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

FORM 10-K

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

For the fiscal year ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
COMMISSION FILE NUMBER: 001-36063

Altisource Asset Management Corporation

(Exact name of registrant as specified in its charter)

U.S. Virgin Islands	**66-0783125**
(State or other jurisdiction of incorporation or organization)	**(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 pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on which Registered
Common stock, par value $0.01 per share	AAMC	NYSE American

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of common stock held by non-affiliates of the registrant was $10.5 million, based on the closing share price as reported on the New York Stock Exchange on June 30, 2022 and the assumption that all Directors and executive officers of the registrant and their families and beneficial holders of 10% of the registrant's common stock are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of March 17, 2023, 1,760,827 shares of our common stock were outstanding (excluding 1,671,467 shares held as treasury stock).

Portions of the Registrant's definitive proxy statement relating to its 2023 annual meeting of shareholders (the “2023 Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The Registrant intends to file the 2023 Proxy Statement with the U.S. Securities and Exchange Commission not later than 120 days after the end of the fiscal year to which this report relates.

Altisource Asset Management Corporation
December 31, 2022
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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 Annual Report on Form 10-K contain, and our officers, directors and authorized spokepersons 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 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;
- 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;
- The Company has no direct exposure to the recently failed banks due to the recent financial conditions of the banking system. If other banks or financial institutions enter receivership or become insolvent in the future, our ability, and the ability of our customers, clients and vendors, to access capital, may be threatened and could have a material adverse effect on our business and financial condition;
- Current inflationary economic and market conditions, including the current rising interest rate environment and development in the credit market;
- Access to existing and new debt capital to continue to fund our origination and acquisition platforms;
- The ability of the Company to execute on its Action Plan (“The Plan”) submitted to the NYSE American, LLC (“NYSE”) to allow the company to maintain its listing status on the NYSE; 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 contained herein, please refer to the section “Item 1A. Risk Factors.”

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Part I

Item 1. Business

Our Business

Altisource Asset Management Corporation ("we," "our," "us," "AAMC," or the "Company") was incorporated in the U. S. Virgin Islands ("USVI") on March 15, 2012 (our "inception"), and commenced operations as an asset manager on December 21, 2012. As disclosed in our public filings, the Company's prior business operations ceased in the first week of 2021. The Company previously operated as the external manager for 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.

During 2021, AAMC engaged in a comprehensive assessment to either internally develop a new business operation or acquire a separate operating company. A range of industries were analyzed, including, but not limited to, real estate lending, cryptocurrency, block-chain technology and insurance operations. Outside professional firms, including among others, Cowen and Company, LLC, an investment bank, and Norton Rose Fulbright LLP, a global law practice, were engaged to provide due diligence, legal and valuation expertise to assist in our search.

As of March 2022, the Company created the Alternative Lending Group ("ALG"), to generate alternative private credit loans through Direct to Borrower Lending, Wholesale Originations, and Correspondent Loan Acquisitions. The initial operations of ALG entail the following:

- Build out a niche origination platform as well as a loan acquisition team;
- Fund the originated or acquired alternative loans from a combination of Company equity and existing or future lines of credit;
- Sell the originated and acquired alternative loans through forward commitment and repurchase contracts;
- Leverage senior management's expertise in this space; and
- Utilize AAMC's existing operations in India to drive controls and cost efficiencies.

ALG's primary sources of income is derived from mortgage banking activities generated through the origination and acquisition of loans, and their subsequent sale or securitization as well as net interest income from loans while held on the balance sheet for investment.

In addition, the Company has determined to focus operations solely on ALG for the foreseeable future. Based on current market conditions in the cryptocurrency industry, the Company does not believe the timing is right to deploy resources to the cryptocurrency ATM business until the cryptocurrency market has reached some type of stabilization.

Environmental, Social and Governance

As AAMC is initiating new operations, its management team will assess its strategic and operational approach to environmental, social, and governance ("ESG") matters in 2023 and execute on specific ESG initiatives, accordingly. AAMC's corporate goal of investing in underserved markets is integrated with, and linked to, our approach to ESG matters at AAMC.

Human Capital Resources

As of December 31, 2022, AAMC employed 55 full-time employees, with plans to increase our headcount through the creation of alternative loan origination, loan operations, and acquisition teams. At this time, our employees are primarily based in the United States Virgin Islands, Florida and India. The retention of our employees and the ability to attract new employees are core to the sustainability and long-term success of AAMC, and we will invest in programs that attract, retain, develop, and care for our people. Cultural priorities and values are closely intertwined with our overarching business strategy, and we believe these priorities support AAMC's ability to fulfill our mission and contribute to our ongoing focus on having a strong, healthy culture and a capable and satisfied workforce.

Diversity, Equity, Inclusion, and Belonging

The Company believes in developing an atmosphere that fosters diversity, equity, inclusion, and belonging ("DEIB"). This mandate starts from the top with the independent members of our Board of Directors all being persons of color. Our DEIB work is focused on 1) developing and executing programs and processes that increase the representation of female and racially diverse employees at all levels within the organization; and 2) investing in programs, training, and mentorship that contribute to an inclusive and equitable work environment for all our employees. Through our origination activities, we believe that we will have the opportunity to provide liquidity and capital through our assessment of underserved markets.

Competition

We are subject to intense competition in acquiring, originating, and selling loans, the potential for initiating securitization transactions, and in other aspects of our business. Dependent upon the loan product niche as we expand, our potential competitors may include in varying degrees, commercial banks, mortgage REITs, regional and community banks, other specialty finance companies, financial institutions, as well as investment funds and other investors in real estate-related assets. In addition, other companies may be formed that will compete with us. Some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more favorable relationships than we can. Some of our competitors have greater resources than us, and we may not be able to compete successfully with them.

Federal and State Regulatory and Legislative Developments

Our new business will be affected by conditions in the housing, business-purpose, multifamily, and real estate markets and the broader financial markets, as well as by the financial condition and resources of other participants in these markets. These markets and many of the participants in these markets are subject to, or regulated under, various federal and state laws and regulations. In some cases, the government or government-sponsored entities, such as Fannie Mae and Freddie Mac, directly participate in these markets. In particular, because issues relating to residential real estate and housing finance can be areas of political focus, federal, state and local governments may be more likely to take actions that affect residential real estate, the markets for financing residential real estate, and the participants in residential real estate-related industries than they would with respect to other industries. As a result of the government's statutory and regulatory oversight of the markets we participate in and the government's direct and indirect participation in these markets, federal and state governmental actions, policies, and directives can have an adverse effect on these markets and on our business and the value of, and the returns on, mortgages, mortgage-related securities, and other assets we own or may acquire in the future, which effects may be material. For additional discussion regarding federal and state legislative and regulatory developments, see the risk factor below under the heading "*Federal and state legislative and regulatory developments and the actions of governmental authorities and entities may adversely affect our business and the value of, and the returns on, mortgages, mortgage-related securities, and other assets we own or may acquire in the future*" in Part I, Item 1A of this Annual Report on Form 10-K.

Information Available on Our Website

Our website can be found at www.altisourceamc.com. We make available, free of charge through the investor information section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ("SEC"). We also make available, free of charge, access to the charters for our Audit Committee, Compensation Committee, and Governance and Nominating Committee, our Corporate Governance Standards, Policy Regarding Majority Voting, and our Code of Ethics governing our directors, officers, and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any executive officer, director, or senior officer (as defined in the Code). In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time. The information on our website is not part of this Annual Report on Form 10-K. Additionally, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us, at www.sec.gov.

Our Investor Relations Department can be contacted at 5100 Tamarind Reef, Christiansted, USVI, 00820, Attn: Investor Relations, telephone 704-275-9113 or email ir@altisourceamc.com.

Certifications

Our Chief Executive Officer and Chief Financial Officer have executed certifications dated March 27, 2023, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, and we have included those certifications as exhibits to this Annual Report on Form 10-K.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

- Pursuant to Rule 13a-14 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;
- Pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- Pursuant to Rule 13a-15 of the Exchange Act, our management must prepare a report regarding its assessment of our internal control over financial reporting; and
- Pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. Many of these risks relate to our new businesses and will be increasingly critical as we invest additional funds in these businesses and acquire additional mortgage loans. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.

We face a variety of risks that are substantial and inherent in our businesses. The following is a summary of some of the more important factors that could affect our businesses:

Market

- General economic developments and trends and the performance of the housing, real estate, mortgage finance, and broader financial markets may adversely affect our business and the value of, and returns on, real estate-related and other assets we own or may acquire and could also negatively impact our business and financial results.
- Federal and state legislative and regulatory developments and the actions of governmental authorities and entities may adversely affect our business and the value of, and the returns on, mortgages, mortgage-related securities, and other assets we own or may acquire in the future.
- Unpredictability of the credit markets may restrict our access to capital and may make it difficult or impossible for us to obtain any required additional financing.

Operational

- We may not be successful in entering into new businesses and markets, which could adversely affect our business, results of operations and financial condition.
- Our use of leverage may expose us to substantial risks.
- Operational risks, including those associated with our business model, may disrupt our businesses, result in losses or limit our growth.
- We will be dependent on the terms of the lines of credit and access to the capital provided by the lines of credit could be restricted based on our financial performance.
- We depend on key personnel to manage our business, and the loss of any key person's services, combined with our inability to identify and retain a suitable replacement for such person, could materially adversely affect us. Additionally, the cost to retain our key personnel could put pressure on our operating margins.

- Our inability to manage future growth effectively could have an adverse impact on our business, results of operations and financial condition.
- If we fail to develop, enhance and implement strategies to adapt to changing conditions in the real estate and capital markets, our business, results of operations and financial condition may be materially and adversely affected.

Investing

- The nature of the assets we hold and the investments we make expose us to credit risk that could negatively impact the value of those assets and investments, our earnings, dividends, cash flows, and access to liquidity, or otherwise negatively affect our business.
- We may have concentrated credit risk in certain geographical regions and may be disproportionately affected by an economic or housing downturn, natural disaster, terrorist event, climate change, or any other adverse event specific to those regions.
- The timing of credit losses can harm our economic returns.
- Our efforts to manage credit risks may fail.
- Our ability to identify and enter into forward commitments with purchasers of loans.
- Multifamily and business purpose mortgage loan borrowers that have been negatively impacted by the pandemic may not make payments of principal and interest relating to their mortgage loans on a timely basis, or at all, which could negatively impact our business.
- Changes in prepayment rates of mortgage loans could reduce our earnings, dividends, cash flows, and access to liquidity.
- Interest rate fluctuations can have various negative effects on us and could lead to reduced earnings and increased volatility in our earnings.
- Our growth may be limited if assets are not available or not available at attractive prices.
- We may change our investment strategy or financing plans, which may result in riskier investments and diminished returns.
- The performance of the assets we own will vary and may not meet our earnings or cash flow expectations. In addition, the cash flows and earnings from, and market values of loans, we own may be volatile.
- The inability to access financial leverage through warehouse and repurchase facilities, credit facilities, or other forms of debt financing may inhibit our ability to execute our business plan, which could have a material adverse effect on our financial results, financial condition, and business.
- Entering into hedging activities may subject us to increased regulation.
- Our results could be adversely affected by counterparty credit risk.

Internal

- We remain in outstanding litigation with one of the holders of our Series A Convertible Preferred Stock (“Series A Shares”) related to their purported notices under the Certificate of Designations of the Series A Shares (the “Certificate”) to redeem an aggregate of $144.2 million liquidation preference of our Series A Shares in March 2020. If we are required to pay damages or redeem a portion of their Series A Shares, it could materially and adversely affect our ongoing business and liquidity.
- We are subject to the risks of securities laws liability and related civil litigation.
- An unidentified material weakness in our internal control over financial reporting could, if not remediated, result in material misstatements in our financial statements.
- We may become subject to the requirements of the Investment Company Act, which would limit our business operations and require us to spend significant resources to comply with such act.
- Failure to retain the tax benefits provided by the USVI would adversely affect our financial performance.
- Our USVI operations may become subject to United States federal income taxation.
- Our cash balances are held at a number of financial institutions that expose us to their credit risk.
- Our failure to meet the continued listing requirements of the NYSE American could result in a delisting or a halt in the trading of our common stock.
- The market price and trading volume of our common stock may be volatile and may be affected by market conditions beyond our control.

RISKS RELATED TO OUR MARKET GENERALLY

General economic developments and trends and the performance of the housing, real estate, mortgage finance, and broader financial markets may adversely affect our business and the value of, and returns on, real estate-related and other assets we own or may acquire and could also negatively impact our business and financial results.

Our level of business activity and the profitability of our business, as well as the values of, and the cash flows from, the assets we own, are affected by developments in the U.S. economy and the broader global economy. As a result, negative economic developments are likely to negatively impact our business and financial results. There are a number of factors that could contribute to negative economic developments, including, but not limited to, U.S. fiscal and monetary policy changes, including Federal Reserve policy shifts and changes in benchmark interest rates, changing U.S. consumer spending patterns, negative developments in the housing, single-family rental ("SFR"), multifamily, and real estate markets, rising unemployment, rising government debt levels, changing expectations for, or the occurrence of, inflation and deflation, or adverse global political and economic events, such as the outbreak of pandemic, epidemic disease, or warfare (including the recent outbreak of hostilities between Russia and Ukraine).

Rising inflation and elevated U.S. budget deficits and overall debt levels, including as a result of federal pandemic relief and stimulus legislation and/or economic or market and supply chain conditions, can put upward pressure on interest rates and could be among the factors that could lead to higher interest rates in the future. Higher interest rates could adversely affect our overall business, income, including by reducing the fair value of many of our assets. This may affect our earnings results, reduce our ability to securitize, re-securitize, or sell our assets, or reduce our liquidity. Higher interest rates could also reduce the ability of borrowers to make interest payments or to refinance their loans.

Real estate values, and the ability to generate returns by owning or taking credit risk on loans secured by real estate, are important to our business.

Federal and state legislative and regulatory developments and the actions of governmental authorities and entities may adversely affect our business and the value of, and the returns on, mortgages, mortgage-related securities, and other assets we own or may acquire in the future.

As noted above, our business is affected by conditions in the housing, business purpose, multifamily, and real estate markets and the broader financial markets, as well as by the financial condition and resources of other participants in these markets. These markets and many of the participants in these markets are subject to, or regulated under, various federal and state laws and regulations. In some cases, the government or government-sponsored entities, such as Fannie Mae and Freddie Mac, directly participate in these markets. In particular, because issues relating to residential housing and real estate finance can be areas of political focus, federal, state and local governments may be more likely to take actions that affect residential housing, the markets for financing residential housing, and the participants in residential housing-related industries than they would with respect to other industries. As a result of the government's statutory and regulatory oversight of the markets we participate in and the government's direct and indirect participation in these markets, federal and state governmental actions, policies, and directives can have an adverse effect on these markets and on our business and the value of, and the returns on, mortgages, mortgage-related securities, and other assets we own or may acquire in the future, which effects may be material.

Ultimately, we cannot assure you of the impact that governmental actions may have on our business or the financial markets and, in fact, they may adversely affect us, possibly materially. We cannot predict whether or when such actions may occur or what unintended or unanticipated impacts, if any, such actions could have on our business and financial results. Even after governmental actions have been taken and we believe we understand the impacts of those actions, prevailing interpretations may shift, or we may not be able to effectively respond to them so as to avoid a negative impact on our business or financial results.

Unpredictability of the credit markets may restrict our access to capital and may make it difficult or impossible for us to obtain any required additional financing.

We intend to borrow money from lenders to fund our origination and purchase of mortgage loans. The domestic and international credit markets can be unpredictable. In the event that we need additional capital for our business, we may have a difficult time obtaining it and/or the terms upon which we can obtain it may be unfavorable, which would have an adverse impact on our financial performance.

