amortization of preferred stock issuance costs	(51)		(52)	
Numerator for basic and diluted EPS – loss attributable to common stockholders	\$	(4,415)	\$ (1,370)	
Denominator				
Weighted average common stock outstanding – basic	1,603,898		1,545,555	
Weighted average common stock outstanding – diluted	1,603,898		1,545,555	
Loss per basic common share	\$	(2.75)	\$ (0.89)	
Loss per diluted common share	\$	(2.75)	\$ (0.89)	

We excluded the items presented below from the calculation of diluted earnings per share as they were antidilutive for the periods indicated:

	Three months ended March 31,	
	2018	2017
Numerator		
Reversal of amortization of preferred stock issuance costs	\$ 51	\$ 52
Denominator		
Stock options	27,588	13,339
Restricted stock	29,970	666
Preferred stock, if converted	200,000	0,000

8. Segment Information

Our primary business is to provide asset management and certain corporate governance services to institutional investors. Because all of our revenue is derived from the services we provide to Front Yard under the AMA, we

operate as a single segment focused on providing asset management and corporate governance services.

9. Subsequent Events

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

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

Our Company

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

Our primary client currently is Front Yard Residential Corporation (“Front Yard”), a publicly-traded real estate investment trust (“REIT”) focused on acquiring and managing quality, affordable single-family rental (“SFR”) properties for America's families. Front Yard is currently our primary source of revenue and will drive our results.

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

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

Management Overview

Over the past two years and the first quarter of 2018, we have guided Front Yard's transformation into a 100% SFR equity REIT by continuing to focus on Front Yard's strategic objectives. In particular, we assisted Front Yard in the continued liquidation of its remaining non-rental REO properties that do not meet its rental criteria and optimizing its financing arrangements. We have increased Front Yard’s rental portfolio to approximately 12,000 homes while reducing Front Yard’s mortgage loan portfolio to only 99 loans.

During the first quarter of 2018, we continued Front Yard’s efforts to recycle capital through the liquidation of its remaining non-rental REO properties and mortgage loans. We have assisted Front Yard in the sale of 165 non-rental REO properties, leaving 320 of such properties to be sold. In addition, we continually evaluate the performance of Front Yard's SFR portfolio and market certain rental properties for sale that no longer meet its strategic objectives. During the first quarter of 2018, we assisted Front Yard in the sale of 28 former rental properties, and we have identified 142 additional rental properties for sale. These real estate sales allow Front Yard to both improve its operating efficiencies and to recycle capital to purchase pools of stabilized rental homes at attractive yields, to repurchase common stock or to utilize the proceeds for such other purposes as Front Yard determines will best serve its stockholders.

We also have continued our efforts to optimize Front Yard's financing structure. On April 5, 2018, we managed Front Yard's amendment and restatement of its loan and security agreement with Nomura Corporate Funding Americas, LLC (“Nomura”) to, among other things, (i) extend the termination date of the facility by two years to April 5, 2020, with a potential additional one-year extension to April 5, 2021, (ii) reduce the interest rate spread over one-month LIBOR by 0.25% to 3.00% and (iii) increase the advance rates on both non-stabilized properties and stabilized rental

properties. We believe this facility with Nomura, as amended, better matches the long-term nature of Front Yard's assets and provides additional acquisition flexibility to Front Yard with lower cost.

We believe all of the foregoing developments continue to be critical to our strategy of building long-term stockholder value for Front Yard through the creation of a large portfolio of SFR homes that we target operating for Front Yard at an attractive yield. To the extent Front Yard is successful in implementing this strategy under our management, the fees we earn under the AMA should be positively impacted.

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Asset Management Agreement with Front Yard

Pursuant to the AMA, we design and implement Front Yard's business strategy, administer its business activities and day-to-day operations and provide corporate governance services, subject to oversight by Front Yard's Board of Directors. We are responsible for, among other duties: (1) performing and administering all of Front Yard's day-to-day operations; (2) defining investment criteria in Front Yard's investment policy in cooperation with its Board of Directors; (3) sourcing, analyzing and executing asset acquisitions, including the related financing activities; (4) analyzing and executing sales of REO properties and residential mortgage loans; (5) overseeing the renovation, leasing and property management of Front Yard's SFR properties performed by its property managers; (6) overseeing the servicing of Front Yard's remaining residential mortgage loans; (7) performing asset management duties and (8) performing corporate governance and other management functions, including financial, accounting and tax management services.

