

Edgar Filing: Altisource Asset Management Corp - Form 10-Q

Altisource Asset Management Corp  
Form 10-Q  
May 09, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

OR

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

COMMISSION FILE NUMBER: 000-54809

Altisource Asset Management Corporation  
(Exact name of registrant as specified in its charter)  
UNITED STATES VIRGIN ISLANDS 66-0783125  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

36C Strand Street  
Christiansted, United States Virgin Islands 00820  
(Address of principal executive office)

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

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

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

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

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

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

As of April 29, 2016, 1,793,540 shares of our common stock were outstanding (excluding 776,318 shares held as treasury stock).

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Explanatory Note

Effective January 1, 2016, Altisource Asset Management Corporation (the “Company”) adopted the provisions of Accounting Standards Update (“ASU”) 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis (“ASU 2015-02”) and performed an analysis of its relationship with Altisource Residential Corporation (“Residential”) pursuant to the amended guidance. The Company determined that the compensation it receives in return for its services to Residential is commensurate with the level of effort required to perform such services and the arrangement includes customary terms, conditions or amounts present in arrangements for similar services negotiated at arm’s length; therefore, Residential is no longer a variable interest entity under the amended guidance. As a result, effective January 1, 2016, the Company no longer consolidates the accounts of Residential. The Company has applied ASU 2015-02 using the modified retrospective approach, which has resulted in a cumulative-effect adjustment to the Company's equity on January 1, 2016. As a result, periods ending prior to the adoption were not impacted. The adoption effectively removed those balances previously disclosed that related to Residential from our consolidated financial statements and eliminated the amounts previously reported as noncontrolling interests in Residential as a consolidated affiliate. Subsequent to adoption, the Company's consolidated revenues consist primarily of management fees received from Residential under the related asset management agreement and interest and dividend income, and the Company's consolidated expenses consist primarily of salaries and employee benefits, equity-based compensation, legal and professional fees and general and administrative expenses.

Due to the significance of Residential's consolidated financial statements to the Company's historical consolidated financial statements in periods prior to January 1, 2016, the Company's consolidated financial statements have limited comparability with the Company's consolidated financial statements in prior periods.

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Altisource Asset Management Corporation

March 31, 2016

Table of Contents

<u>Part I</u>	<u>1</u>
<u>Item 1. Financial statements (unaudited)</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>2</u>
<u>Consolidated Statements of Operations</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive (Loss) Income</u>	<u>4</u>
<u>Consolidated Statements of Equity</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's discussion and analysis of financial condition and results of operations</u>	<u>23</u>
<u>Item 3. Quantitative and qualitative disclosures about market risk</u>	<u>34</u>
<u>Item 4. Controls and procedures</u>	<u>34</u>
<u>Part II</u>	<u>35</u>
<u>Item 1. Legal proceedings</u>	<u>35</u>
<u>Item 1A. Risk factors</u>	<u>36</u>
<u>Item 2. Unregistered sales of equity securities and use of proceeds</u>	<u>37</u>
<u>Item 4. Mine safety disclosures</u>	<u>37</u>
<u>Item 5. Other Information</u>	<u>37</u>
<u>Item 6. Exhibits</u>	<u>38</u>
<u>Signatures</u>	<u>39</u>

(table of contents)

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 “Residential” refer to Altisource Residential Corporation, unless otherwise indicated. References in this report to “ASPS” refer to Altisource Portfolio Solutions S.A. and its consolidated subsidiaries, unless otherwise indicated.

Special note on forward-looking statements

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

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

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

While forward-looking statements reflect our good faith beliefs, assumptions and expectations, they are not guarantees of future performance. Such forward-looking statements speak only as of their respective dates, and we assume no obligation to update them to reflect changes in underlying assumptions or factors, new information or otherwise. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, please see the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2015.

(table of contents)

Part I

Item 1. Financial statements (unaudited)

Certain information contained herein is presented as of April 29, 2016, which we have concluded is the latest practicable date for financial information prior to the filing of this quarterly report.