RISKS RELATED TO OUR OPERATIONS

We may not be successful in entering into new businesses and markets, which could adversely affect our business, results of operations and financial condition.

Our new strategy focuses on the purchase and origination of mortgage loans. Given our focus across the real estate industry, these initiatives could increase our costs and expose us to new market risks and legal and regulatory requirements. These loans have different economic structures than our previous businesses and will require different strategies and policies and procedures. These activities also may impose additional compliance burdens on us, subject us to enhanced regulatory scrutiny and expose us to greater reputation and litigation risk.

The success of our growth strategy will depend on, among other things:

- Our ability to correctly originate and purchase mortgage loans that appeal to end investors;
- The diversion of management’s time and attention into the growth of such new businesses;
- Management’s ability to spend time developing and integrating the new business and the success of the integration effort;
- Our ability to identify and manage risks in new lines of businesses;
- Our ability to obtain requisite approvals and licenses from the relevant governmental authorities and to comply with applicable laws and regulations without incurring undue costs and delays; and
- Our ability to successfully negotiate and enter into beneficial arrangements with our counterparties.

In some instances, we may determine that growth in a specific area is best achieved through the acquisition of an existing business or a smaller scale lift out of an origination team to enhance our platform. Our ability to consummate an acquisition will depend on our ability to identify and value potential acquisition opportunities accurately and successfully compete for these businesses against companies that may have greater financial resources. Even if we are able to identify and successfully negotiate and complete an acquisition, these transactions can be complex, and we may encounter unexpected difficulties or incur unexpected costs.

In addition, if a new business or venture developed internally or by acquisition is unsuccessful, we may decide to wind down, liquidate and/or discontinue it. Such actions could negatively impact our relationships with our counterparties in those businesses, could subject us to litigation or regulatory inquiries, and can expose us to additional expenses, including impairment charges.

Our use of leverage may expose us to substantial risks.

We intend to use indebtedness as a means to finance our future business operations, which will expose us to the risks associated with using leverage. We are dependent on financial institutions extending credit to us on reasonable terms to finance our new business. There is no guarantee that such institutions will extend credit to us or that we will be able to refinance any new obligations when they mature. As borrowings under any future credit facility or any other indebtedness mature, we may be required to either refinance them by entering into a new facility or issuing additional debt, which could result in higher borrowing costs, or issuing additional equity, which would dilute existing stockholders. We could also repay them by using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, which could reduce dividends to our stockholders. We could have difficulty entering into new facilities or issuing debt or equity securities in the future on attractive terms, or at all.

Information technology failures or data security breaches could harm our business and result in substantial costs.

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (through cyber-attacks from computer hackers and sophisticated organizations), catastrophic events such as fires, tornadoes and hurricanes, usage errors by our employees, or cyber-attacks or errors by third party vendors who have access to our confidential data or that of our customers. While to our knowledge we have not experienced a significant cyber-attack, we are continuously working to improve our information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to enhance our levels of protection, to the extent possible, against cyber risks and security breaches, and monitor to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have an impact on our business, there is no assurance that advances in computer capabilities, new technologies, methods or other developments will detect or prevent security breaches and safeguard access to proprietary or confidential information.

The frequency and sophistication of cyber-attacks on companies has increased in recent years, including significant ransomware attacks and foreign attacks on prominent companies and computer software programs. If our computer systems and our back-up systems are damaged, breached, or cease to function properly, or if there are intrusions or failures of critical infrastructure such as the power grid or communications systems, we could suffer extended interruptions in our operations. Any such disruption could damage our reputation, result in lost customers, lost revenue and market value declines, lead to legal proceedings against us by affected third parties resulting in penalties or fines and require us to incur significant costs to remediate or otherwise resolve these issues. In addition, the costs of maintaining adequate protection and insurance against such threats, as they develop in the future (or as legal requirements related to data security increase) could be material.

Breaches of our computer or data systems, including those operated by third parties on our behalf, could result in the unintended public disclosure or the misappropriation of our proprietary information or personal and confidential information, about our employees, customers and business partners, requiring us to incur significant expense to address and resolve. The misappropriation and/or release of confidential information may also lead to legal or regulatory proceedings against us by affected individuals and the outcome of such proceedings could include penalties or fines and require us to incur significant costs to remediate or otherwise resolve. Depending on its nature, a particular breach or series of breaches of our systems may result in the unauthorized use, appropriation or loss of confidential or proprietary information on a one-time or continuing basis, which may not be detected for a period of time.

We depend on key personnel to manage our business, and the loss of any key person's services, combined with our inability to identify and retain a suitable replacement for such person, could materially adversely affect us. Additionally, the cost to retain our key personnel could put pressure on our operating margins.

Our success is largely dependent on the skills, experience, and performance of our key personnel. The business acumen, expertise, and business relationships of our key personnel are critical elements in developing our new businesses. Financial services professionals are in high demand, and we face significant competition for qualified employees. The loss of services of any of our key personnel for any reason, combined with our inability to identify and retain a suitable replacement for such person, could have a material adverse effect on our business, results of operations, and financial condition. Moreover, to retain key personnel, we may be required to increase compensation to such individuals, resulting in additional expense.

Our inability to manage future growth effectively could have an adverse impact on our business, results of operations and financial condition.

Our ability to grow will depend on our management's ability to originate and/or acquire investor real estate loans. In order to do this, we will need to identify, hire, train, supervise and manage new employees. Any failure to effectively manage our future growth, including a failure to successfully expand our loan origination activities could have a material and adverse effect on our business, results of operations and financial condition.

If we fail to develop, enhance and implement strategies to adapt to changing conditions in the real estate and capital markets, our business, results of operations and financial condition may be materially and adversely affected.

The manner in which we compete and the loans for which we compete are affected by changing conditions, which can take the form of trends or sudden changes in our industry, regulatory environment, changes in the role of government-sponsored entities, changes in the role of credit rating agencies or their rating criteria or process or the United States economy more generally. If we do not effectively respond to these changes, or if our strategies to respond to these changes are not successful, our business, results of operations and financial condition may be materially and adversely affected.

RISKS RELATED TO OUR INVESTING STRATEGY

The nature of the assets we hold and the expected investments we make could potentially expose us to credit risk that could negatively impact the value of those assets and investments, our earnings, dividends, cash flows, and access to liquidity, or otherwise negatively affect our business.

Overview of credit risk

We assume credit risk primarily through the ownership of business purpose and multifamily real estate loans. Credit losses on these types of real estate loans can occur for many reasons, including: fraud; poor underwriting; poor servicing practices; weak economic conditions; increases in payments required to be made by borrowers; declines in the value of real estate; declining rents and/or elevated delinquencies associated with single- and multifamily rental housing; the outbreak of highly infectious or

contagious diseases; natural disasters, the effects of climate change (including flooding, drought, wildfires, and severe weather) and other natural events; uninsured property loss; over-leveraging of the borrower; costs of remediation of environmental conditions, such as indoor mold; changes in zoning or building codes and the related costs of compliance; acts of war or terrorism; changes in legal protections for lenders and other changes in law or regulation; and personal events affecting borrowers, such as reduction in income, job loss, divorce, or health problems. In addition, the amount and timing of credit losses could be affected by loan modifications, delays in the liquidation process, documentation errors, and other actions by servicers. Weakness in the U.S. economy or the housing market could cause our credit losses to increase beyond levels that we currently anticipate.

Credit losses on business purpose and multifamily real estate loans can occur for many of the reasons noted above. Moreover, these types of real estate loans may not be fully amortizing, and therefore, the borrower's ability to repay the principal when due may depend upon the ability of the borrower to refinance or sell the property at maturity. Business purpose and multifamily real estate loans and real estate loans collateralizing business purpose and multifamily securities are particularly sensitive to conditions in the rental housing market and to demand for residential rental properties.

For loans we own directly, we will most likely be in a position to incur credit losses - should they occur - only after losses are borne by the owner of the property (e.g., by a reduction in the owner's equity stake in the property). We may take actions available to us in an attempt to protect our position and mitigate the amount of credit losses, but these actions may not prove to be successful and could result in our increasing the amount of credit losses we ultimately incur on a loan.

Additionally, loans to small, privately owned businesses such as borrowers from our business purpose loan origination platforms involve a high degree of business and financial risk. Often, there is little or no publicly available information about these businesses. Accordingly, we must rely on our own due diligence to obtain information in connection with our investment decisions. A borrower's ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative local or more general economic conditions. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in the collateral for the loan. These factors may have an impact on loans involving such businesses, and can result in substantial losses, which in turn could have a material and adverse effect on our business, results of operations and financial condition.

We may have concentrated credit risk in certain geographical regions and may be disproportionately affected by an economic or housing downturn, natural disaster, terrorist event, climate change, or any other adverse event specific to those regions.

A decline in the economy or difficulties in certain real estate markets, such as a high level of foreclosures in a particular area, are likely to cause a decline in the value of multifamily properties in that market. This, in turn, will increase the risk of delinquency, default, and foreclosure on real estate loans we may hold with properties in those regions. This may then adversely affect our credit loss experience and other aspects of our business, including our ability to securitize (or otherwise sell) real estate loans and securities.

The occurrence of a natural disaster (such as an earthquake, tornado, hurricane, flood, landslide, or wildfire), or the effects of climate change (including flooding, drought, and severe weather), may cause decreases in the value of real estate (including sudden or abrupt changes) and would likely reduce the value of the properties collateralizing real estate loans we own. For example, in recent years, hurricanes have caused widespread flooding in Florida and Texas and wildfires and mudslides in northern and southern California have destroyed or damaged thousands of homes. Since certain natural disasters may not typically be covered by the standard hazard insurance policies maintained by borrowers, the borrowers may have to pay for repairs due to the disasters. Borrowers may not repair their property or may stop paying their mortgage loans under those circumstances, especially if the property is damaged. This would likely cause foreclosures to increase and lead to higher credit losses on our loans.

The timing of credit losses can harm our economic returns.

The timing of credit losses can be a material factor in our economic returns from real estate loans, investments, and securities. If unanticipated losses occur within the first few years after a loan is originated, those losses could have a greater negative impact on our investment returns than unanticipated losses on more seasoned loans. The timing of credit losses could be affected by the creditworthiness of the borrower, the borrower's willingness and ability to continue to make payments, and new legislation, legal actions, or programs that allow for the modification of loans or rental obligations, or ability for borrowers or tenants to get relief through forbearance, bankruptcy or other avenues.

Our efforts to manage credit risks may fail.

We will attempt to manage risks of credit losses by continually evaluating our investments for impairment indicators and establishing reserves under GAAP for credit and other risks based upon our assessment of these risks. We cannot establish credit reserves for tax accounting purposes. The amount of reserves that we establish may prove to be insufficient, which would negatively impact our financial results and would result in decreased earnings. In addition, cash and other capital we hold to help us manage credit and other risks and liquidity issues may prove to be insufficient. If these increased credit losses are greater than we anticipated, and we need to increase our credit reserves, our GAAP earnings might be reduced. Increased credit losses may also adversely affect our cash flows, ability to invest, asset fair values, access to short-term borrowings, and ability to finance assets.

Changes in consumer behavior, bankruptcy laws, tax laws, regulation of the mortgage industry, and other laws may exacerbate loan or investment losses. In most cases, the value of the underlying property will be the sole effective source of funds for any recoveries. Other changes or actions by judges or legislators regarding mortgage loans and contracts, including the voiding of certain portions of these agreements, may reduce our earnings, impair our ability to mitigate losses, or increase the probability and severity of losses. Any expansion of our loss mitigation efforts could increase our operating costs and the expanded loss mitigation efforts may not reduce our future credit losses.

Multifamily and business purpose mortgage loan borrowers that have been negatively impacted by the pandemic may not make payments of principal and interest relating to their mortgage loans on a timely basis, or at all, which could negatively impact our business.

Multifamily and business purpose loans we are to own could be subject to similar risks as those described above and could likely be impaired, potentially materially to the extent multifamily and business purpose loan borrowers have been negatively impacted by the pandemic and do not timely remit payments of principal and interest relating to their mortgage loans. In addition, if tenants who rent their residence from a multifamily or business purpose loan borrower are unable to make rental payments, are unwilling to make rental payments, or a waiver of the requirement to make rental payments on a timely basis, or at all, is available under the terms of any applicable forbearance or waiver agreement or program (which rental payment forbearance or waiver program may be available as a result of a government-sponsored or -imposed program or under any such agreement or program a landlord may otherwise offer to tenants), then the value of multifamily and business purpose loans we own will likely be impaired, potentially materially. Moreover, to the extent the economic impact of any such pandemic impacts local, regional or national economic conditions, the value of multifamily and residential real estate that secures multifamily and business purpose loans is likely to decline, which would also likely negatively impact the value of mortgage loans we own, potentially materially.

Additionally, a significant amount of the business purpose loans that we own are short-term bridge loans that are secured by residential properties that are undergoing rehabilitation or construction and not occupied by tenants. Because these properties are generally not income producing (e.g., from rental revenue), in order to fund principal and interest payments, these borrowers may seek to renegotiate the terms of their mortgage loan, including by seeking payment forbearances, waivers, or maturity extensions as a result of being negatively impacted by the pandemic. Moreover, planned construction or rehabilitation of these properties may not be able to proceed on a timely basis or at all due to operating disruptions or government mandated moratoriums on construction, development or redevelopment. All of the foregoing factors would also likely negatively impact the value of mortgage loans we own, potentially materially.

Changes in prepayment rates of mortgage loans could reduce our earnings, dividends, cash flows, and access to liquidity.

The economic returns we earn from most of the real estate loans we own are affected by the rate of prepayment of the mortgage loans. Prepayments are difficult to accurately predict and adverse changes in the rate of prepayment could reduce our cash flows, earnings, and dividends. Adverse changes in cash flows would likely reduce the fair values of many of our assets, which could reduce our ability to borrow against our assets and may cause market valuation adjustments for GAAP purposes, which could reduce our reported earnings. While we will estimate prepayment rates to determine the effective yield of our assets and valuations, these estimates are not precise and prepayment rates do not necessarily change in a predictable manner as a function of interest rate changes. Prepayment rates can change rapidly. As a result, changes can cause volatility in our financial results, affect our ability to securitize assets, affect our ability to fund acquisitions, and have other negative impacts on our ability to generate earnings.

Some of the business purpose loans we originate or hold may allow the borrower to make prepayments without incurring a prepayment penalty and some may include provisions allowing the borrower to extend the term of the loan beyond the originally scheduled maturity. Because the decision to prepay or extend a business purpose loan is controlled by the borrower, we may not accurately anticipate the timing of these events, which could affect the earnings and cash flows we anticipate and could impact our ability to finance these assets.

Interest rate fluctuations can have various negative effects on us and could lead to reduced earnings and increased volatility in our earnings.

Changes in interest rates, the interrelationships between various interest rates, and interest rate volatility could have negative effects on our earnings, the fair value of our assets and liabilities, loan prepayment rates, and our access to liquidity. Changes in interest rates can also harm the credit performance of our assets. We may seek to hedge some but not all interest rate risks. Our hedging may not work effectively and we may change our hedging strategies or the degree or type of interest rate risk we assume.

Some of the loans we may own or acquire may have adjustable-rate coupons (i.e., they may earn interest at a rate that adjusts periodically based on an interest rate index). The cash flows we receive from these assets may vary as a function of interest rates, as may the reported earnings generated by these loans. We also may acquire loans and securities for future sale, as assets we are accumulating for securitization, or as a longer-term investment. We may fund assets with a combination of equity, fixed rate debt and adjustable rate debt. To the extent we use adjustable rate debt to fund assets that have a fixed interest rate (or use fixed rate debt to fund assets that have an adjustable interest rate), an interest rate mismatch could exist and we could, for example, earn less (and fair values could decline) if interest rates rise, at least for a time. We may or may not seek to mitigate interest rate mismatches for these assets with hedges such as interest rate agreements and other derivatives and, to the extent we do use hedging techniques, they may not be successful.