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

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

- **Base Management Fee.** We are entitled to a quarterly base management fee equal to 1.5% of the product of (i) Front Yard's average invested capital (as defined in the AMA) for the quarter multiplied by (ii) 0.25, while it has fewer than 2,500 SFR properties actually rented ("Rental Properties"). The base management fee percentage increases to 1.75% of average invested capital while Front Yard has between 2,500 and 4,499 Rental Properties and increases to 2.0% of average invested capital while it has 4,500 or more Rental Properties;

Incentive Management Fee. We are entitled to a quarterly incentive management fee equal to 20% of the amount by which Front Yard's return on invested capital (based on AFFO, defined as net income attributable to holders of common stock calculated in accordance with GAAP plus real estate depreciation expense minus recurring capital expenditures on all real estate assets owned by Front Yard) exceeds an annual hurdle return rate of between 7.0% and 8.25% (or 1.75% and 2.06% per quarter), depending on the 10-year treasury rate. To the extent Front Yard has an aggregate shortfall in its return rate over the previous seven quarters, that aggregate return rate shortfall gets added to the normal quarterly 1.75% return hurdle for the next quarter before we are entitled to an incentive management fee. The incentive management fee increases to 22.5% while Front Yard has between 2,500 and 4,499 Rental Properties and increases to 25% while it has 4,500 or more Rental Properties. Front Yard has the flexibility to pay up to 25% of the incentive management fee to us in shares of its common stock; and

Conversion Fee. We are entitled to a quarterly conversion fee equal to 1.5% of the market value of assets converted into leased single-family homes by Front Yard for the first time during the quarter.

Because Front Yard has more than 4,500 Rental Properties, we are entitled to receive a base management fee of 2.0% of Front Yard's invested capital and a potential incentive management fee percentage of 25% of the amount by which Front Yard exceeds its then-required return on invested capital threshold.

No incentive management fee under the AMA has been earned by us for the first quarter of 2018 because Front Yard's return on invested capital (as defined in the AMA) was below the cumulative required hurdle rate. As of March 31, 2018, Front Yard's aggregate return shortfall under the AMA was approximately 50.01% of invested capital. As each quarter with a shortfall rolls off the trailing seven quarters, the aggregate shortfall will change by the difference in the quarter that rolls off versus the most recently completed quarter.

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

The AMA requires that we are the exclusive asset manager for Front Yard for an initial term of 15 years from April 1, 2015, with two potential five-year extensions, subject to Front Yard achieving an average annual return on invested capital of at least 7.0%. Under the AMA, neither party is entitled to terminate the AMA prior to the end of the initial term, or each renewal term, other than termination by (a) us and/or Front Yard "for cause" for certain events such as a material breach of the AMA and failure to cure such breach, (b) Front Yard for certain other reasons such as its failure to achieve a return on invested capital of at least 7.0% for two consecutive fiscal years after the third anniversary of the AMA or (c) Front Yard in connection with certain change of control events.

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

Metrics Affecting our Consolidated Results

Revenues

Our revenues consist of quarterly fees due to us under the AMA, including a base management fee, an incentive management fee and a conversion fee as described above and reimbursements of out-of-pocket expenses in our management of Front Yard's business. The base management fee is derived as a percentage of Front Yard's average invested capital, and the conversion fee is based on the number and value of mortgage loans and/or REO properties that Front Yard converts to rental properties for the first time in each period. The incentive management fee is directly dependent upon Front Yard's financial performance being in excess of a 7.0%-8.25% minimum annual return on invested capital and will vary with Front Yard's financial performance. Expense reimbursements we receive from Front Yard relate primarily to travel and other out-of-pocket expenses solely related to our management of Front Yard's business and the base salary, bonus, benefits and stock compensation, if any, solely of the general counsel dedicated to Front Yard. All other salary, bonus, benefits and stock compensation of AAMC's employees (other than Front Yard share-based compensation issued to them by Front Yard) are the responsibility of AAMC and are not reimbursed by Front Yard. In addition, we receive dividends on the shares of Front Yard common stock that we own, which we record as other income. The amount of dividends we receive will vary with Front Yard's financial performance, taxable income, liquidity needs and other factors deemed relevant by Front Yard's Board of Directors. Lastly, effective January 1, 2018, we recognize changes in the fair value of our holdings of Front Yard common stock as other income or loss, which will be directly dependent upon fluctuations in the market price of Front Yard's common stock.

Expenses

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

Results of Operations

The following sets forth discussion of our results of operations for the three months ended March 31, 2018 and 2017.

