Altisource Portfolio Solutions S.A.
Form 10-Q
July 26, 2018

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 1-34354

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Exact name of Registrant as specified in its Charter)

Luxembourg	98-0554932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40, avenue Monterey
L-2163 Luxembourg
Grand Duchy of Luxembourg
(Address of principal executive offices) (Zip Code)

(352) 24 69 79 00
(Registrant's telephone number)

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 þ No o

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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 by Section 13(a) of the Exchange Act. o

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

As of July 20, 2018, there were 17,006,516 outstanding shares of the registrant’s shares of beneficial interest (excluding 8,406,232 shares held as treasury stock).

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PART I — FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$84,569	$ 105,006
Investment in equity securities	43,185	49,153
Accounts receivable, net	45,426	52,740
Prepaid expenses and other current assets	70,009	64,742
Total current assets	243,189	271,641
Premises and equipment, net	58,820	73,273
Goodwill	86,283	86,283
Intangible assets, net	105,374	120,065
Deferred tax assets, net	305,056	303,707
Other assets	11,174	10,195
Total assets	$809,896	$ 865,164
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$67,646	$ 84,400
Current portion of long-term debt	41,200	5,945
Deferred revenue	19,131	9,802
Other current liabilities	5,889	9,414
Total current liabilities	133,866	109,561
Long-term debt, less current portion	354,332	403,336
Other non-current liabilities	9,407	12,282
Commitments, contingencies and regulatory matters (Note 19)		
Equity:		
Common stock ($1.00 par value; 100,000 shares authorized, 25,413 issued and 17,027 outstanding as of June 30, 2018; 100,000 shares authorized, 25,413 shares issued and 17,418 outstanding as of December 31, 2017)	25,413	25,413
Additional paid-in capital	116,586	112,475
Retained earnings	596,268	626,600
Accumulated other comprehensive income	—	733
Treasury stock, at cost (8,386 shares as of June 30, 2018 and 7,995 shares as of December 31, 2017)	(427,380)	(426,609)
Altisource equity	310,887	338,612

Non-controlling interests	1,404	1,373
Total equity	312,291	339,985
Total liabilities and equity	$809,896	$ 865,164

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	$218,556	$250,685	$415,994	$491,168
Cost of revenue	163,206	185,393	310,400	363,346
Gross profit	55,350	65,292	105,594	127,822
Selling, general and administrative expenses	42,924	52,470	86,048	100,171
Income from operations	12,426	12,822	19,546	27,651
Other income (expense), net:				
Interest expense	(7,027)	(5,465)	(12,890)	(11,263)
Unrealized gain (loss) on investment in equity securities (Note 3)	1,533	—	(5,968)	—
Other income (expense), net	(3,861)	4,803	(2,589)	5,518
Total other income (expense), net	(9,355)	(662)	(21,447)	(5,745)
Income (loss) before income taxes and non-controlling interests	3,071	12,160	(1,901)	21,906
Income tax (provision) benefit	(816)	(2,438)	549	(5,024)
Net income (loss)	2,255	9,722	(1,352)	16,882
Net income attributable to non-controlling interests	(687)	(687)	(1,212)	(1,302)
Net income (loss) attributable to Altisource	$1,568	$9,035	$(2,564)	$15,580
Earnings (loss) per share:				
Basic	$0.09	$0.49	$(0.15)	$0.84
Diluted	$0.09	$0.48	$(0.15)	$0.82
Weighted average shares outstanding:				
Basic	17,142	18,335	17,260	18,497
Diluted	17,553	18,836	17,260	19,069
Comprehensive income (loss):				
Net income (loss)	$2,255	$9,722	$(1,352)	$16,882
Other comprehensive income (loss), net of tax:				
Reclassification of unrealized gain on investment in equity securities, net of income tax provision of $200, to retained earnings from the cumulative effect of an accounting change (Note 1)	—	—	(733)	—
Unrealized (loss) gain on investment in equity securities, net of income tax benefit (provision) of $0, $2,593, $0, $(2,132)	—	(6,981)	—	5,742
Comprehensive income (loss), net of tax	2,255	2,741	(2,085)	22,624
Comprehensive income attributable to non-controlling interests	(687)	(687)	(1,212)	(1,302)
Comprehensive income (loss) attributable to Altisource	$1,568	$2,054	$(3,297)	$21,322