Higher interest rates generally will reduce the fair value of many of our assets. This may affect our earnings results, reduce our ability to sell our assets, or reduce our liquidity. Higher interest rates could reduce the ability of borrowers to make interest payments or to refinance their loans. Higher interest rates could reduce property values and increased credit losses could result. Higher interest rates could reduce mortgage originations, thus reducing our opportunities to acquire new assets.

It can be difficult to predict the impact on interest rates of unexpected and uncertain global political and economic events, such as the outbreak of pandemic or epidemic disease, warfare (including the recent outbreak of hostilities between Russia and Ukraine), economic and international trade conflicts or sanctions, the change in the U.S. presidential administration and political makeup of the Congress, or changes in the credit rating of the U.S. government; however, increased uncertainty or changes in the economic outlook for, or rating of, the creditworthiness of the U.S. government may have adverse impacts on, among other things, the U.S. economy, financial markets, the cost of borrowing, the financial strength of counterparties we transact business with, and the value of assets we hold. Any such adverse impacts could negatively impact the availability to us of short-term debt financing, our cost of short-term debt financing, our business, and our financial results.

Our growth may be limited if assets are not available or not available at attractive prices.

To reinvest the proceeds from principal repayments we receive on our existing loans and deploy capital we raise, we may seek to originate, invest in, or acquire new assets. If the availability of new assets is limited, we may not be able to originate, invest in, or acquire assets that will generate attractive returns. Generally, asset supply can be reduced if originations of a particular product are reduced or if there are fewer sales in the secondary market of seasoned product from existing portfolios. In particular, assets we believe have a favorable risk/reward ratio may not be available for purchase (or origination by our business purpose loan origination platform).

We originate business purpose loans, but we may not be willing to provide the level of loan proceeds to the borrower or interest rate that borrowers find acceptable or that matches our competitors, which would likely reduce the volume of these types of loans that we originate.

We may change our investment strategy or financing plans, which may result in riskier investments and diminished returns.

We may change our investment strategy or financing plans at any time, which could result in our making investments that are different from, and possibly riskier than, the investments we are currently planning to make. A change in our investment strategy or financing plans may increase our exposure to interest rate and default risk and real estate market fluctuations. Decisions to employ additional leverage could increase the risk inherent in our investment strategy. Furthermore, a change in our investment strategy could result in our making investments in new asset categories or in different proportions among asset categories than management's current strategy. Alternatively, we could determine to change our investment strategy or financing plans to be more risk averse, resulting in potentially lower returns, which could also have an adverse effect on our financial returns.

The performance of the assets we own will vary and may not meet our earnings or cash flow expectations. In addition, the cash flows and earnings from, and market values of loans, we own may be volatile.

We seek to manage certain of the risks associated with acquiring, originating, holding, selling, and managing real estate loans. No amount of risk management or mitigation, however, can change the variable nature of the cash flows of, fair values of, and financial results generated by these loans. Changes in the credit performance of, or the prepayments on, these real estate loans, and changes in interest rates impact the cash flows on these loans, and the impact could be significant for our loans with concentrated risks. Changes in cash flows lead to changes in our return on investment and also to potential variability in and level of reported income. The revenue recognized on some of our assets is based on an estimate of the yield over the remaining life of the asset. Thus, changes in our estimates of expected cash flow from an asset will result in changes in our reported earnings on that asset in the current reporting period. We may be forced to recognize adverse changes in expected future cash flows as a current expense, further adding to earnings volatility.

The inability to access financial leverage through warehouse and repurchase facilities, credit facilities, or other forms of debt financing may inhibit our ability to execute our business plan, which could have a material adverse effect on our financial results, financial condition, and business.

Our ability to fund our business depends on our securing warehouse, repurchase, or other forms of debt financing (or leverage) on acceptable terms. For example, pending the sale of a pool of mortgage loans we intend to generally fund those mortgage loans through borrowings from warehouse, repurchase, and credit facilities, and other forms of short-term financing.

We cannot assure you that we will be successful in establishing sufficient sources of short-term debt when needed. In addition, because of its short-term nature, lenders may decline to renew our short-term debt upon maturity or expiration, and it may be difficult for us to obtain continued short-term financing. To the extent our business calls for us to access financing and counterparties are unable or unwilling to lend to us, then our business and financial results will be adversely affected. It is also possible that lenders who provide us with financing could experience changes in their ability to advance funds to us, independent of our performance or the performance of our loans, in which case funds we had planned to be able to access may not be available to us.

Entering into hedging activities may subject us to increased regulation.

Under the Dodd-Frank Act, there is increased regulation of companies that enter into interest rate hedging agreements and other hedging instruments and derivatives. This increased regulation could result in us being required to register and be regulated as a commodity pool operator or a commodity trading advisor. If we are not able to maintain an exemption from these regulations, it could have a negative impact on our business or financial results. Moreover, rules requiring central clearing of certain interest rate swap and other transactions, as well as rules relating to margin and capital requirements for swap transactions and regulated participants in the swap markets, as well as other swap market regulatory reforms, may increase the cost or decrease the availability to us of hedging transactions.

Our results could be adversely affected by counterparty credit risk.

We have credit risks that are generally related to the counterparties with which we do business. There is a risk that counterparties will fail to perform under their contractual arrangements with us, and this risk is usually more pronounced during an economic downturn. The economic impact of the pandemic and the associated volatility in the financial markets has at times triggered, and is likely to trigger additional periods of economic slowdown or recession, and such conditions could jeopardize the solvency of counterparties with which we do business. Those risks of non-performance may differ materially from the risks entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily mark-to-market and settlement of positions, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between parties generally do not benefit from those protections, and expose the parties to the risk of counterparty default. Furthermore, there may be practical and timing problems associated with enforcing our rights to assets in the case of an insolvency of a counterparty.

In the event a counterparty to our borrowings becomes insolvent, we may fail to recover the full value of our pledged collateral, thus reducing our earnings and liquidity. In addition, the insolvency of one or more of our financing counterparties could reduce the amount of financing available to us, which would make it more difficult for us to leverage the value of our assets and obtain substitute financing on attractive terms or at all. A material reduction in our financing sources or an adverse change in the terms of our financings could have a material adverse effect on our financial condition and results of operations. In the event a counterparty to our interest rate agreements or other derivatives becomes insolvent or interprets our agreements with it in a manner unfavorable to us, our ability to realize benefits from the hedge transaction may be diminished, any cash or collateral we pledged to the counterparty may be unrecoverable, and we may be forced to unwind these agreements at a loss. In the event a counterparty that sells us mortgage loans becomes insolvent or is acquired by a third party, we may be unable to enforce our loan repurchase rights in connection with a breach of loan representations and warranties and we may suffer losses if we must repurchase delinquent loans. In the event that one of our sub-servicers becomes insolvent or fails to perform, loan delinquencies and credit losses may increase, and we may not receive the funds to which we are entitled. We will attempt to diversify our counterparty exposure, although we may not always be able to do so. Our counterparty risk management strategy may prove ineffective and, accordingly, our earnings and cash flows could be adversely affected.

SPECIFIC RISKS RELATING TO US

We remain in outstanding litigation with one of the holders of our Series A Convertible Preferred Stock ("Series A Shares") related to their purported notices under the Certificate of Designations of the Series A Shares (the "Certificate") to redeem an aggregate of $144.2 million liquidation preference of our Series A Shares in March 2020. If we are required to pay damages or redeem a portion of their Series A Shares, it could materially and adversely affect our ongoing business and liquidity.

Between January 31, 2020 and February 3, 2020, we received purported notices from all of the 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 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, we have 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. 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. AAMC intends to continue to pursue its strategic business initiatives despite this litigation. See "Item 1. Business." 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 3. Legal Proceedings" in this Annual Report on Form 10-K.

We are subject to the risks of securities laws liability and related civil litigation.

We may be subject to risk of securities litigation and derivative actions from time to time as a result of being publicly traded, including the actions set forth in "Note 8-Commitments and contingencies." There can be no assurance that any settlement or liabilities in any future lawsuits or claims against us would be covered or partially covered by our insurance policies, which could have a material adverse effect on our earnings in one or more periods. The range of possible resolutions for any potential legal actions could include determinations and judgments against us or settlements that could require substantial payments by us, including the costs of defending such suits, which could have a material adverse effect on our financial condition, results of operations and cash flows.

An unidentified material weakness in our internal control over financial reporting could, if not remediated, result in material misstatements in our financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. There can be no assurance that material weaknesses will not arise in the future or that any remediation efforts will be successful. If additional material weaknesses or significant deficiencies in our internal controls are discovered in the future, we could be required to restate our financial results or experience a decline in the price of our securities. 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.

We may become subject to the requirements of the Investment Company Act, which would limit our business operations and require us to spend significant resources to comply with such act.

The Investment Company Act defines an “investment company” as an issuer that is engaged in the business of investing, reinvesting, owning, holding or trading in securities and owns investment securities having a value exceeding 40% of the issuer's unconsolidated assets, excluding cash items and securities issued by the federal government. While the Investment Company Act also has several exclusions and exceptions that we would seek to rely upon to avoid being deemed an investment company, our reliance on any such exclusions or exceptions may be misplaced resulting in violation of the Investment Company Act, the consequences of which can be significant.

The ramifications of becoming an investment company, both in terms of the restrictions it would have on us and the cost of compliance, would be significant. For example, in addition to expenses related to initially registering as an investment company, the Investment Company Act also imposes various restrictions with regard to our ability to enter into affiliated transactions, the diversification of our assets and our ability to borrow money. If we became subject to the Investment Company Act at some point in the future, our ability to continue pursuing our business plan would be severely limited.

Failure to retain the tax benefits provided by the USVI would adversely affect our financial performance.

We are incorporated under the laws of the USVI and are headquartered in the USVI. The USVI has an Economic Development Commission (the “EDC”) that provides benefits (“EDC Benefits”) to certain qualified businesses in the USVI that enable us to avail ourselves of significant tax benefits for a thirty-year period. We received our certificate to operate as a company that qualifies for EDC Benefits as of February 1, 2013, which provides us with a 90% tax credit on USVI-source income so long as we comply with the requirements of the EDC and our certificate of benefits. It is possible that we may not be able to retain our qualifications for the EDC Benefits or that changes in U.S. federal, state, local or USVI taxation statutes or applicable regulations may cause a reduction in or an elimination of the EDC Benefits, all of which could result in a significant increase to our tax expense and, therefore, adversely affect our financial condition and results of operations.

Our USVI operations may become subject to United States federal income taxation.

Our parent company is incorporated under the laws of the USVI and intends to operate in a manner that will cause us to be treated as not engaging in a trade or business within the United States, which will cause us to be exempt from current United States federal income taxation on our net income. However, because there are no definitive standards provided by the U.S. Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the Internal Revenue Service (“IRS”) will not successfully assert that we are engaged in a trade or business within the United States.

If the IRS were to successfully assert that we have been engaged in a trade or business within the United States in any taxable year, various adverse tax consequences could result, including the following:

- We may become subject to current United States federal income taxation on our net income from sources within the United States;
- We may be subject to United States federal income tax on a portion of our net investment income, regardless of its source;
- We may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation; and
- We may be subject to United States branch profits tax on profits deemed to have been distributed out of the United States.

United States persons who own shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of shares.

Significant potential adverse United States federal income tax consequences generally apply to any United States person who owns shares in a passive foreign investment company (“PFIC”). We cannot provide assurance that we will not be a PFIC in any future taxable year.

In general, we would be a PFIC for a taxable year if either (i) 75% or more of our income constitutes “passive income” or (ii) 50% or more of our assets produce “passive income.” Passive income generally includes interest, dividends and other investment income. We believe that we are currently operating, and intend to continue operating, our business in a way that should not cause us to be a deemed PFIC; however, we cannot assure you the IRS will not successfully challenge this conclusion.

United States persons who, directly or indirectly or through attribution rules, own 10% or more of our shares (“United States 10% Stockholders”), based on either voting power or value, may be subject to the controlled foreign corporation (“CFC”) rules. Under the CFC rules, each United States 10% stockholder must annually include his pro rata share of the CFC's “Subpart F income,” even if no distributions are made. Also, all capital gains from the sale of PFIC shares will be treated as ordinary income for federal income tax purposes and thus are not eligible for preferential long-term capital gains rates.

We believe that the dispersion of our ordinary shares among holders will generally prevent new stockholders who acquire shares from being United States 10% Stockholders. We cannot assure you, however, that these rules will not apply to you. If you are a United States person, we strongly urge you to consult your own tax adviser concerning the CFC rules.

United States tax-exempt organizations who own shares may recognize unrelated business taxable income.

If you are a United States tax-exempt organization, you may recognize unrelated business taxable income with respect to our insurance-related income if a portion of our Subpart F income is allocated to you. In general, Subpart F income will be allocated to you if we are a CFC and you are a United States 10% Stockholder and certain exceptions do not apply. Although we do not believe that any United States persons will be allocated Subpart F income, we cannot assure you that this will be the case. If you are a United States tax-exempt organization, we advise you to consult your own tax adviser regarding the risk of recognizing unrelated business taxable income.

We may in the future become subject to the Global Intangible Low-Taxed Income provisions.

The Tax Cuts and Job Reform Act requires U.S. stockholders of CFCs to include in income, as a deemed dividend, the global intangible low-taxed income (“GILTI”) of the CFCs. The GILTI regime is designed to decrease the incentive for a U.S. group to shift corporate profits to low-taxed jurisdictions. We are not currently impacted by the GILTI provisions, as the entirety of the aggregate net income for each of our CFCs is excluded from our “net tested income” (the basis on which the tax is calculated), as it constitutes Subpart F income and is subject to an effective foreign tax rate greater than 90% of the maximum U.S. corporate income tax rate. We cannot rule out the possibility that we will in the future find ourselves subject to the GILTI rules, should the income of our CFCs no longer be entirely Subpart F income and be taxed at a foreign tax rate greater than 90% if the U.S. corporate income tax rate.

Changes to U.S. or state tax laws, our failure to adequately comply with U.S. or state tax laws, or the outcome of any audits or regulatory disputes with respect to our compliance with U.S. or state tax laws could adversely affect us.

Changes to U.S. or state tax law could be enacted in the future that could have a material adverse effect on our business, results of operations, and financial condition. Further, we are subject to potential tax audits in various jurisdictions and in such event, tax authorities may disagree with certain positions we have taken and assess penalties or additional taxes. While we assess the likely outcomes of these potential audits, there can be no assurance that we will accurately predict the outcome of a potential audit, and an audit could have a material adverse impact on our business, results of operations, and financial condition.

Change in United States tax laws may be retroactive and could subject us and/or United States persons who own shares to United States income taxation on our undistributed earnings.

The tax laws and interpretations regarding whether we are engaged in a United States trade or business, are a CFC or a PFIC are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

The impact of the initiative of the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in the United States Virgin Islands.

The Organization for Economic Cooperation and Development has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. While the USVI is currently a jurisdiction that has substantially implemented internationally agreed tax standards, we are not able to predict if additional requirements will be imposed and, if so, whether changes arising from such additional requirements will subject us to additional taxes.