1

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(table of contents)

## Altisource Asset Management Corporation

## Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	March 31, 2016	December 31, 2015
Assets:		
Real estate held for use:		
Land (from previously consolidated VIE as of December 31, 2015)	\$—	\$ 56,346
Rental residential properties (net of accumulated depreciation of \$7,127 as of December 31, 2015 - from previously consolidated VIE)	—	224,040
Real estate owned (from previously consolidated VIE as of December 31, 2015)	—	455,483
Total real estate held for use, net	—	735,869
Real estate assets held for sale (from previously consolidated VIE as of December 31, 2015)	—	250,557
Mortgage loans at fair value (from previously consolidated VIE as of December 31, 2015)	—	960,534
Mortgage loans held for sale (from previously consolidated VIE as of December 31, 2015)	—	317,336
Cash and cash equivalents (including \$116,702 from previously consolidated VIE as of December 31, 2015)	41,646	184,544
Restricted cash (from previously consolidated VIE as of December 31, 2015)	—	20,566
Available-for-sale securities	19,494	—
Accounts receivable, net (including \$45,903 from previously consolidated VIE as of December 31, 2015)	—	46,026
Related party receivables	4,676	—
Prepaid expenses and other assets (including \$1,126 from previously consolidated as of December 31, 2015)	2,319	3,169
Total assets	\$ 68,135	\$ 2,518,601
Liabilities:		
Repurchase and loan and security agreements (from previously consolidated VIE as of December 31, 2015)	\$—	\$ 763,369
Other secured borrowings (from previously consolidated VIE as of December 31, 2015)	—	502,599
Accrued salaries and employee benefits	1,200	4,006
Accounts payable and other accrued liabilities (including \$32,448 from previously consolidated VIE as of December 31, 2015)	2,173	34,716
Related party payables	214	—
Total liabilities	3,587	1,304,690
Commitments and contingencies (Note 6)		
Redeemable preferred stock:		
Preferred stock, \$0.01 par value, 250,000 shares issued and outstanding as of March 31, 2016 and December 31, 2015; redemption value \$250,000	249,185	249,133
Equity:		
Common stock, \$.01 par value, 5,000,000 authorized shares; 2,569,780 and 1,901,092 shares issued and outstanding, respectively, as of March 31, 2016 and 2,556,828 and 2,048,223 shares issued and outstanding, respectively, as of December 31, 2015	26	26
Additional paid-in capital	23,463	23,419
Retained earnings	50,295	50,678
Accumulated other comprehensive loss	(1,102 )	—
Treasury stock, at cost, 668,688 shares as of March 31, 2016 and 508,605 shares as of December 31, 2015	(257,319)	(254,984 )
Total stockholders' deficit	(184,637)	(180,861 )

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Noncontrolling interest in consolidated affiliate	—	1,145,639
Total equity	(184,637)	964,778
Total liabilities and equity	\$68,135	\$2,518,601

See accompanying notes to consolidated financial statements.

2

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(table of contents)

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenues:		
Management fees	\$4,124	\$ —
Conversion fees	402	—
Rental revenues	—	1,400
Net unrealized gain on mortgage loans	—	61,134
Net realized gain on mortgage loans	—	15,382
Net realized gain on mortgage loans held for sale	—	151
Net realized gain on real estate	—	10,608
Interest and dividend income	294	240
Total revenues	4,820	88,915
Expenses:		
Salaries and employee benefits	2,348	1,633
Equity-based compensation	2,368	946
Legal and professional fees	541	7,533
Residential property operating expenses	—	12,459
Real estate depreciation and amortization	—	998
Selling costs and impairment	—	14,691
Mortgage loan servicing costs	—	18,266
Interest expense	—	11,483
General and administrative	514	1,451
Total expenses	5,771	69,460
(Loss) income before income taxes	(951 )	19,455