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Altisource Equity							
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Non-controlling interests	Total
	Shares							
Balance, December 31, 2016	25,413	$25,413	$107,288	$333,786	$ (1,745)	$(403,953)	$ 1,405	$62,194
Comprehensive income:								
Net income	—	—	—	15,580	—	—	1,302	16,882
Other comprehensive income, net of tax	—	—	—	—	5,742	—	—	5,742
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,056)	(1,056)
Share-based compensation expense	—	—	1,858	—	—	—	—	1,858
Cumulative effect of an accounting change (Note 13)	—	—	932	(932)	—	—	—	—
Exercise of stock options and issuance of restricted shares	—	—	—	(5,014)	—	5,779	—	765
Treasury shares withheld for the payment of tax on restricted share issuances	—	—	—	(1,494)	—	405	—	(1,089)
Repurchase of shares	—	—	—	—	—	(18,573)	—	(18,573)
Balance, June 30, 2017	25,413	$25,413	$110,078	$341,926	$ 3,997	$(416,342)	$ 1,651	$66,723
Balance, December 31, 2017	25,413	$25,413	$112,475	$626,600	$ 733	$(426,609)	$ 1,373	$339,985
Net (loss) income	—	—	—	(2,564)	—	—	1,212	(1,352)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,181)	(1,181)
Share-based compensation expense	—	—	4,111	—	—	—	—	4,111
Cumulative effect of accounting changes (Note 1)	—	—	—	(9,715)	(733)	—	—	(10,448)
	—	—	—	(17,237)	—	19,944	—	2,707

Exercise of stock options and issuance of restricted shares								
Treasury shares withheld for the payment of tax on restricted share issuances and stock option exercises	—	—	—	(816)	—	406	—	(410)
Repurchase of shares	—	—	—	—	—	(21,121)	—	(21,121)
Balance, June 30, 2018	25,413	$25,413	$116,586	$596,268	$ —	$(427,380)	$ 1,404	$312,291

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	$(1,352)	$16,882
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	17,049	18,895
Amortization of intangible assets	14,691	18,539
Change in the fair value of acquisition related contingent consideration	—	16
Unrealized loss on investment in equity securities	5,968	—
Share-based compensation expense	4,111	1,858
Bad debt expense	1,503	2,890
Gain on early extinguishment of debt	—	(3,937)
Amortization of debt discount	298	156
Amortization of debt issuance costs	502	433
Deferred income taxes	(1,349)	—
Loss on disposal of fixed assets	558	2,798
Loss on debt refinancing (Note 10)	4,434	—
Changes in operating assets and liabilities:		
Accounts receivable	6,923	11,954
Prepaid expenses and other current assets	(5,267)	(6,811)
Other assets	967	523
Accounts payable and accrued expenses	(17,152)	(10,637)
Other current and non-current liabilities	(8,631)	(41,042)
Net cash provided by operating activities	23,253	12,517
Cash flows from investing activities:		
Additions to premises and equipment	(2,756)	(5,658)
Net cash used in investing activities	(2,756)	(5,658)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	407,880	—
Repayments and repurchases of long-term debt	(421,821)	(24,766)
Debt issuance costs	(5,042)	—
Proceeds from stock option exercises	2,707	765
Purchase of treasury shares	(21,121)	(15,531)
Distributions to non-controlling interests	(1,181)	(1,056)
Payment of tax withholding on issuance of restricted shares and stock option exercises	(410)	(1,089)
Net cash used in financing activities	(38,988)	(41,677)
Net decrease in cash, cash equivalents and restricted cash	(18,491)	(34,818)
Cash, cash equivalents and restricted cash at the beginning of the period	108,843	153,421
Cash, cash equivalents and restricted cash at the end of the period	$90,352	$118,603

Supplemental cash flow information:		
Interest paid	$11,540	$10,787
Income taxes paid, net	2,865	12,668
Non-cash investing and financing activities:		
Increase (decrease) in payables for purchases of premises and equipment	$398	$(378)
Increase in payables for purchases of treasury shares	—	3,042