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Management Fees and Expense Reimbursements

Pursuant to the AMA, we received base management fees from Front Yard of \$3.7 million during the three months ended March 31, 2018 compared to \$4.2 million during the three months ended March 31, 2017. The decrease in base management fees is primarily driven by a decline in Front Yard's average invested capital.

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We received conversion fees from Front Yard of \$0.1 million during the three months ended March 31, 2018 compared to \$0.6 million during the three months ended March 31, 2017, primarily due to having fewer loans and REO properties convert to rental properties during the first quarter of 2018. We expect that the conversion fees will continue to decline as we complete the transition of Front Yard to a 100% SFR equity REIT.

We recognized expense reimbursements due from Front Yard of \$0.3 million for the three months ended March 31, 2018 compared to \$0.2 million for the three months ended March 31, 2017. Expense reimbursements relate primarily to travel and other out-of-pocket costs in managing Front Yard's business and the employment costs related to the General Counsel dedicated to Front Yard.

Salaries and Employee Benefits

Salaries and employee benefits were \$4.2 million and \$4.7 million during the three months ended March 31, 2018 and 2017, respectively. The decrease in salaries and benefits during the three months ended March 31, 2018 is primarily due to reduced share-based compensation expense related to restricted stock grants to management.

Legal and Professional Fees

Legal and professional fees were \$0.4 million and \$0.7 million during the three months ended March 31, 2018 and 2017, respectively. This decrease is primarily the result of the non-recurrence of legal fees related to the securities litigation for which we won a motion to dismiss in 2017 as well as a dropped shareholder matter.

General and Administrative Expenses

General and administrative expenses were \$0.9 million and \$1.2 million during the three months ended March 31, 2018 and 2017, respectively. This decrease was primarily due to decreased share-based compensation expense related to non-employee awards that became fully vested during the second quarter of 2017.

Change in Fair Value of Front Yard Common Stock

The change in fair value of Front Yard common stock was \$(2.9) million compared to \$6.8 million (gross of related deferred tax expense of \$1.6 million) during the three months ended March 31, 2018 and 2017, respectively. These changes in fair value were due solely to changes in the market price of Front Yard's common stock. Effective January 1, 2018, we began recording changes in the fair value of our Front Yard common stock through net income upon our adoption of Accounting Standards Update 2016-01, Financial Instruments - Overall (Subtopic 825-10) as discussed in Note 1 of our condensed consolidated financial statements. Prior to January 1, 2018, we recognized changes in the fair value of our Front Yard common stock through other comprehensive income or loss.

Dividend Income on Front Yard Common Stock

Dividends received on shares of Front Yard common stock were \$0.2 million for the three months ended March 31, 2018 and 2017, respectively.

Liquidity and Capital Resources

As of March 31, 2018, we had cash and cash equivalents of \$29.1 million and short-term investments of \$0.4 million compared to cash and cash equivalents of \$33.3 million and short-term investments \$0.6 million as of December 31, 2017. The reduction in the cash and cash equivalents in 2018 was primarily due to payment of annual incentive compensation, ongoing salaries and benefits, dividends on preferred stock issued under the 2016 Employee Preferred

Stock Program and general corporate expenses. At March 31, 2018, we also had \$16.3 million in Front Yard common stock, a decrease from \$19.3 million as of December 31, 2017, due to the decrease in Front Yard's stock price during the first three months of 2018. We also continue to generate asset management fees from Front Yard under our AMA. We believe that these sources of liquidity will be sufficient to enable us to meet anticipated short-term (one year) liquidity requirements since we are continuing to generate asset management fees under the AMA and receive dividend income on the Front Yard common stock we own. Our ongoing cash expenditures are salaries and employee benefits, legal and professional fees, lease obligations and other general and administrative expenses.

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Treasury Shares

At March 31, 2018, a total of \$265.5 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 \$34.5 million remaining for repurchases under our Board-approved repurchase plan.

Cash Flows

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

	Three months ended March 31,	
	2018	2017
Net cash used in operating activities	\$(4,220)	\$(5,800)
Net cash provided by investing activities	179	—
Net cash used in financing activities	(193)	(3,929)
Total cash flows	\$(4,234)	\$(9,729)

Net cash used in operating activities for the three months ended March 31, 2018 and 2017 consisted primarily of payment of annual incentive compensation and dividends under the 2016 Employee Preferred Stock Program.

Net cash provided by investing activities for the three months ended March 31, 2018 consisted primarily of proceeds from the maturities of short-term investments. We had no investing cash flows during the three months ended March 31, 2017.