Our cash balances are held at a number of financial institutions that expose us to their credit risk

We maintain our cash and cash equivalents at financial or other intermediary institutions. The combined account balances at each institution typically exceed FDIC insurance coverage of $250,000 per depositor, and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. At December 31, 2022, substantially all of our cash and cash equivalent balances held at financial institutions exceeded FDIC insured limits. On March 10, 2023, the FDIC took control and was appointed receiver of Silicon Valley Bank (“SVB”), and on March 12, 2023, the FDIC took control and was appointed receiver of Signature Bank, and on March 16, 2023, First Republic Bank received a commitment for a $30 billion deposit infusion, each case due primarily to liquidity concerns. As of March 13, 2023, the Company did not have any direct exposure to SVB, Signature Bank, or First Republic. However, if other banks and financial institutions enter receivership or become insolvent in the future in response to financial conditions affecting the banking system and financial markets, our ability, and the ability of our customers, clients and vendors, to access existing cash, cash equivalents and investments, or to access existing or enter into new banking arrangements or facilities, may be threatened and could have a material adverse effect on our business and financial condition.

Our failure to meet the continued listing requirements of the NYSE American could result in a delisting or a halt in the trading of our common stock.

We must continue to satisfy the NYSE American’s continued listing requirements. If we fail to satisfy the continued listing requirements of the NYSE American, the NYSE American may take steps to delist our common stock or halt the trading of our common stock. Such a delisting or trading halt would likely have a negative effect on the price of our common stock and would impair a shareholder's ability to sell or purchase our common stock when they wish to do so. We cannot assure the shareholders that we will continue to meet the existing listing requirements of the NYSE American because some of the requirements, like the number of shareholders and the trading price of our common stock, are outside of our control.

On November 30, 2021, the NYSE American halted trading in our common stock. Although the NYSE American allowed trading to resume on March 21, 2022, shareholders were unable to trade our common stock while the trading halt was in place. Any further trading halt would prevent shareholders from selling the stock until the trading halt is lifted and the trading price may be adversely affected if trading in the stock begins again.

The market price and trading volume of our common stock may be volatile and may be affected by market conditions beyond our control.

The price at which our common stock trades has fluctuated, and may continue to fluctuate, significantly. The market price of our common stock may fluctuate in response to many things, including but not limited to, the following:

- Variations in actual or anticipated results of our operations, liquidity or financial condition;
- Changes in, or the failure to meet, our financial estimates or those of by securities analysts;
- Actions or announcements by our competitors;
- Potential conflicts of interest, or the discontinuance of our strategic relationships;
- Actual or anticipated accounting problems;
- Regulatory actions;
- Lack of liquidity;
- An inability to develop or obtain new businesses or client relationships, respectively;
- Changes in the market outlook for the real estate, mortgage or housing markets;
- Technology changes in our business;
- Changes in interest rates that lead purchasers of our common stock to demand a higher yield;
- Actions by our stockholders;
- Speculation in the press or investment community;
- General market, economic and political conditions, including an economic slowdown or dislocation in the global credit markets;
- Failure to maintain the listing of our common stock on the New York Stock Exchange (“NYSE”) American;
- Changes in accounting principles;
- Passage of legislation or other regulatory developments that adversely affect us or our industry; and
- Departure of our key personnel.

The market prices of securities of alternative lenders have experienced fluctuations that often have been unrelated or disproportionate to the operating results of these companies. These market fluctuations could result in extreme volatility in the market price of our common stock.

Furthermore, our small size and different investment characteristics may not continue to appeal to our current investor base that may seek to dispose of large amounts of our common stock. There is no assurance that there will be sufficient buying interest to offset those sales, and, accordingly, the market price of our common stock could be depressed and/or experience periods of high volatility.

RISKS RELATED TO OUR MANAGEMENT AND OUR RELATIONSHIPS

Our Directors have the right to engage or invest in the same or similar businesses as ours.

Our Directors may have other investments and business activities in addition to their interest in, and responsibilities to, us. Under the provisions of our Charter and our bylaws (the "Bylaws"), our Directors have no duty to abstain from exercising the right to engage or invest in the same or similar businesses as ours or employ or otherwise engage any of the other Directors. If any of our Directors who are also directors, officers or employees of any company acquires knowledge of a corporate opportunity or is offered a corporate opportunity outside of his capacity as one of our Directors, then our Bylaws provide that such Director will be permitted to pursue that corporate opportunity independently of us, so long as the Director has acted in good faith. Our Bylaws provide that, to the fullest extent permitted by law, such a Director will be deemed to have satisfied his fiduciary duties to us and will not be liable to us for pursuing such a corporate opportunity independently of us. This may create conflicts of interest between us and certain of our Directors and result in less than favorable treatment of us and our stockholders. As of this date, none of our Directors is directly involved as a director, officer or employee of a business that competes with us, but there can be no assurance that will remain unchanged in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We conduct our principal operations through leased office space. We are headquartered in approximately 5,000 square feet of office space located at 5100 Tamarind Reef, Christiansted, VI 00820, and we also have an office in Tampa, Florida and Bengaluru, India. For more information, please see Note 7 to our consolidated financial statements contained in this Annual Report on Form 10-K.

Item 3. Legal proceedings

We are involved in a number of judicial and legal proceedings concerning matters arising in connection with the conduct of our businesses. Given the range of litigations and arbitrations presently in process, our litigation expenses may remain high. Refer to Note 1 and Note 7 to our consolidated financial statements.

Item 4. Mine safety disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been listed on the NYSE American under the symbol "AAMC" since December 13, 2013.

Holders

The number of holders of record of our common stock as of March 17, 2023 was 45 and 1,760,827 shares of our common stock were outstanding (excluding 1,671,467 shares held as treasury stock). The number of beneficial stockholders is substantially greater than the number of holders as a large portion of our stock is held through brokerage firms. Information regarding securities authorized for issuance under equity compensation plans is set forth in Note 9 of the consolidated financial statements.

The information under the heading "Equity Compensation Plan Information" in our definitive proxy statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after December 31, 2022 is incorporated herein by reference.

Dividends

We will pay dividends at the sole and absolute discretion of our Board of Directors in the light of conditions then existing, including our earnings, financial condition, liquidity, capital requirements, the availability of capital, general overall economic conditions and other factors. We paid no dividends from inception through December 31, 2022.

Issuer Purchases of Equity Securities

In March 2014, the Board of Directors authorized total repurchases of up to $300.0 million of common stock. On July 18, 2022, the Company entered into an agreement with Putnam Equity Spectrum Fund and Putnam Capital Spectrum Fund (collectively, "Putnam") in which the Company repurchased 286,873 shares of common stock of the Company owned by Putnam. The aggregate purchase price of the Putnam shares was $2,868,730 or $10 per share. At December 31, 2022, we have approximately $28.4 million remaining that is authorized by our Board of Directors for share repurchases. Repurchased shares are held as treasury stock and available for general corporate purposes. No repurchase plan has expired during the year ended December 31, 2022.

The following table summarizes the common stock reacquired to satisfy the tax withholding on equity awards:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1, 2022 through December 31, 2022 (1)	579	$ 21.00	—	—
Total	579	$ 21.00	—	

(1) As permitted under the Company's equity compensation plans, these shares were withheld by the Company to satisfy the tax withholding obligation for those individuals who elected this option in connection with the vesting of shares of restricted stock.

The information under the headings "Director Compensation" and "Executive Compensation" in our definitive proxy statement for the 2023 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after December 31, 2022 is incorporated herein by reference.

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the other sections of this Annual Report on Form 10-K, including our audited consolidated financial statements and the related notes. The following discussion contains certain forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from the results contemplated from these forward-looking statements due to a number of factors including, but not limited to, those discussed in Part 1, Item 1A "Risk Factors" in this Annual Report on Form 10-K.

Our consolidated financial statements, which we discuss below, reflect our historical financial condition, results of operations, and cash flows. The financial information discussed below and included in this Annual Report on Form 10-K, however, may not necessarily reflect what our financial condition, results of operations, or cash flows may be in the future.

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. See Note 3 to our accompanying consolidated financial statements for further information regarding discontinued operations.

Unless otherwise indicated, amounts reported in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" pertain to continuing operations only.

Management Overview and New Business

During 2021, the Company engaged in a comprehensive search to either internally develop a new business operation or acquire a separate operating company. A range of industries were analyzed, including, but not limited to, real estate lending, crypocurrency, block-chain technology and insurance operations. Outside professional firms, including among others, Cowen and Company, LLC, an investment bank, and Norton Rose Fulbright LLP, a global law practice, were engaged to provide due diligence, legal and valuation expertise to assist in our search.

On an interim basis in 2021, the Company invested in REIT equity securities to provide both dividend income and trading gains and generate portfolio income as the Company had no on-going operations.

As of March 2022, the Company created the Alternative Lending Group ("ALG"), to generate alternative private credit loans through Direct to Borrower Lending, Wholesale Originations, and Correspondent Loan Acquisitions. The initial operations of ALG entail the following:

- Build out a niche origination platform as well as a loan acquisition team;
- Fund the originated or acquired alternative loans from a combination of Company equity and future lines of credit;
- Sell the originated and acquired alternative loans through forward commitment and repurchase contracts;
- Leverage senior management's expertise in this space; and
- Utilize AAMC's existing operations in India to drive controls and cost efficiencies.

The type of product we expect to originate or acquire are alternative loans that offer opportunities for rapid growth and allow us to tap into under-served markets. We intend to stay agile on the loan product mix, but we are currently focused on markets not addressed by banks, agency aggregators and most traditional lenders, including but not limited to:

- Transitional Loans: bridge loans on single family and commercial real estate;
- Ground-up Construction Loans: assisting developers in projects with the primary focus on workforce housing;
- Investor Loans: Non-agency loans on investment rental properties that are debt service coverage ratio type loans;
- Special Purpose Credit Programs: loans to extend special purpose credit to applicants who meet certain eligibility requirements such as credit assistance programs; and
- "Gig Economy" Loans: Loans to professionals, self-employed borrowers, start-up business owners lacking income documentation to qualify for Agency purchase.

Our main business segment is ALG, whose primary sources of income is derived from mortgage banking activities generated through the origination and acquisition of loans, and their subsequent sale or securitization as well as net interest income from loans while held on the balance sheet.

Observations on Current Market Opportunities

We believe there is a compelling investment opportunity in the investor and business purpose loan market and that we have implemented a strategic plan for AAMC to capitalize on the significant increase in demand for these products. In our view, the tightening of credit and lending requirements on traditional residential loan products, as well as macro-economic changes, shifting demographics, geographic mobility, as well as cultural and economic changes resulting from the COVID-19 pandemic have benefited the overall residential real estate market while reducing yields available to investors elsewhere. We believe that our initial focus on short-term investor loans provides the opportunity to generate attractive risk-adjusted returns on our investments while minimizing exposure to unforeseen structural shifts in monetary and fiscal policy and other market changes.

Metrics Affecting Our Consolidated Results

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

Revenues

Our revenues primarily consist of loan interest income and origination fees earned on our loans held for sale and investment, along with other ancillary fees earned from the loan portfolio.

Expenses

Our expenses consist primarily of salaries and employee benefits, legal and professional fees, general and administrative expenses, servicing and asset management expense, acquisition charges, operational interest expense, direct loan expense, and loan sales and marketing expense and other loan related 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. Servicing and asset management expenses include loan commissions. Acquisition charges reflect professional fees incurred solely for the purpose of assisting the Company in the identification of target companies and the subsequent due diligence, valuation, and deal structuring services required to properly assess the viability of the target companies. Operational interest expense, direct loan expense, and loan sales and marketing expense are fees related to loans or the line of credit.

Other Income (Expense)

Other income (expense) primarily relates to income or expense recognized in the change of fair value of loans, change in the fair value of equity securities, gain and dividends on equity securities.

Results of Continuing Operations

The following discussion compares our results of continuing operations for the years ended December 31, 2022 and 2021. Our results of operations for the periods presented are not indicative of our expected results in future periods.

For discussion that compares our results of operations for the years ended December 31, 2021 and 2020, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations" included within our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 31, 2022.

Fiscal Year ended December 31, 2022 Compared to Fiscal Year ended December 31, 2021

Loan Interest Income

Loan interest income was $4.6 million for the year ended December 31, 2022. No loan interest income was earned in 2021, as we had not developed said lines of business at that time.

Loan Fee Income

Loan fee income was $0.4 million for the year ended December 31, 2022. No loan fee income was earned in 2021, as we had not developed said lines of business at that time.

Salaries and Employee Benefits

Salaries and employee benefits increased to $5.8 million from $5.6 million for the years ended December 31, 2022 and 2021, respectively. The 2022 increase is due to higher salaries in 2022 offset by higher restricted stock expense in 2021.

Legal, Acquisition and Professional Fees

Legal fees decreased to $4.3 million from $6.9 million for the years ended December 31, 2022 and 2021, respectively. This decrease is primarily due to higher costs in 2021 related to the Luxor litigation and employment issues. Acquisition costs decreased to $0.5 million from $3.9 million for the years ended December 31, 2022 and 2021, respectively. The decrease in acquisition costs in 2022 is primarily due higher expenses and the associated legal support for the assessment and development of merger and acquisition candidates in 2021. Professional fees increased to $1.9 million from $1.5 million for the years ended December 31, 2022 and 2021, respectively.

General and Administrative Expenses

General and administrative expenses increased to $3.5 million from $2.6 million for the years ended December 31, 2022 and 2021, respectively, attributable to an increase in higher insurance, telecom, software license fees, and travel costs. Additionally, we recognized $0.4 million expense related to writing off a receivable for our former CEO’s signing bonus that we do not anticipate recovering.

Servicing and Asset Management Expense

Servicing and asset management expenses were $0.7 million during the year ended December 31, 2022. No servicing and asset management expense was recorded in 2021, as we had not developed the ALG line of business at that time.

Interest Expense

Interest expense includes interest incurred on our margin account, line of credit and amortized commitment fees. Interest expenses were $1.3 million during the year ended December 31, 2022. $0.1 million interest expense was recorded for the year ended December 31, 2021, as we only had a margin account and had not developed the ALG line of business at that time.

Direct Loan Expense

Direct loan expenses were $0.1 million during the year ended December 31, 2022. Direct loan expenses include loan broker fees, inspection fees, title search and other fees. No direct loan expense was recorded in 2021, as we had not developed the ALG line of business at that time.

Loan Sales and Marketing Expense

Loan sales and marketing expenses were $0.3 million during the year ended December 31, 2022. Loan sales and marketing expenses include expenses related to the promotion and exposure to leads which may result in originations of loans.

Change in Fair Value of Loans

We recognized a $2.0 million expense for the change in fair value of loans during the year ended December 31, 2022. No entry was booked in 2021, as we had not developed the ALG line of business at that time.

Dividend and Gain on Sale Income

No dividends were received for the year ended December 31, 2022 on REIT equity securities because no REIT equity securities were held during that period. $3.1 million in dividends for equity securities were received for the year ended December 31, 2021. No gains were recognized for the year ended December 31, 2022. The REIT equity securities were purchased and sold in 2021 for a realized gain of $8.3 million.

Results of Discontinued Operations

As previously disclosed, on January 1, 2021, we completed the sale of the remainder of the asset management operations of the Company and recorded a pre-tax gain on disposal of $7.5 million. See Note 3 to our accompanying consolidated financial statements for further information regarding discontinued operations.

We had no results from discontinued operations for the year ended December 31, 2022.