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements
NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business
Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as “Altisource,” the “Company,” “we,” “us” or “our”), is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing markets we serve.
We are publicly traded on the NASDAQ Global Select Market under the symbol “ASPS.” We are organized under the laws of the Grand Duchy of Luxembourg.
Basis of Accounting and Presentation
The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.
Altisource consolidates Best Partners Mortgage Cooperative, Inc., which is managed by The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource. Best Partners Mortgage Cooperative, Inc. is a mortgage cooperative doing business as Lenders One® (“Lenders One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA’s option).
The management agreement between MPA and Lenders One, pursuant to which MPA is the management company, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact the cooperative’s economic performance and the right to receive benefits from the cooperative. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of June 30, 2018, Lenders One had total assets of $4.8 million and total liabilities of $3.1 million. As of December 31, 2017, Lenders One had total assets of $4.6 million and total liabilities of $3.1 million.
These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 22, 2018.
Fair Value Measurements
Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:
Level 1 — Quoted prices in active markets for identical assets and liabilities
Level 2 — Observable inputs other than quoted prices included in Level 1
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities
Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair

value hierarchy.

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Notes to Condensed Consolidated Financial Statements (Continued)

Recently Adopted Accounting Pronouncements
Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) and during 2016, the FASB issued additional guidance providing clarifications and corrections, including: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (collectively "Topic 606"). Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires that an entity recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer.
The Company adopted Topic 606 effective January 1, 2018 using the cumulative effect method. As a result of this adoption, the Company recognized an $11.2 million increase in deferred revenue, a $1.1 million increase in unbilled accounts receivable, a $0.3 million increase in other current liabilities and a $10.4 million decrease in retained earnings as of January 1, 2018. Because the Company adopted Topic 606 retrospectively with a cumulative effect as of January 1, 2018, the comparative results as of December 31, 2017 and for the three and six months ended June 30, 2017 have not been restated and continue to be reported under Accounting Standards Codification Topic 605, Revenue Recognition and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition. The details of the significant changes and quantitative impact of the adoption of Topic 606 are described below. Also see Note 14 for additional information on revenue, including disaggregation of revenue and contract balances.
As a result of the adoption of Topic 606, the Company's accounting policy for revenue recognition is as follows:
We recognize revenue from the services we provide in accordance with the 5-step process outlined in Topic 606. We recognize revenue when we satisfy a performance obligation by transferring control of a product or service to a customer in an amount that reflects the consideration that we expect to receive. This revenue can be recognized at a point in time or over time. We invoice customers based on our contractual arrangements with each customer, which may not be consistent with the period that revenues are recognized. When there is a timing difference between when we invoice customers and when revenues are recognized, we record either a contract asset (unbilled accounts receivable) or a contract liability (deferred revenue or other current liabilities), as appropriate. A description of our principal revenue generating activities by reportable segment are as follows:
Mortgage Market

- For the majority of the services we provide, we recognize transactional revenue when the service is provided.
- For loan servicing technologies, we recognize revenue based on the number of loans on the system, on a per-transaction basis or over the estimated average number of months the loans and real estate owned ("REO") are on the platform, as applicable. We generally recognize revenue for professional services relating to loan servicing technologies over the contract period. For our loan origination system, we generally recognize revenue over the contract term, beginning on the commencement date of each contract. For foreclosure trustee services, we recognize revenue over the period during which we perform the related services, with full recognition upon completion and/or recording the related foreclosure deed. For loan disbursement processing services, we recognize revenue over the period during which we perform the processing services with full recognition upon completion of the disbursements. We use judgment to determine the period over which we recognize revenue for certain of these services. For mortgage charge-off collections performed on behalf of our clients, we recognize revenue as a percentage of amounts collected following collection from the borrowers.
- For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed

percentage or amount.

- Reimbursable expenses revenue, primarily related to our property preservation and inspection services, real estate sales and our foreclosure trustee services businesses, is included in revenue with an equal amount recognized in cost of revenue. These amounts are recognized on a gross basis, principally because generally we have control over selection of vendors and the vendor relationship is with us, rather than with our customers.

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Notes to Condensed Consolidated Financial Statements (Continued)

Real Estate Market

- For the majority of the services we provide, we recognize transactional revenue when the service is provided.
- For our renovation services, revenue is recognized over the period of the construction activity, based on the estimated percentage of completion of the projects. We use judgment to determine the period over which we recognize revenue for certain of these services. For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed percentage or amount. For the buy-renovate-lease-sell business, we recognize revenue associated with our sales of short-term investments in real estate on a gross basis as we assume the risks and rewards of ownership of the asset.
- Reimbursable expenses revenue, primarily related to our real estate sales business, is included in revenue with an equal offsetting expense recognized in cost of revenue. These amounts are recognized on a gross basis, principally because generally we have control over selection of vendors and the vendor relationship is with us, rather than with our customers.