Net cash used in financing activities for the three months ended March 31, 2018 activities primarily related to repurchases of common stock in connection with the vesting of restricted stock. Net cash used in financing activities for the three months ended March 31, 2017 consisted primarily of repurchases of our common stock.

Off-balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2018 or December 31, 2017.

Recent Accounting Pronouncements

See Item 1 - Financial statements (unaudited) - “Note 1. Organization and basis of presentation - Recently issued accounting standards.”

Critical Accounting Judgments

Accounting standards require information in financial statements about the risks and uncertainties inherent in significant estimates, and the application of generally accepted accounting principles involves the exercise of varying degrees of judgment. Certain amounts included in or affecting our financial statements and related disclosures must be estimated requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time our condensed consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for our assets and liabilities and our revenues and expenses during the reporting period and our disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements.

Actual results may differ significantly from our estimates and any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

For additional details on our critical accounting judgments, please see “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Judgments” in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC on March 1, 2018.

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Item 3. Quantitative and qualitative disclosures about market risk

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

Investment Risk Relating to Front Yard's Common Stock

We hold an aggregate of 1,624,465 shares of Front Yard common stock in open market transactions, and we may purchase additional shares of Front Yard common stock from time to time. If additional purchases are commenced, any such purchases of Front Yard common stock by us may be discontinued at any time, or we may commence sales of such common stock. To the extent we have purchased, or continue to acquire, Front Yard common stock, we will be exposed to risks and uncertainties with respect to our ownership of such shares, including downward pressure on Front Yard's stock price, a reduction or increase of dividends declared and paid on the Front Yard stock and/or an inability to dispose of such shares at a time when we otherwise may desire or need to do so. There can be no assurance that we will be successful in mitigating such risks.

In addition, under the terms of the AMA, Front Yard has the flexibility to pay up to 25% of our incentive management fees in shares of Front Yard common stock. Should Front Yard make this election, we would further be exposed to the above-described market risk on the shares we receive.

Item 4. Controls and procedures

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

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. Based upon that evaluation, management has determined that the Company's disclosure controls and procedures were effective as of March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

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

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Part II

Item 1. Legal proceedings

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. Set forth below is a summary of legal proceedings to which we are a party during 2018:

City of Cambridge Retirement System v. Altisource Asset Management Corp., et al.

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

On May 12, 2015, the court entered an order granting the motion of Denver Employees Retirement Plan to be lead plaintiff, and lead plaintiff filed an amended complaint on June 19, 2015.

AAMC and Mr. Erbey filed a motion to dismiss the amended complaint for failure to state a claim upon which relief can be granted, and on April 6, 2017, the Court issued an opinion and order granting defendants' motion to dismiss.

On May 1, 2017, Plaintiff filed a motion for leave to amend the complaint and, at the same time, filed a proposed first amended consolidated complaint. AAMC and Mr. Erbey opposed the motion, and on July 5, 2017, the Court issued an opinion and order denying with prejudice the motion of the Plaintiff for leave to file the first amended consolidated complaint.

On July 7, 2017, Plaintiff filed a notice of appeal with the Third Circuit Court of Appeals with respect to the federal district court's April 6, 2017 memorandum and order granting Defendants' motion to dismiss, the April 6, 2017 order granting Defendants' motion to dismiss and the July 5, 2017 order denying with prejudice Plaintiff's motion for leave to file the first amendment consolidated complaint in the matter. On September 18, 2017, Appellant filed its appeal brief, and briefing on the appeal motion was completed on November 15, 2017. Oral argument on the appeal has been scheduled for May 24, 2018.

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

Kanga v. Altisource Asset Management Corporation, et al.

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

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

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

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Management does not believe that we have incurred an estimable, probable or material loss by reason of any of the above actions.

Item 1A. Risk factors

There have been no material changes in our risk factors since December 31, 2017. For information regarding our risk factors, you should carefully consider the risk factors discussed in “Item 1A. Risk factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 1, 2018.

Item 4. Mine safety disclosures

Not applicable.

Item 6. Exhibits

Exhibits

Exhibit Number	Description
<u>2.1</u>	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).
<u>3.1</u>	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).
<u>3.2</u>	First Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10 filed with the SEC on December 5, 2012).
<u>3.3</u>	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).
<u>31.1</u> *	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act
<u>31.2</u> *	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act
<u>32.1</u> *	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act
<u>32.2</u> *	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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Signatures

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

Altisource Asset Management Corporation

Date: May 8, 2018 By: /s/Robin N. Lowe

Robin N. Lowe

Chief Financial Officer

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