Liquidity and Capital Resources

As of December 31, 2022, we had cash and cash equivalents of $10.7 million compared to $78.3 million as of December 31, 2021. The decrease in cash and cash equivalents in 2022 was primarily due to the purchase of loans by ALG. As of December 31, 2022, we also had $2.0 million in restricted cash. We are developing new sources of income and capital through our strategic business plan. We believe these sources of liquidity are sufficient to enable us to meet anticipated short-term (one-year) liquidity requirements. Our ongoing cash expenditures consist of: salaries and employee benefits, legal and professional fees, lease obligations and other general and administrative expenses. Certain account balances exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. To mitigate this risk, we maintain our cash and cash equivalents at large national or international banking institutions.

As referred to in Note 1 in our consolidated financial statements, the Company has settled with certain owners of its Series A Shares which has reduced the outstanding balance from $250 million to approximately $144 million. The remaining outstanding Series A Shares are owned by Luxor in which we are currently in litigation over various claims.

AAMC intends to continue to pursue its strategic business initiatives despite this litigation. See "Item 1. Business." 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 this Annual Report on Form 10-K.

Loans Held for Sale, at fair value

On December 31, 2022, our loans held for sale, at fair value, was $11.6 million. These loans primarily relate to loans originated by ALG and are included net of loan holdbacks, deferred fees, accrued interest, payments and advances in process, interest reserve in process and market valuation amounts.

Loans Held for Investment, at fair value

On December 31, 2022, our loans held for investment, at fair value, was $83.1 million. These loans primarily relate to business purpose bridge loans for the transitioning of real estate properties and are included net of loan holdbacks, accrued interest, in process and market valuation amounts.

Credit Facilities

As of December 31, 2022, our repurchase agreements totaled $51.7 million. See Note 6 for more detail.

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. As of December 31, 2021, all equity securities had been liquidated and the standard margin arrangement was paid in full.

Treasury Shares

As of December 31, 2022, a total of $271.6 million in shares of our common stock have 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 $28.4 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 summarizes our cash flows from continuing and discontinued operations for the periods indicated ($ in thousands):

	Year ended December 31,	
	2022	**2021**
Net cash used in operating activities from continuing operations	$ (27,064)	$ (23,115)
Net cash from (used in) investing activities from continuing operations	(85,249)	58,396
Net cash from (used in) financing activities from continuing operations	46,779	(4,884)
Total cash flows relating to continuing operations	$ (65,534)	$ 30,397
Net cash from operating activities from discontinued operations	$ —	$ 5,439
Net cash from investing activities from discontinued operations	—	511
Net cash from (used in) financing activities from discontinued operations	—	80
Total cash flows relating to discontinued operations	$ —	$ 6,030

<u>*Continuing Operations*</u>

Operating Activities From Continuing Operations

Net cash used in operating activities for the year ended December 31, 2022, consisted primarily of originations and additional fundings of held for sale loans, interest receivable, payment of ongoing salaries and benefits, annual incentive compensation, dividends on preferred stock issued under the 2016 Employee Preferred Stock Program and general corporate expenses in excess of revenues. Net cash used in operating activities for the year ended December 31, 2021, consisted primarily of payment of ongoing salaries and benefits, annual incentive compensation, and general corporate expenses in excess of revenues, dividend income and gain on securities.

Investing Activities From Continuing Operations

Net cash used in investing activities for the year ended December 31, 2022, consisted primarily of website development, the purchase and additional fundings of loans held for investment, offset by principal payments on loans held for investment. Net cash provided by investing activities for the year ended December 31, 2021, consisted primarily of the dividends received on equity securities, proceeds received from the sale of Front Yard common stock and sale of equity securities offset by the purchase of equity securities.

Financing Activities From Continuing Operations

Net cash provided by financing activities during the year ended December 31, 2022, primarily relates to funds borrowed and repaid under the Company's lines of credit and cash used in the conversion of preferred stock. Net cash used in financing activities for the year ended December 31, 2021, primarily of funds borrowed and repaid under the Company's margin loan, conversion of preferred stock and from shares withheld for taxes upon vesting of restricted stock.

<u>*Discontinued Operations*</u>

During 2021, the cash flows from discontinued operations were due to the termination of the Amended Asset Management Agreement ("AMA") with Front Yard and the related cash receipts from the disposal group. See Note 3 to our accompanying consolidated financial statements for further information regarding cash flows from discontinued operations.

Off-balance Sheet Arrangements

We had no off-balance sheet arrangements as of December 31, 2022 or 2021.

Recent accounting pronouncements

See Note 1, "Organization and Basis of Presentation Recently issued accounting standards" to our consolidated financial statements.

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 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 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.

We consider our critical accounting judgments to be those used in the determination of the reported amounts and disclosure related to the following:

Series A Preferred Shares

The Company's Series A preferred stock is reflected in the balance sheet as temporary equity. In 2020, the Company received redemption notices from holders of the Series A Preferred Shares requesting that the Company redeem an aggregate of $250.0 million of its Series A Shares on March 15, 2020. The Company did not have the legally available funds to redeem all, but not less than all, of the outstanding Series A Shares on March 15, 2020. Therefore, the Company does not believe that there is an obligation pursuant to the Certificate of Designation of the Series A Shares to redeem those shares held by investors unless there are legally available funds to redeem all, but not less than all, of the Series A Shares. The presentation of the Series A Preferred Shares will continue to be classified as temporary equity on the Consolidated Balance Sheets.

Fair Market Value

The Company has elected the fair value option for its business purpose loans held for sale and investment. As such, these loans are carried on our Consolidated Balance Sheets at their estimated fair value and changes in the fair values of these loans are recorded on our Consolidated Statements of Operations in the period in which the valuation change occurs. The majority of the loans utilize Level 3 valuation inputs, which include certain unobservable inputs (e.g., those requiring our own data or assumptions) that require significant judgment to develop, and changes in these estimates have had and are reasonably likely to have a material effect on our reported earnings and financial condition. See Note 4 in Part II, Item 8 of this Annual Report on Form 10-K, for additional information on the loans accounted for at fair value at December 31, 2022, including the significant inputs used to estimate their fair values and the impact the changes in their fair values had to our financial condition and results of operations. Periodic fluctuations in the values of these loans are inherently volatile and thus can lead to significant period-to-period GAAP earnings volatility.

Income taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is "more likely than not" that some or the entire deferred tax asset will not be

realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

For all temporary differences, we have considered the potential future sources of taxable income against which they may be realized. In so doing, we have taken into account temporary differences that we expect to reverse in future years and those where it is unlikely. Where it is more likely than not that there will not be potential future taxable income to offset a temporary difference, a valuation allowance has been recorded.

Item 7A. 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.

Item 8. Consolidated Financial Statements and Supplementary Data

See our consolidated financial statements starting on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of December 31, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2022 based on criteria established in Internal Control-Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2022, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: 1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

As the Company is a Smaller Reporting Company ("SRC") under the SEC guidelines, management has determined that it will no longer receive an attestation opinion of its internal controls over financial reporting from its external auditor until the Company no longer qualifies as a SRC, upon reaching certain revenue thresholds. This decision was in conjunction with the creation of the Company's new business line and the extension of the 2012 Jumpstart Our Business Startups ("JOBS") Act in March 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company assessed new internal control steps related to its ALG business line. These steps resulted in material changes to the internal control process and will include, but are not limited to, the following: implementing reporting steps for fair market value assessments of the loan portfolio; liaising with third-party loan servicers and underwriting information providers; and monitoring loan performance in accordance with debt facilities. The Company engaged a third-party consultant to assist in both the documentation and integration of the processes involving the ALG business line. The new processes were in response to the creation and ongoing growth of the new business line and were not undertaken in response to any perceived deficiencies in the Company's internal control over financial reporting.

Other than the new business line steps denoted above, 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 year ended December 31, 2022 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 or 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.

Item 9B. Other Information

None.

Part III

We will file a definitive Proxy Statement for our 2023 Annual Meeting of Stockholders (the "2023 Proxy Statement") with the Securities and Exchange Commission, pursuant to Regulation 14A, not later than 120 days after December 31, 2022. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of the 2023 Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our 2023 Proxy Statement under the captions "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Code of Ethics."

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our 2023 Proxy Statement under the captions "Executive Compensation" and "Director Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our 2023 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our 2023 Proxy Statement under the captions "Transactions with Related Persons" and "Information Regarding the Board of Directors and Corporate Governance."

Item 14. Principal Accountant Fees and Services

The information required by Item 14 is hereby incorporated by reference from our 2023 Proxy Statement under the captions "Independent Registered Public Accounting Firm Fees" and "Pre-Approval Policy and Procedures."

Part IV

Item 15. Exhibits

Exhibits

Exhibit Number	Description
2.1	Separation Agreement, dated as of December 21, 2012, between Altisource Asset Management Corporation and Altisource Portfolio Solutions S.A. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the SEC on December 28, 2012).
3.1	Amended and Restated Articles of Incorporation of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
3.2	Fifth Amended and Restated Bylaws of Altisource Asset Management Corporation (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the SEC on July 6, 2022).
3.3	Certificate of Designations establishing the Company's Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the SEC on March 19, 2014).
3.4*	Master Repurchase Agreement between Altisource Asset Management Corporation and Grapetree Lending LLC and NexBank, dated December 2, 2022 (portions redacted).
4.1*	Description of Registrant's Securities.
10.1†	Altisource Asset Management Corporation 2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 of the Registrant's Amendment No. 4 to Form 10 filed with the SEC on December 18, 2012).
10.2	Amended and Restated Asset Management Agreement, dated as of May 7, 2019, by and among Front Yard Residential Corporation, Front Yard Residential, L.P. and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on May 8, 2019).
10.3	Asset Management Agreement, dated March 31, 2015, among Front Yard Residential Corporation (f/k/a Altisource Residential Corporation), Front Yard Residential L.P. (f/k/a Altisource Residential, L.P.) and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on April 2, 2015).
10.4	Amendment to Asset Management Agreement, dated April 7, 2015, among Front Yard Residential Corporation (f/k/a Altisource Residential Corporation), Front Yard Residential L.P. (f/k/a Altisource Residential, L.P.) and Altisource Asset Management Corporation (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on April 13, 2015).
10.5†	Altisource Asset Management Corporation 2016 Preferred Stock Plan (incorporated by reference to Exhibit 10.22 of the Registrant's Annual Report on Form 10-K filed with the SEC on March 1, 2017).
10.6†	Form of Preferred Stock Agreement under 2016 Employee Preferred Stock Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the SEC on January 5, 2017).
10.8†	Altisource Asset Management Corporation 2020 Equity Incentive Plan (incorporated by reference to Exhibit 4.3 of the Registrant's Form S-8 filed with the SEC on December 21, 2020).
10.9†	Employment Agreement of Stephen R. Krallman, dated as of May 24, 2021. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2021).
10.10†	Employment Agreement of Jason Kopcak, dated as of March 16, 2022. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 18, 2022.)
10.11	Settlement Agreement dated as of February 17, 2021, between Altisource Asset Management Corporation and Putnam Focused Equity Fund, a series of Putnam Funds Trust, dated as of February 17, 2021 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 18, 2021).
10.12	Settlement Agreement dated as of August 27, 2021, between Altisource Asset Management Corporation and Ithan Creek Master Investors (Cayman) L.P., Bay Pond Investors (Bermuda) L.P., Bay Pond Partners, L.P. and Wellington Management Company LLP (together, the "Wellington Parties"). (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 30, 2021).
21*	Schedule of Subsidiaries.
23*	Consent of Ernst & Young LLP.
24*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).
31.1*	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2*	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act.

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Exhibit Number	Description
32.1**	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2**	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.
** Indicates the exhibit is being furnished, not filed, with this report.
† Denotes management contract or compensatory arrangement.

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:	March 27, 2023	By:	/s/ Jason Kopcak Jason Kopcak Chief Executive Officer
Date:	March 27, 2023	By:	/s/ Stephen Ramiro Krallman Stephen Ramiro Krallman Chief Financial Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jason Kopcak and Stephen Ramiro Krallman each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated:

Signature	Title	Date
/s/ John P. de Jongh, Jr. John P. de Jongh, Jr.	Director	March 27, 2023
/s/ Ricardo C. Byrd Ricardo C. Byrd	Director	March 27, 2023
/s/ John A. Engerman John A. Engerman	Director	March 27, 2023
/s/ Jason Kopcak Jason Kopcak	Director and Chief Executive Officer	March 27, 2023
/s/ Stephen Ramiro Krallman Stephen Ramiro Krallman	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Secretary)	March 27, 2023

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Altisource Asset Management Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Altisource Asset Management Corporation (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income (loss), stockholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Loans Held for Sale or Investment, at Fair Value
Description of the Matter	The Company’s loans held for sale or investment, at fair value (collectively, the “loans receivable, at fair value”) totaled $94.7 million in aggregate as of December 31, 2022, inclusive of accrued interest. As more fully described in Note 2 to the consolidated financial statements, the Company has elected the fair value option to measure its loans receivable, at fair value on a recurring basis at each reporting period end. The loans receivable, at fair value were valued as of December 31, 2022 using a discounted cash flow model to estimate the net present value of the future cash flows expected from each loan. Auditing management’s estimate of the fair value of the Company’s loans receivable, at fair value involved a high degree of subjectivity in evaluating management’s assumptions due to the significant estimation required in determining fair value. Specifically, the estimated fair value of the loans receivable, at fair value is sensitive to changes in the discount rate applied to the net present value of future cash flows expected from each loan.
How We Addressed the Matter in Our Audit	Our audit procedures related to the valuation of the loans receivable, at fair value, included, among others, evaluating the reasonableness of the Company’s use of the income approach to estimate fair value, testing the mathematical accuracy of the valuation models and calculations, and testing the completeness and accuracy of the data inputs used in the valuation of the loans held as of the balance sheet date. Also, with the assistance of our valuation specialists, we evaluated the discount rate assumption and concluded fair values of the loans held as of the balance sheet date.

/s/ Ernst & Young LLP
We have served as the Company‘s auditor since 2017.
Atlanta, Georgia
March 27, 2023

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

	December 31, 2022	December 31, 2021
ASSETS		
Loans held for sale, at fair value	$ 11,593	$ —
Loans held for investment, at fair value	83,143	—
Cash and cash equivalents	10,727	78,349
Restricted cash	2,047	—
Other assets	10,137	3,127
Total assets	$ 117,647	$ 81,476
LIABILITIES AND EQUITY		
Liabilities		
Accrued expenses and other liabilities	$ 10,349	$ 7,145
Lease liabilities	1,323	859
Credit facility	51,653	—
Total liabilities	63,325	8,004
Commitments and contingencies (Note 8)		
Redeemable preferred stock:		
Preferred stock, $0.01 par value, 250,000 shares authorized as of December 31, 2022 and December 31, 2021. 144,212 shares issued and outstanding and $144,212 redemption value as of December 31, 2022 and 150,000 shares issued and outstanding and $150,000 redemption value as of December 31, 2021.	144,212	150,000
Stockholders' deficit:		
Common stock, $.01 par value, 5,000,000 authorized shares; 3,432,294 and 1,783,862 shares issued and outstanding, respectively, as of December 31, 2022 and 3,416,541 and 2,055,561 shares issued and outstanding, respectively, as of December 31, 2021.	34	34
Additional paid-in capital	149,010	143,523
Retained earnings	41,516	57,450
Accumulated other comprehensive income	20	54
Treasury stock, at cost, 1,648,432 shares as of December 31, 2022 and 1,360,980 shares as of December 31, 2021.	(280,470)	(277,589)
Total stockholders' deficit	(89,890)	(76,528)
Total Liabilities and Equity	$ 117,647	$ 81,476

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,	
	2022	**2021**
Revenues:		
Loan interest income	$ 4,579	$ —
Loan fee income	353	—
Servicing fee revenue	33	—
Total revenues	4,965	—
Expenses:		
Salaries and employee benefits	5,839	5,635
Legal fees	4,349	6,885
Professional fees	1,901	1,531
General and administrative	3,545	2,573
Servicing and asset management expense	683	—
Acquisition charges	513	3,908
Interest expense	1,328	60
Direct loan expense	122	—
Loan sales and marketing expense	338	—
Total expenses	18,618	20,592
Other income (expense):		
Change in fair value of loans	(1,963)	—
Change in fair value of equity securities	—	146
Gain on sale of equity securities	—	8,347
Dividend income	—	3,061
Other	32	94
Total other (expense) income	(1,931)	11,648
Net loss from continuing operations before income tax	(15,584)	(8,944)
Income tax expense	350	3,273
Net loss from continuing operations	$ (15,934)	$ (12,217)
Gain on discontinued operations (net of income tax expense of $1,272)	—	6,213
Net loss attributable to common stockholders	$ (15,934)	$ (6,004)
Continuing operations earnings per share		
Net loss from continuing operations	(15,934)	(12,217)
Gain on preferred stock transaction	5,122	87,961
Numerator for earnings per share from continuing operations	$ (10,812)	$ 75,744
Discontinued operations earnings per share		
Net income from discontinued operations	$ —	$ 6,213

See accompanying notes to consolidated financial statements.