Other Businesses, Corporate and Eliminations

- For the majority of the services we provide, we recognize transactional revenue when the service is provided. We generally earn fees for our post-charge-off consumer debt collection services as a percentage of the amount we collect on delinquent consumer receivables and recognize revenue following collection from the borrowers. We provide customer relationship management services for which we typically earn and recognize revenue on a per-person, per-call or per-minute basis as the related services are performed.
- For the information technology ("IT") infrastructure services we provide to Ocwen Financial Corporation ("Ocwen"), Front Yard Residential Corporation ("RESI") and Altisource Asset Management Corporation ("AAMC"), we recognize revenue primarily based on the number of users of the applicable systems, fixed fees and the number and type of licensed platforms. We recognize revenue associated with implementation services upon completion and maintenance services ratably over the related service period.

The following table summarizes the impact of adopting Topic 606 on the Company's condensed consolidated balance sheet as of June 30, 2018:

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Accounts receivable, net	$45,426	$ 642	$ 46,068
Total current assets	243,189	642	243,831
Total assets	809,896	642	810,538
Other current liabilities	5,889	(217)	5,672
Deferred revenue	19,131	(9,100)	10,031
Total current liabilities	133,866	(9,317)	124,549
Deferred revenue, non-current	41	1,160	1,201
Retained earnings	596,268	8,799	605,067
Altisource equity	310,887	8,799	319,686
Total equity	312,291	8,799	321,090

Total liabilities and equity	809,896	642	810,538

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes the impact of adopting Topic 606 on the Company's condensed consolidated statement of operations and comprehensive income for the three months ended June 30, 2018:

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Revenue	$218,556	$ (1,203)	$217,353
Cost of revenue	163,206	662	163,868
Gross profit	55,350	(1,865)	53,485
Income from operations	12,426	(1,865)	10,561
Income before income taxes and non-controlling interests	3,071	(1,865)	1,206
Income tax provision	(816)	544	(272)
Net income	2,255	(1,321)	934
Net income attributable to Altisource	1,568	(1,321)	247

The following table summarizes the impact of adopting Topic 606 on the Company's condensed consolidated statement of operations and comprehensive income for the six months ended June 30, 2018:

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Revenue	$415,994	$ (791)	$415,203
Cost of revenue	310,400	1,459	311,859
Gross profit	105,594	(2,250)	103,344
Income from operations	19,546	(2,250)	17,296
Loss before income taxes and non-controlling interests	(1,901)	(2,250)	(4,151)
Income tax benefit	549	650	1,199
Net loss	(1,352)	(1,600)	(2,952)
Net loss attributable to Altisource	(2,564)	(1,600)	(4,164)

The adoption of Topic 606 did not have any impact on net cash flows used in operating, financing or investing activities on the Company's condensed consolidated statement of cash flows for the six months ended June 30, 2018.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The standard also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. It also amends certain financial statement presentation and disclosure requirements associated with the fair value of financial instruments. This standard was effective for the Company on January 1, 2018. The adoption of this standard resulted in a cumulative effect adjustment to increase retained earnings and decrease accumulated other comprehensive income by $0.7 million on January 1, 2018. Changes in the fair value of the Company's investment in RESI subsequent to January 1, 2018, as well as any equity investments acquired in the future, will be reflected as a component of net income in the Company's consolidated statements of operations and comprehensive income.