Earnings per share of common stock - Basic:		
Continuing operations	$ (5.64)	$ 37.83
Discontinued operations	—	3.11
Total	$ (5.64)	$ 40.94
Weighted average common stock outstanding	1,917,503	2,002,111
Earnings per share of common stock - Diluted:		
Continuing operations	$ (5.64)	$ 35.03
Discontinued operations	—	2.87
Total	$ (5.64)	$ 37.90
Weighted average common stock outstanding	1,917,503	2,162,378

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,	
	2022	**2021**
Net loss	$ (15,934)	$ (6,004)
Other comprehensive loss:		
Currency translation adjustments, net	(34)	(6)
Total other comprehensive loss	(34)	(6)
Comprehensive loss	$ (15,968)	$ (6,010)

See accompanying notes to consolidated financial statements.

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

	Common Stock						
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Deficit
December 31, 2020	2,966,207	$ 30	$ 46,574	$ 63,426	$ (65)	$ (276,543)	$ (166,578)
Common shares issued under share-based compensation plans, net of employee tax withholdings	162,051	2	(2)	—	—	(800)	(800)
Shares withheld for taxes upon vesting of restricted stock	—	—	—	—	—	(27)	(27)
Share-based compensation, net of tax	—	—	1,939	—	—	(219)	1,720
Currency translation adjustments, net	—	—	—	—	(6)	—	(6)
Acquisition and disposition of subsidiaries	—	—	—	28	125	—	153
Preferred stock conversion	288,283	2	95,012	—	—	—	95,014
Net loss	—	—	—	(6,004)	—	—	(6,004)
December 31, 2021	3,416,541	34	143,523	57,450	54	(277,589)	(76,528)
Common shares issued under share-based compensation plans, net of employee tax withholdings	15,753	—	25	—	—	—	25
Treasury shares repurchased	—	—	—	—	—	(2,881)	(2,881)
Share-based compensation, net of tax	—	—	340	—	—	—	340
Currency translation adjustments, net	—	—	—	—	(34)	—	(34)
Preferred stock conversion	—	—	5,122	—	—	—	5,122
Net loss	—	—	—	(15,934)	—	—	(15,934)
December 31, 2022	3,432,294	$ 34	$ 149,010	$ 41,516	$ 20	$ (280,470)	$ (89,890)

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,	
	2022	**2021**
Operating activities:		
Net loss	$ (15,934)	$ (6,004)
Less: Income from discontinued operations, net of tax	—	6,213
Loss from continuing operations	(15,934)	(12,217)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation	199	309
Share-based compensation	340	1,939
Amortization of operating lease right-of-use assets	241	139
Change in fair value of loans	1,963	—
Dividend income	—	(3,061)
Change in fair value of securities	—	(146)
Gain on securities	—	(8,347)
Changes in operating assets and liabilities, net of effects from discontinued operations and acquisitions of subsidiaries:		
Originations of held for sale loans	(8,843)	—
Principal payments on held for sale loans	1,061	—
Additional fundings of held for sale loans	(3,857)	—
Interest receivable	(1,353)	—
Amortization of deferred financing fees	52	—
Other assets and liabilities	(933)	(5,145)
Receivable from Front Yard	—	3,414
Net cash used in continuing operations	(27,064)	(23,115)
Net cash provided by discontinued operations	—	5,439
Net cash used in operating activities	(27,064)	(17,676)
Investing activities:		
Website development	(1,482)	—
Purchase of loans held for investment	(99,087)	—
Additional fundings of loans held for investment	(10,794)	—
Principal payments on loans held for investment	26,174	—
Purchase of equity securities	—	(96,950)
Dividends received	—	3,061
Proceeds from sale of interest in equity securities	—	152,796
Investment in property and equipment	(60)	(511)
Net cash (used in) provided by continuing operations	(85,249)	58,396
Net cash provided by discontinued operations	—	511
Net cash (used in) provided by investing activities	(85,249)	58,907
Financing activities:		
Conversion of preferred stock	(1,893)	(3,763)
Proceeds from borrowed funds	95,197	28,549
Repayment of borrowed funds	(43,544)	(28,549)
Deferred financing fees	(125)	—

See accompanying notes to consolidated financial statements.

Proceeds and payment of tax withholding on exercise of stock options, net	25	5
Shares withheld for taxes upon vesting of restricted stock	—	(1,046)
Net payment from subsidiaries included in disposal group	—	(80)
Repurchase of common stock	(2,881)	—
Net cash provided by (used in) continuing operations	46,779	(4,884)
Net cash provided by discontinued operations	—	80
Net cash provided by (used in) financing activities	46,779	(4,804)
Net change in cash and cash equivalents	(65,534)	36,427
Effect of exchange rate changes on cash and cash equivalents	(41)	115
Consolidated cash, cash equivalents and restricted cash, beginning of period	78,349	41,807
Consolidated cash, cash equivalents and restricted, end of the period	$ 12,774	$ 78,349
Supplemental disclosure of cash flow information (continuing and discontinued operations):		
Cash paid for interest	$ 873	$ 60
Income taxes paid	3,806	2,103
Right-of-use lease assets recognized - operating leases	710	308
Operating lease liabilities recognized	710	—
Reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets:		
Cash and cash equivalents	$ 10,727	$ 78,349
Restricted cash	2,047	0
Consolidated cash and cash equivalents	$ 12,774	$ 78,349

See accompanying notes to consolidated financial statements.

Altisource Asset Management Corporation
Notes to Consolidated Financial Statements
December 31, 2022

1. Organization and Basis of Presentation

Altisource Asset Management Corporation (“we,” “our,” “us,” “AAMC,” or the “Company”) was incorporated in the U.S. Virgin Islands (“USVI”) on March 15, 2012 (our “inception”), and commenced operations as an asset manager on December 21, 2012. As disclosed in our public filings, the Company’s prior business operations ceased in the first week of 2021. The Company previously operated as the external manager for 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.

During 2021, AAMC engaged in a comprehensive assessment to either internally develop a new business operation or acquire a separate operating company. A range of industries were analyzed, including, but not limited to, real estate, lending cryptocurrency, block-chain technology and insurance operations. Outside professional firms, including among others, Cowen and Company, LLC, an investment bank, and Norton Rose Fulbright LLP, a global law practice, were engaged to provide due diligence, legal and valuation expertise to assist in our search.

As of March 2022, the Company created the Alternative Lending Group (“ALG”), to generate alternative private credit loans through Direct to Borrower Lending, Wholesale Originations, and Correspondent Loan Acquisitions. The initial operations of ALG entail the following:

- Build out a niche origination platform as well as a loan acquisition team;
- Fund the originated or acquired alternative loans from a combination of Company equity and existing or future lines of credit;
- Sell the originated and acquired alternative loans through forward commitment and repurchase contracts;
- Leverage senior management’s expertise in this space; and
- Utilize AAMC’s existing operations in India to drive controls and cost efficiencies.

ALG's primary sources of income is derived from mortgage banking activities generated through the origination and acquisition of loans, and their subsequent sale or securitization as well as net interest income from loans while held on the balance sheet for investment.

In addition, the Company has determined to focus operations solely on ALG for the foreseeable future. Based on current market conditions in the cryptocurrency industry the Company does not believe the timing is right to deploy resources to the cryptocurrency ATM business until the cryptocurrency market has reached some type of stabilization.

Basis of presentation and use of estimates

The accompanying audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. All wholly owned subsidiaries are included, and all intercompany accounts and transactions have been eliminated.

The Company changed its balance sheet presentation from classified (distinguishing between short-term and long-term accounts) to unclassified (no such distinction) in the second quarter of 2022. This change was prompted by the Company’s strategic decision to launch an alternative lending operation, ALG, in March 2022, as described above. The presentation of an unclassified balance sheet is consistent with that of the Company’s peers within the lending industry. Further, the previous classified presentation was not utilized to derive any metric by which the Company is measured or will be measured on a prospective basis. As the Company is now presenting an unclassified balance sheet, reclassification adjustments have been made to the historical Consolidated Balance Sheets at December 31, 2021 in order for it to conform with the current unclassified presentation.

Use of estimates

The preparation of 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Loans held for sale or investment, carried at fair market value

We originate and purchase alternative loans. These loans will either be classified as held for investment or held for sale depending upon the determination of management. We have elected to measure these alternative loans at fair value on a loan by loan basis. This option is available when we first recognize a financial asset. Subsequent changes in the fair value of these loans will be recorded in our Consolidated Statements of Operations in the period of the change. Purchased loans, also known as correspondent loans, can be bought with a net strip interest component in that the seller of the loan will receive an agreed upon percentage of the coupon interest generated from the sold loan. This strip component is reflected as service and asset management expense on the Consolidated Statements of Operations.

A fair value measurement represents the price at which an orderly transaction would occur between willing market participants at the measurement date. We estimate the fair values of the loans held for investment or sale based on available inputs from the marketplace. The market for the loans that we have or will invest in is generally illiquid. Establishing fair values for illiquid assets is inherently subjective and is often dependent upon our estimates and modeling assumptions. In circumstances where relevant market inputs cannot be obtained, increased analysis and management judgment are required to estimate fair value. This generally requires us to establish internal assumptions about future cash flows and appropriate risk-adjusted discount rates. Regardless of the valuation inputs we apply, the objective of fair value measurement for assets is unchanged from what it would be if markets were operating at normal activity levels and/or transactions were orderly; that is, to determine the current exit price.

See Note 4 for further discussion on fair value measurements.

Interest for these loans is recognized as revenue based on the stated coupon when earned and deemed collectible or until a loan becomes more than 90 days past due, at which point the loan is placed on nonaccrual status and any accrued interest is reversed against interest income. When a seriously delinquent loan previously placed on nonaccrual status has been cured, meaning all delinquent principal and interest have been remitted by the borrower, the loan will be placed back on accrual status. Interest accrued as of period end is included within loans held for sale, at fair value or loans held for investment, at fair value in the Consolidated Balance Sheets as applicable.

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 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 Shares, we classify these shares as mezzanine equity, outside of permanent stockholders' equity.

The holders of our Series A Shares are not entitled to receive dividends with respect to their Series A Shares. The Series A Shares are convertible into shares of our common stock at a conversion price of $1,250 per share (or an exchange rate of 0.8 shares of common stock for Series A Share), 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 Shares will be entitled to receive an amount in cash per Series A Share 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 Series A Shares were convertible on each ex-dividend date for such dividends; and
(ii) The number of shares of common stock into which the Series A Shares are 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 Shares 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 Shares rank 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 Shares are recorded net of issuance costs, which were amortized on a straight-line basis through the first potential redemption date in March 2020.

Between January 31, 2020 and February 3, 2020, we received purported notices from all of the 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, but not less than 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 obligated to redeem any of the Series A Shares under the Certificate.

Current Litigation

– 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 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. 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 3, 2020, the court denied AAMC's motion to dismiss. On February 23, 2021, in accordance with the terms of the Putnam Agreement described below, Putnam agreed to discontinue all claims against AAMC with prejudice related to the Series A shares. Luxor and AAMC have completed discovery in the action. AAMC and Luxor each filed summary judgment motions on July 19, 2022 and replies to those motions on August 18, 2022 and September 15, 2022. On December 1, 2022, having heard oral arguments on the summary judgment motions, the court denied both parties' motions.

AAMC And Luxor have filed an appeal and cross-appeal, respectively, from the trial court's ruling in the Appellate Division - First Department, of the Supreme Court of the State of New York. By stipulation of the parties, the appeal and cross-appeal shall be perfected and briefed for the June 2023 term. AAMC's brief as Defendant-Appellant-Cross-Respondent was filed on February 22, 2023. Luxor's brief as Plaintiff-Appellee-Cross-Appellant is due to be filed by April 6, 2023. AAMC's reply brief is due April 21, 2023. Luxor's reply brief is due May 8, 2023.

AAMC continues to pursue its strategic business initiatives despite this litigation. If Luxor were to prevail in its lawsuit, our liquidity could be materially and adversely affected.

– AAMC (plaintiff) v. Nathaniel Redleaf (defendant)

On October 31, 2022, AAMC filed a complaint with demand for jury trial in the Superior Court of the Virgin Islands, Division of St. Croix, against Nathaniel Redleaf alleging breach of fiduciary duty to AAMC. Mr. Redleaf was a member of AAMC's Board of Directors for five years and the Company's complaint alleges that he breached his fiduciary duty, by among other things, disclosing AAMC's confidential information to Luxor. AAMC seeks a number of remedies, including compensatory damages, disgorgement of any benefit received by Luxor or Mr. Redleaf as a result of such breaches.

On January 4, 2023, this action was removed to the United States District Court of the Virgin Islands, Division of St. Croix.

On February 28, 2023, defendant Redleaf filed a motion to dismiss the complaint. AAMC's opposition to defendant's motion is due on April 4, 2023.

Settlement Activities

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 exchanged all of Putnam's 81,800 Series A Shares for 288,283 shares of AAMC's common stock. Additionally, AAMC paid 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 released 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 in the first quarter of 2021.

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 paid Wellington $2,093,000 in exchange for 18,200 Series A Shares ($18.2 million of liquidation preference) 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 in the third quarter of 2021.

On January 6, 2022, the Company entered into a settlement agreement (the "Settlement Agreement") with two institutional investors. Under the Settlement Agreement, the Company paid the institutional investors approximately $665 thousand in cash in exchange for 5,788 Series A Shares ($5.79 million of liquidation preference) held by the institutional investors. As a result of this settlement, the Company recognized a one-time gain directly to Additional paid in capital of approximately $5.1 million in the first quarter of 2022.

On July 18, 2022, the Company entered into an agreement (the "Purchase Agreement") with Putnam in which the Company repurchased 286,873 shares of common stock of the Company owned by Putnam (the "Putnam Shares"). The aggregate purchase price of the Putnam Shares was $2,868,730, or $10 per share.

Pursuant to the Purchase Agreement, the Company and Putnam also agreed to terminate the most favored nation clause granted to Putnam in the Putnam Agreement. The Company and Putnam also agreed to terminate all of Putnam's shareholder voting obligations included in the Putnam Agreement.

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 the holder's termination of service with the Company for any reason. At December 31, 2022 and 2021, we had 3,200 and 1,200 and shares outstanding, respectively, and we included the redemption value of these shares of $32,000 and $12,000 respectively, within accounts payable and accrued liabilities in our Consolidated Balance Sheets.

In December 2022 and January 2021, our Board of Directors declared and paid an aggregate $0.4 million and of $1.6 million, respectively, of dividends on these shares of preferred stock. Such dividends are included in salaries and employee benefits in our Consolidated Statements of Operations.

Recently issued accounting standards

Recently issued accounting standards 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. Our adoption of this standard in the first quarter of 2022 did not have a material impact on our financial statements.

Recently issued accounting standards not yet adopted

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. In December 2022, the FASB extended the temporary accounting rules under Topic 848 from December 31, 2022 to December 31, 2024. 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.

Recent accounting pronouncements pending adoption not discussed above or in the 2021 Form 10-K are either not applicable or will not have, or are not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

2. Summary of Significant Accounting Policies

Cash equivalents

We consider highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Certain account balances exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. To mitigate this risk, we maintain our cash and cash equivalents at large national or international banking institutions.

Restricted cash

We have designated restricted cash when appropriate within our Consolidated Balance Sheets.

Consolidations

The consolidated financial statements include the accounts of AAMC and its consolidated subsidiaries, which include the voting interest entities in which we are determined to have a controlling financial interest. Our voting interest entities consist entirely of our wholly owned subsidiaries. We also consider variable interest entities (“VIEs”) for consolidation where we are the primary beneficiary. We had no VIEs or potential VIEs as of and for the years ended December 31, 2022 or 2021.

Earnings per share

Basic earnings per share is computed by dividing net income or loss, less amortization of preferred stock issuance costs, by the weighted average common stock outstanding during the period. Diluted earnings per share is computed by dividing net income or loss by the weighted average common stock outstanding for the period plus the dilutive effect of (i) stock options and restricted stock outstanding using the treasury stock method and (ii) Series A Preferred Shares using the if-converted method. Weighted average common stock outstanding - basic excludes the impact of unvested restricted stock since dividends paid on such restricted stock are non-participating. Any gain on settlement of preferred shares, which is recorded directly to equity, is included in the numerators for our earnings per share calculations.

Fair value of financial instruments

We designate fair value measurements into three levels based on the lowest level of substantive input used to make the fair value measurement. Those levels are as follows:

- **Level 1 -** Quoted prices in active markets for identical assets or liabilities.
- **Level 2 -** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.
- **Level 3 -** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Income taxes

Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is “more likely than not” that some or the entire deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

For all temporary differences, we have considered the potential future sources of taxable income against which they may be realized. In so doing, we have taken into account temporary differences that we expect to reverse in future years and those where it is unlikely. Where it is more likely than not that there will not be potential future taxable income to offset a temporary difference, a valuation allowance has been recorded.

Lastly, the Company accounts for the tax on global intangible low-taxed income (“GILTI”) as incurred and therefore has not recorded deferred taxes related to GILTI on its foreign subsidiaries.

Leases

On January 1, 2019, we adopted ASU 2016-02, including various associated updates and amendments, which together comprise the requirements for lease accounting under ASC 842. ASC 842 fundamentally changes accounting for operating leases by requiring lessees to recognize a liability to make lease payments and a right-of-use asset over the term of the lease. We also adopted the “package of practical expedients,” which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs under the new standard. We also elected the short-term lease exemption for all leases that qualify; as a result, we will not recognize right-of-use assets or lease liabilities for leases with a term of less than 12 months at inception.

We lease office space under three operating leases. Our office leases are generally for terms of one to five years and typically include renewal options, which we consider when determining our lease right-of-use assets and lease liabilities to the extent that a renewal option is reasonably certain of being exercised. Along with rents, we are generally required to pay common area maintenance, property taxes and insurance, each of which vary from period to period and are therefore expensed as incurred.

Other assets

Other assets includes leasehold improvements; furniture, fixtures and equipment; deferred tax assets, refunds due and miscellaneous other assets. The cost basis of fixed assets is depreciated using the straight-line method over an estimated useful life of three to five years based on the nature of the components.

Revenue recognition

Interest revenue is recognized based on the stated coupon when earned and deemed collectible or until a loan becomes more than 90 days past due, at which point the loan is place on nonaccrual status and any accrued interest is reversed against interest revenue.

Upon a nonaccrual loan being reinstated, meaning all delinquent principal and interest payments have been remitted by the borrower, the loan will be placed back on accrual status.

Interest accrued as of period end is included within loans for sale, at fair value, or loans held for investment, at fair value, in the Consolidated Balance Sheets as applicable.

Loan fees represent origination fees charged to borrowers and are recognized to revenue upon the origination date of the loan.

Share-based compensation

We amortize the grant date fair value of restricted stock as expense on a straight-line basis over the service period with an offsetting increase in stockholders' equity. The grant date fair value of awards with only service-based vesting conditions is determined based upon the share price on the grant date.

We recognize share-based compensation expense related to (i) awards to employees in salaries and employee benefits and (ii) awards to Directors or non-employees in general and administrative expense in our Consolidated Statements of Operations.

Forfeitures of share-based awards are recognized as they occur.

Treasury stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of total stockholders’ equity. We have repurchased shares of our common stock (i) under our Board approval to repurchase up to $300.0 million in shares of our common stock and (ii) upon our withholding of shares of our common stock to satisfy tax withholding obligations in connection with the vesting of our restricted stock.

3. Discontinued Operations

Our primary client prior to December 31, 2020 had 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 all periods presented prior to December 31, 2021 was generated through our asset management agreements with Front Yard.

On August 13, 2020, AAMC and Front Yard entered into a Termination and Transition Agreement (the “Termination Agreement”), pursuant to which the Company and Front Yard have agreed to effectively internalize the asset management function of Front Yard. The Termination Agreement provided that the Amended AMA would terminate following a transition period to enable the internalization of Front Yard’s asset management function, allow for the assignment of certain vendor contracts and implement the transfer of certain employees to Front Yard and the training of required replacement employees at each company. In addition, Front Yard acquired the equity interests of AAMC's Indian 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 were used in connection with the operation of Front Yard's business.

The transition period ended at the close of business, December 31, 2020, the time that AAMC and Front Yard mutually agreed that all required transition activities had been successfully completed (the “Termination Date”). On the Termination Date, the Amended AMA terminated, and 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 gain on this sale, net of taxes was $6.2 million.

The Company had no assets and liabilities related to our discontinued operations that constituted the Disposal Group at December 31, 2022.

The following table details the components comprising net income from our discontinued operations for the year ended December 31, 2021. ($ in thousands):

	Year ended December 31,	
	2021	
Other income from discontinued operations:		
Gain on disposal	$	7,485
Total other income from discontinued operations		7,485
Net income from discontinued operations before income taxes		7,485
Income tax expense		1,272
Net income from discontinued operations	$	6,213

The following table details cash flow information related to our discontinued operations for the year ended December 31, 2021. ($ in thousands):

	Year ended December 31,	
	2021	
Total operating cash flows from discontinued operations	$	5,439
Total investing cash flows from discontinued operations		511
Total financing cash flows from discontinued operations		80

4. Loans Held for Sale or Investment at Fair Value

Our loan portfolio consists of business purpose loans secured by single family, multifamily and commercial real estate that were acquired from third party originators or issued by us. The composition of the loan portfolio by classification as of December 31, 2022 and 2021, respectively, is summarized in the table below ($ in thousands):

	Held for Sale				Held for Investment			
	December 31, 2022		December 31, 2021		December 31, 2022		December 31, 2021	
Total loan commitments	$	15,080	$	—	$	98,157	$	—
Less: construction holdbacks (1)		(3,350)		—		(13,188)		—
Total principal outstanding		11,730		—		84,969		—
Change in fair value of loans		(137)		—		(1,826)		—
Total loans at fair value	$	11,593	$	—	$	83,143	$	—

(1) Construction holdbacks include in process accounts such as payments, advances, interest reserve, accrued interest and other accounts.

The loan portfolio consists of 128 loans at December 31, 2022, with a weighted average coupon of 9.4%, of which the Company receives a net yield of 8.5% after taking into account the strip interest to the sellers of the loans. The weighted average life of the portfolio is approximately 8.2 months. 19 loans represent 60% of the total principal outstanding at December 31, 2022. There was one loan on nonaccrual status or 90 days or more past due at December 31, 2022, with a carrying value of $0.6 million.

The table below represents activity within the loan portfolio by classification for the period shown ($ in thousands):

	Loans Held for Sale		Loans Held for Investment	
Balance at December 31, 2021	$	—	$	—
Acquisitions		—		99,087
Originations		8,843		—
Additional fundings		3,857		10,794
Interest receivable		91		1,262
Payoffs and repayments		(1,061)		(26,174)
Fair value adjustment		(137)		(1,826)
Balance at December 31, 2022	$	11,593	$	83,143

The composition of the total loan commitment by state as of December 31, 2022 is summarized below ($ in thousands):

State	Commitment	Percent of Portfolio
Florida	$ 32,422	28.6 %
New York	22,250	19.6 %
New Jersey	12,367	10.9 %
California	12,513	11.1 %
Washington	6,215	5.5 %
Connecticut	4,374	3.9 %
Texas	4,815	4.3 %
Illinois	4,357	3.8 %
Other	13,924	12.3 %
Total	$ 113,237	100.0 %

For financial reporting purposes of our alternative loans, we follow a fair value hierarchy established under GAAP, as described in Note 2, that is used to determine the fair value of financial instruments. This hierarchy prioritizes relevant market inputs in order to determine an "exit price" at the measurement date, or at the price at which an asset could be sold or a liability could be transferred in an orderly process that is not a forced liquidation or distressed sale.

In certain cases, inputs used to measure fair value fall into different levels of the fair value hierarchy. In such cases, the level at which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. Our assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured.

The following table presents the assets that are reported at fair value on a recurring basis as of December 31, 2022, as well as the fair value of hierarchy of the valuation inputs used to measure fair value. We did not have any assets that were reported at fair value as of December 31, 2021. We did not have any liabilities to report at fair value on a recurring basis as of December 31, 2022.

December 31, 2022	**Carrying**	**Fair Value Measurements Using**		
(In thousands)	**Value**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans held for sale	$ 11,593	$ —	$ —	$ 11,593
Loans held for investment	83,143	—	—	83,143
Total measured	$ 94,736	$ —	$ —	$ 94,736

The estimated fair value for our business purpose loans is determined using the discounted cash flow model ("DCF") to estimate the net present value of the future cash flows expected from each loan. For performing loans, the DCF is based on the future expected cash flows of each loan in accordance with its contractual terms net of the strip component. Cash flows for performing loans with construction holdbacks incorporate the draws to complete the required improvements to the underlying property securing the loan. For nonaccrual loans, the estimated cash flows are based on the current fair value of the collateral of the loans, in which the Company will utilize a third-party appraisal to determine the fair value (Level 3).

On a loan by loan basis, the weighted average discount rate range utilized for the DCF applied to the net yield to be received by the Company was 11.4% which is greater than the overall yield on the portfolio of 7.7%, resulting in the decrease in value of the portfolio at December 31, 2022. The determination of the discount rate was based on analysis of the current interest rates charged for business purpose loans in conjunction with the increase in rates for other underlying base rates such as the 10-year U.S. treasury bond and the 30 day Secured Overnight Financing Rate ("SOFR") (Level 3).

As of December 31, 2022, the Company had no securities outstanding. We did not transfer any assets from one level to another level during the years ended December 31, 2022 and 2021, respectively.

5. Equity Securities

Investment gains/losses for December 31, 2022 and 2021, are summarized as follows ($ in thousands):

	Year ended December 31,	
	2022	2021
Equity securities:		
Investment gains on securities sold during the period	$ —	$ 8,347
	—	8,347
Front Yard common stock:		
Investment gains on securities sold during the period	—	146
	—	146
Total change in fair value of equity securities and Front Yard common stock	$ —	$ 8,493

Investment gains and losses include unrealized gains and losses from changes in fair values during the period on positions that we owned in 2021. As reflected in the Consolidated Statements of Cash Flows, total proceeds from sales of securities during December 31, 2021 was $152.8 million which consisted of proceeds from sales of Front Yard common stock of $47.5 million and $105.3 million in proceeds from sales of securities. No proceeds from sales of securities were received in 2022 because no investments were held. 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 period.

6. Borrowings

In December 2022, the Company entered into a $50.0 million Master Repurchase Agreement (the "NexBank Line") with NexBank, as the buyer. The Company uses the proceeds from the NexBank Line to fund the acquisition and origination of business purpose loans (the "Loans") secured by residential, multifamily and certain commercial properties. Each draw on the NexBank Line can be outstanding up to 180 days. NexBank has a security interest in the Loans subject to a transaction under the NexBank Line. The NexBank Line's maturity is 364 days from the execution date. The carrying value of the NexBank Line approximates its fair value as of December 31, 2022 due to its short-term nature and floating interest rate terms.

The NexBank Line accrues interest at a equal to the greater of (a) the 1 month Term SOFR rate plus a spread dependent on three and on-half percent (3.50%) or (b) four and one-quarter (4.25%). The average borrowing rate was 5.60% and weighted average remaining term is 156 days as of December 31, 2022. NexBank Line's outstanding balance is $9.2 million and is collateralized by $10.4 million in Loans at December 31, 2022.

The NexBank Line provides for certain affirmative and negative covenants applicable to the Company and its subsidiaries. The Company is required to maintain financial covenants including specified levels of: 1) maximum debt to net worth ratio; 2) minimum current ratio; and 3) minimum liquidity. The NexBank Line also contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and representations and warranties, cross defaults, bankruptcy or insolvency proceedings and other events of default which are customary for this type of transaction. The remedies for such events of default include the acceleration of the principal amount outstanding under the NexBank Line and the liquidation of Loans subject to a transaction. The Company was in compliance with all covenants and there were no defaults as of December 31, 2022.

In August 2022, the Company entered into a $50.0 million Master Repurchase Agreement (the “Flagstar Line”) with Flagstar Bank FSB (“Flagstar”), a federal savings bank, as a buyer and administrative agent. The Company uses the proceeds from the Flagstar Line to fund the acquisition and origination of Loans secured by residential, multifamily and certain commercial properties. Each draw on the Flagstar Line can be outstanding up to 180 days. Flagstar has a security interest in the Loans subject to a transaction under the Flagstar Line and requires the Company to maintain restricted cash of $2 million in a Flagstar deposit account. The Flagstar Line's maturity is 364 days from the execution date. The carrying value of the Flagstar Line approximates its fair value as of December 31, 2022 due to its short-term nature and floating interest rate terms.

The Flagstar Line accrues interest at a base 1-Month Term SOFR rate plus a spread dependent upon the type of Loan subject to a transaction. Interest is payable at 90 days. The Company also incurs a fee on the unused portion of the $50.0 million if the average outstanding balance of the Flagstar Line is less than a threshold level of the total commitment. The average borrowing rate was 7.30% and weighted average remaining term is 134 days as of December 31, 2022. Flagstar Line's outstanding balance is $42.5 million and is collateralized by $57.4 million in Loans at December 31, 2022.

The Flagstar Line provides for certain affirmative and negative covenants applicable to the Company and its subsidiaries. The Company is required to maintain financial covenants including specified levels of: 1) quarter-end tangible net worth; 2) quarter-end liquidity; 3) a quarter-end ratio of total liabilities to tangible net worth; and 4) minimum profitability requirements in 2023. The Flagstar Line also contains events of default (subject to certain materiality thresholds and grace periods), including payment defaults, breaches of covenants and representations and warranties, cross defaults, bankruptcy or insolvency proceedings and other events of default which are customary for this type of transaction. The remedies for such events of default include the acceleration of the principal amount outstanding under the Flagstar Line and the liquidation of Loans subject to a transaction. The Company was in compliance with all covenants and there were no defaults as of December 31, 2022.