Other Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This standard was effective for the Company on January 1, 2018, and the adoption of this guidance did not have any effect on the Company's condensed consolidated statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard requires that companies recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. Previous guidance prohibited companies from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard was effective for the Company on January 1, 2018, and the adoption of this guidance did not have any effect on the Company's results of operations and financial position.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This standard requires that companies include restricted cash and restricted cash equivalents in their cash and cash equivalent balances in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard was effective for the Company on January 1, 2018, and was adopted using the retrospective transition method, as required by the standard. The adoption of this standard resulted in the classification of the Company's restricted cash with cash and cash equivalents reported in the Company's condensed consolidated statements of cash flows. As a result, the Company included $5.8 million, $3.8 million, $4.4 million and $4.1 million of restricted cash with cash and cash equivalents in its condensed consolidated statements of cash flows as of June 30, 2018, December 31, 2017, June 30, 2017 and December 31, 2016, respectively.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This standard clarifies the definition of a business and provides a screen to determine if a set of inputs, processes and outputs is a business. The screen requires that when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the assets acquired would not be a business. Under the new guidance, in order to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. In addition, the standard narrows the definition of the term "output" so that it is consistent with how it is described in Topic 606. This standard was effective for the Company on January 1, 2018, and the adoption of this guidance did not have any effect on the Company's results of operations and financial position.

In February 2017, the FASB issued ASU No. 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This standard was issued to clarify the scope of Subtopic 610-20, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20 provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This standard was effective for the Company on January 1, 2018, and the adoption of this guidance did not have any effect on the Company's results of operations and financial position.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting. This standard requires companies to continue to apply modification accounting, unless the fair value, vesting conditions and classification of an award all do not change as a result of the modification. This standard was effective for the Company on January 1, 2018, and the adoption of this guidance did not have any effect on the Company's results of operations and financial position.

Future Adoption of New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard introduces a new lessee model that brings substantially all leases on the balance sheet. This standard will require companies to recognize lease assets and lease liabilities on their balance sheets and disclose key information about leasing arrangements in their financial statements. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact of this guidance on its results of operations and financial position. Based on the Company's preliminary analysis of arrangements where the Company is a lessee, we estimate that the new standard, if implemented as of June 30, 2018, would result in approximately $17.6 million right-of-use assets and lease liabilities on the Company's condensed consolidated balance sheet as of June 30, 2018. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Current guidance requires that companies compute the implied fair value of goodwill under Step 2 by performing procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This standard will require companies to perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period, and will be applied prospectively. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this standard better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedging results. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period. Early application is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

NOTE 2 — CUSTOMER CONCENTRATION

During the three and six months ended June 30, 2018, Ocwen was our largest customer, accounting for 51% of our total revenue for the six months ended June 30, 2018 (50% of our revenue for the second quarter of 2018). Ocwen is a residential mortgage loan servicer of mortgage servicing rights ("MSRs") it owns, including those MSRs in which others have an economic interest, and a subservicer of MSRs owned by others. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments thereto (collectively, the "Ocwen Services Agreements") with terms extending through August 2025. Certain of the Ocwen Service Agreements contain a "most favored nation" provision and also grant the parties the right to renegotiate pricing, among other things. Certain of the Ocwen Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource's services with respect to the Homeward Residential, Inc. and Residential Capital, LLC loan portfolios acquired by Ocwen in December 2012 and February 2013, respectively. Ocwen also purchases certain origination services from Altisource under an agreement that continues until January 2019, but which is subject to a 90 day termination right by Ocwen.

Revenue from Ocwen primarily consists of revenue earned from the loan portfolios serviced by Ocwen when Ocwen designates us as the service provider and revenue earned directly from Ocwen. For the six months ended June 30, 2018 and 2017, we generated revenue from Ocwen of $210.8 million and $285.6 million, respectively ($108.8 million and $144.2 million for the second quarter of 2018 and 2017, respectively). Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Mortgage Market	60%	68%	60%	68%
Real Estate Market	1 %	1 %	1 %	1 %
Other Businesses, Corporate and Eliminations	9 %	11%	9 %	13%
Consolidated revenue	50%	58%	51%	58%

We earn additional revenue related to the loan portfolios serviced by Ocwen when a party other than Ocwen or the MSR owner selects Altisource as the service provider. For the six months ended June 30, 2018 and 2017, we recognized revenue of $26.2 million and $82.9 million, respectively ($11.0 million and $41.2 million for the second quarter of 2018 and 2017, respectively), related to the loan portfolios serviced by Ocwen when a party other than

Ocwen or the MSR owner selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

As of June 30, 2018, accounts receivable from Ocwen totaled \$16.5 million, \$12.2 million of which was billed and \$4.3 million of which was unbilled. As of December 31, 2017, accounts receivable from Ocwen totaled \$18.9 million, \$13.6 million of which was billed and \$5.3 million of which was unbilled.