In 2021, the Company began borrowing under a standard margin arrangement with our banking institution. The margin account was secured by the securities held in our brokerage account with this institution. We paid interest on all of our borrowings each month when a balance was owed. All indebtedness on the margin agreement was paid off as of December 31, 2021.

7. Leases

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

As of December 31, 2022 and 2021, our weighted average remaining lease term, including applicable extensions, was 3.8 years and 5.1 years, respectively, and we applied a discount rate of 7.0% and 7.0%, respectively, to our office leases. We determined the discount rate for each lease to be either the discount rate stated in the lease agreement or our estimated rate that we would charge to finance real estate assets.

During the years ended December 31, 2022 and 2021, we recognized rent expense of $0.3 million and $0.2 million, respectively, related to long-term operating leases. We had no short-term rent expense in 2022 or 2021. We include rent expense as a component of general and administrative expenses in the Consolidated Statements of Operations. We had no finance leases during the years ended December 31, 2022 and December 31, 2021.

The following table presents a maturity analysis of our operating leases as of December 31, 2022 ($ in thousands):

	Operating Lease Liabilities
2022	$ 468
2023	330
2024	311
2025	321
2026	76
Total lease payments	1,506
Less: interest	183
Lease liabilities	$ 1,323

8. 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 material legal proceedings to which we are a party as of December 31, 2022:

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

Please refer to Note 1 – Section *Series A Convertible Preferred Stock in 2014 Private Placement.*

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. Following the close of discovery on July 11, 2022, the Company moved for summary judgment seeking dismissal of Mr. Chatterjee's remaining claims against the Company and against its directors, and further seeking entry of judgment on the majority of the Company's counterclaims. On July 21, 2022, the Company and its directors filed a motion alleging that Mr. Chatterjee had engaged in fraud and seeking as sanctions for that abuse both the dismissal of all of Mr. Chatterjee's claims and the payment of the Company's legal fees resulting from that alleged abuse. Following briefing by all parties on the summary judgment and sanction motions, on October 19, 2022, the arbitrator found that Mr. Chatterjee engaged in serious and repeated misconduct, attempting to perpetrate a fraud on the arbitrator and the Company and accordingly (i) dismissed all of Mr. Chatterjee's remaining claims, both as a sanction for his misconduct and, independently, on the merits of the Respondents' motion for summary judgment; (ii) granted summary judgment on one of the Company's counterclaims requiring Mr. Chatterjee to pay the Company $400,000 (the return of half of his initial signing bonus); and, (iii) ordered that Mr. Chatterjee, as a further sanction for his misconduct, reimburse the Company for all expenses it incurred directly and solely as a result of his misconduct (which dollar amount has not yet been set). On December 29, 2022, the arbitrator entered a final order which granted an additional award of fees and costs to the Company in the amount of over $1 million, bringing the Company's total judgment against Mr. Chatterjee to approximately $1.6 million. In the arbitrator's final award, he also included the amounts he had previously awarded to the Company in his October 19, 2022 order, which were $400,000 plus interest at the U.S. Virgin Islands' 9.0% statutory rate for contractual claims (since Mr. Chatterjee's termination on April 16, 2021) and approximately $140,000 as reimbursement to the Company for all expenses the Company incurred directly and soley as a result of Mr. Chatterjee's misconduct in the arbitration. The Company intends to enforce the judgment against Mr. Chatterjee.

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 on various alleged grounds, including that the Court allegedly lacks personal jurisdiction over Defendants. Plaintiffs and AAMC have opposed Defendants' motions and have also 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. Plaintiffs have repeatedly requested the Court to decide the pending motions and issue a scheduling order permitting discovery to proceed.

On October 11, 2022, the Court appointed a Staff Master to decide, or issue a recommended decision on, the pending motions, including the motion to dismiss for lack of personal jurisdiction.

On February 1, 2023, Plaintiffs and AAMC filed a petition for mandamus with the United States Virgin Islands Supreme Court seeking an order directing the Superior Court to issue a decision on the personal jurisdiction issue and to permit discovery to proceed.

On March 3, 2023, the Staff Master held a hearing to discuss the pending motions to dismiss. At the hearing, he indicated that a recommended decision on the pending motions (which would need to be confirmed or rejected by the Court) could be expected in late March or early April, 2023.

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. As such, we have not recorded a gain contingency for this matter at December 31, 2022 or 2021, respectively.

9. Incentive Compensation and Share-based Payments

Long-term incentive compensation

Our officers and employees participate in an annual non-equity incentive program whereby they are eligible for incentive cash payments based on a percentage of their annual base salary. Our officers generally have a target annual non-equity incentive payment percentage that ranges from 50% to 200% of base salary. The officer's actual incentive payment for the year is determined by (i) the Company's performance versus the objectives established by our Board of Directors (80%) and (ii) a performance appraisal (20%).

Share-based Payments

Certain executive officers and employees have and will receive grants of stock options and/or restricted stock under the 2012 and 2020 Equity Incentive Plans, collectively (the "Equity Incentive Plans"). The Equity Incentive Plans also allow for the grant of performance awards and other awards such as purchase rights, equity appreciation rights, shares of common stock awarded without restrictions or conditions, convertible securities, exchangeable securities or other rights convertible or exchangeable into shares of common stock, as the Compensation Committee in its discretion may determine.

2012 Special Equity Incentive Plan
A special grant of stock options and restricted stock was made to certain employees of Altisource Portfolio Solutions N.A. (“ASPS”) related to our separation from ASPS under the 2012 Special Equity Incentive Plan (the “2012 Special Plan”). We included no share-based compensation in our consolidated financial statements for the portion of these grants made to ASPS employees. The shares of restricted stock became fully vested and were issued during 2017.

Dividends received on restricted stock are forfeitable and are accumulated until the time of vesting at the same rate and on the same date as on shares of common stock. Upon the vesting of stock options and restricted stock, we may withhold up to the statutory minimum to satisfy the resulting employee tax obligation.

Stock options

During the years ended December 31, 2022 and 2021, we recorded zero and approximately $21,000 compensation expense related to grants of stock options, respectively.

The following table sets forth the activity of our outstanding options:

	Number of Options	Weighted Average Exercise Price per Share
December 31, 2020	67,225	12.13
Forfeited/expired (1)	(61,375)	12.87
December 31, 2021	5,850	4.36
Exercised (2)	(5,850)	$ 4.36
December 31, 2022	—	

(1) 1,000 stock options expired on July 18, 2021 and 375 expired on July 21, 2021. All forfeited and expired options had a weighted average exercise price of $12.87.

(2) 5,850 stock options were exercised on March 12, 2022 with a weighted average exercise price of $4.36.

As of December 31, 2022, we had no outstanding options issued under all of our share-based compensation plans or as inducement awards.

As of December 31, 2021, we had 5,850 outstanding options issued under all of our share-based compensation plans or as inducement awards, with a weighted average exercise price of $4.36, weighted average remaining life of 0.2 years and intrinsic value of $0.1 million. All options were exercised in March 2022.

Restricted stock

During the year ended December 31, 2022, we granted a total of 22,500 shares of service-based restricted stock to members of management with a weighted average grant date value per share of $9.89. These shares of service-based restricted stock awards were granted either as inducement awards or under our Equity Incentive Plans. These grants were to vest in three equal installments based on the grant date(s), subject to forfeiture or acceleration.

During the year ended December 31, 2021, we granted a total of 90,671 shares of service-based restricted stock to members of management. Of which, 82,671 shares of service-based restricted stock awards were issued with a weighted average grant date fair value per share of $26.25 which vested immediately. An additional 8,000 shares were issued with a weighted average grant date value per share of $21.58. These additional shares of service-based restricted stock awards were granted either as inducement awards or under our Equity Incentive Plans. These grants will vest in three equal annual installments based on the grant date(s), subject to forfeiture or acceleration.

We recorded $0.2 million and $1.8 million of compensation expense related to these grants for the years ended December 31, 2022, and 2021, respectively. As of December 31, 2022 and 2021, we had $0.3 million and $0.3 million, respectively, of total unrecognized share-based compensation cost to be recognized over a weighted average remaining estimated term of 1.1 years and 1.2 years, respectively.

Additionally, 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. This restricted stock vests on the date of the next Annual Meeting of Stockholders following the date of grant, 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. During the years ended December 31, 2022 and 2021, we granted 8,571 and 7,236 shares of stock, respectively, pursuant to our Equity Incentive Plans with a weighted average grant date fair value per share of $21.00 and $24.88, respectively.

The following table sets forth the activity of our restricted stock:

	Number of Shares		Weighted Average Grant Date Fair Value
December 31, 2020	129,380		24.32
Granted	97,907		25.77
Vested (1)	(162,051)		14.50
Forfeited/expired	(50,000)		14.35
December 31, 2021	15,236		23.15
Granted	31,071		12.95
Vested (1)	(9,903)		23.99
December 31, 2021	36,404	$	14.22

(1) The vesting date fair value of restricted stock that vested during the years ended December 31, 2022, and 2021 was $0.2 million and $2.1 million, respectively.

The following table sets forth the number of shares of common stock reserved for future issuance. We may issue new shares or issue shares from treasury shares upon the exercise of stock options or the vesting of restricted stock.

	December 31, 2022
Stock options outstanding	—
Possible future issuances under share-based compensation plans	91,217
	91,217

As of December 31, 2022, we had 1,567,706 remaining shares of common stock, excluding treasury shares, authorized to be issued under our charter.

10. 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 EDC Certificate”), effective as of February 1, 2013. Pursuant to the Certificate, so long as we comply its provisions, we will receive a 90% tax reduction on our USVI-sourced income until 2043. By letter dated September 16, 2022, 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 July 1, 2022 to December 31, 2022.

At December 31, 2022, the Company met the minimum employment requirements required under the provisions of the Waiver. Additionally, the Company hired Jason Kopcak as President and Chief Operating Officer, now Chief Executive Officer, in May 2022, and he has relocated to the USVI.

Beginning on January 1, 2017, AAMC US, Inc., a domestic U.S. corporation and wholly-owned subsidiary, began operations. This entity is based entirely in the mainland U.S. and is subject to U.S. federal and state corporate income tax.

The following table sets forth the components of income (loss) from continuing operations before income taxes ($ in thousands):

	Year ended December 31,			
	2022		2021	
U.S. Virgin Islands	$	(15,584)	$	(8,879)
Other		—		(65)
Loss before income taxes	$	(15,584)	$	(8,944)

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The provision (benefit) for income taxes from continuing operations is summarized as follows ($ in thousands):

	Year ended December 31, 2022	Year ended December 31, 2021
Current		
Federal	$ 195	$ 4,378
State	4	—
International	55	203
Total current tax expense	254	4,581
Deferred		
Federal	94	(1,281)
State	2	—
International	—	(27)
Total deferred tax expense (benefit)	96	(1,308)
Total tax expense	$ 350	$ 3,273

The following table sets forth the components of our total deferred tax assets ($ in thousands):

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Stock compensation	$ 2	$ 2
Accrued expenses	84	24
Net operating losses (1)	1,109	637
Lease liabilities	54	14
Other	76	1
Gross deferred tax assets	1,325	678
Deferred tax liability:		
Right-of-use lease assets	53	13
Investments	6	—
Gross deferred tax liabilities	59	13
Net deferred tax asset before valuation allowance	1,266	665
Valuation allowance	(1,266)	(498)
Deferred tax asset, net	$ —	$ 167

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

The change in deferred tax assets is included in changes in other assets and liabilities in the Consolidated Statement of Cash Flows. The significant factors contributing to the increase in our valuation allowance in 2022 are due to increases in the temporary differences attributable to net operating losses, accrued compensation, and unrealized losses.

ASC 740 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. AAMC has historically been in a three-year cumulative loss position with the exception of 2020 due to the recognition of the Termination Fee payments as income that year. Removing this income from the analysis results in cumulative three-year book losses as of December 31, 2022. The Company believes that it is more likely than not that the Company will not realize the benefit of its net deferred tax assets. As such, the Company has recorded a full valuation allowance in 2022 against its net deferred tax assets. The valuation allowance increased by $768 thousand during the year ended December 31, 2022.

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The following table sets forth the reconciliation of the statutory USVI income tax rate from continuing operations to our effective income tax rate:

	Year ended December 31,	
	2022	2021
U.S. Virgin Islands income tax rate	23.1 %	23.1 %
EDC benefits in the USVI	(19.5)	(48.2)
Foreign tax rate differential	(0.2)	(0.2)
Subpart F income	—	(18.5)
Permanent and other	(0.5)	(1.6)
Share-based compensation	—	(0.2)
Valuation allowance	(4.9)	(4.8)
Foreign Tax Credit	—	13.6
Other Adjustments	(0.3)	—
Effective income tax rate	(2.3)%	(36.8)%

During the tax years ended December 31, 2022 and 2021, we recognized no interest or penalties associated with unrecognized tax benefits. As of December 31, 2022 and 2021, we had accrued no unrecognized tax benefits or associated interest and penalties.

AAMC believes that the tax positions taken in the AAMC tax returns satisfy the more-likely-than-not threshold for benefit recognition. Furthermore, a review of the AAMC entity trial balances suggests that AAMC has appropriately addressed the material book-tax differences. AAMC is confident that the amounts claimed (or expected to be claimed) in the tax returns reflect the largest amount of such benefits that are greater than fifty percent likely of being realized upon ultimate settlement. Accordingly, no ASC 740-10-25 liabilities have been recorded by the Company as a result of ASC 740-10-25.

We remain subject to tax examination in the USVI for tax years 2019 to 2022 and in the United States for tax years 2019 to 2022.

11. Earnings Per Share

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

	Year ended December 31, 2022	Year ended December 31, 2021
Numerator		
Continuing operations:		
Net loss from continuing operations	$ (15,934)	$ (12,217)
Gain on preferred stock transactions	5,122	87,961
Numerator for basic and diluted EPS from continuing operations – net income (loss) from continuing operations attributable to common stockholders	$ (10,812)	$ 75,744
Discontinued operations:		
Numerator for basic and diluted EPS from discontinued operations - net gain from discontinued operations	$ —	6,213
Total:		
Net loss	$ (15,934)	$ (6,004)
Gain on preferred stock transactions	5,122	87,961
Numerator for basic and diluted EPS - net income attributable to common stockholders	(10,812)	81,957
Denominator		
Weighted average common stock outstanding – basic	1,917,503	2,002,111
Weighted average common stock outstanding – diluted	1,917,503	2,162,378
Earnings (loss) per share of common stock – basic:		
Continuing operations - basic	$ (5.64)	$ 37.83
Discontinued operations - basic	—	3.11
Earnings per basic common share	$ (5.64)	$ 40.94
Earnings (loss) per share of common stock – diluted:		
Continuing operations - diluted	$ (5.64)	$ 35.03
Discontinued operations - diluted	—	2.87
Earnings per diluted common share	$ (5.64)	$ 37.90

We excluded the items presented below from the calculation of diluted earnings per share as they were antidilutive for the periods indicated, as the Company had a net loss from continuing operations for each period presented ($ in thousands):

	Year ended December 31, 2022	Year ended December 31, 2021
Denominator		
Stock options	—	—
Restricted stock	16,965	—
Preferred stock, if converted	115,434	—

12. Segment Information

Our primary business prior to December 31, 2020 was to provide asset management and certain corporate governance services to institutional investors. Because substantially all of our revenue was derived from the services we provided to Front Yard, we previously operated as a single segment focused on providing asset management and corporate governance services.

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Currently, ALG is our primary segment which we will be growing in 2023.

13. Subsequent Events

Management has evaluated the impact of all subsequent events to December 31, 2022 and through the issuance of these consolidated financial statements. Management has determined that there were no subsequent events requiring adjustment or disclosure in the financial statements.