As of March 31, 2018, New Residential Investment Corp. (individually, together with one or more of its subsidiaries or one or more of its subsidiaries individually, “NRZ”) owned Ocwen-serviced MSRs and rights to MSRs (the “Subject MSRs”) with underlying unpaid principal balances (“UPB”) of \$98.3 billion. As of March 31, 2018, Ocwen serviced and subserviced MSRs with underlying UPB of \$173.4 billion. As previously disclosed, in July 2017, Ocwen and NRZ entered into agreements to convert NRZ’s economic rights to the Subject MSRs into fully-owned MSRs in exchange for payments from NRZ to Ocwen when such

Subject MSRs were transferred. The transfers are subject to certain third party consents. Ocwen disclosed that under these agreements, Ocwen would subservice the transferred Subject MSRs for an initial term of five years, and the agreements provided for the conversion of the existing arrangements into a more traditional subservicing arrangement. In January 2018, Ocwen disclosed that it and NRZ entered into new agreements to accelerate the implementation of certain parts of their July 2017 arrangement in order to achieve the intent of the July 2017 agreements sooner while Ocwen continues the process of obtaining the third party consents necessary to transfer the Subject MSRs to NRZ.

On August 28, 2017, Altisource, through its licensed subsidiaries, entered into a Cooperative Brokerage Agreement, as amended, and related letter agreement (collectively, the "Brokerage Agreement") with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSRs when Ocwen transfers such MSRs to NRZ or when NRZ acquires both an additional economic interest in such Subject MSRs and the right to designate the broker for REO properties in such portfolios. The Brokerage Agreement provides that Altisource is the exclusive provider of brokerage services for REO associated with the Subject MSRs, irrespective of the sub-servicer. NRZ's brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

For the three and six months ended June 30, 2018, we earned revenue from NRZ of $8.9 million and $19.2 million, respectively, following the transfer of certain of the Subject MSRs from Ocwen to NRZ (the "Transferred MSRs") (no comparative amounts in 2017). For the three and six months ended June 30, 2018, we earned additional revenue of $26.7 million and $42.8 million relating to the Transferred MSRs when a party other than NRZ selects Altisource as the service provider (no comparative amounts in 2017).

On August 28, 2017, Altisource and NRZ also entered into a non-binding Letter of Intent, as amended, to enter into a Services Agreement (the "Services LOI"), setting forth the terms pursuant to which Altisource would remain the exclusive service provider of fee-based services for the Subject MSRs through August 2025. The Services LOI was amended to continue through August 31, 2018.

The Brokerage Agreement can be terminated by Altisource if the Services Agreement is not signed by Altisource and NRZ during the term of the Services LOI, as extended. The Brokerage Agreement may otherwise only be terminated upon the occurrence of certain specified events. Termination events include, but are not limited to, a breach of the terms of the Brokerage Agreement (including, without limitation, the failure to meet performance standards and non-compliance with law in a material respect), the failure to maintain licenses which failure materially prevents performance of the contract, regulatory allegations of non-compliance resulting in an adversarial proceeding against NRZ, voluntary or involuntary bankruptcy, appointment of a receiver, disclosure in a Form 10-K or Form 10-Q that there is significant uncertainty about Altisource's ability to continue as a going concern, failure to maintain a specified level of cash and an unapproved change of control.

We anticipate that revenue from NRZ will increase over time and revenue from Ocwen will decrease. As Subject MSRs continue to transfer from Ocwen to NRZ and following the anticipated execution of the Services Agreement, we expect that NRZ will become our largest customer. Had all of the Subject MSRs been transferred to NRZ and the Brokerage Agreement and the Services Agreement with NRZ been in place as of January 1, 2018, we estimate that approximately 48% of our revenue for the six months ended June 30, 2018 would have been related to NRZ. There can be no assurance that the parties will reach an agreement with respect to the terms of the Services Agreement or that a Services Agreement will be entered into on a timely basis or at all.

NOTE 3 — INVESTMENT IN EQUITY SECURITIES

During 2016, we purchased 4.1 million shares of RESI common stock for $48.2 million. This investment is reflected in the condensed consolidated balance sheets at a fair value of $43.2 million as of June 30, 2018 and $49.2 million as of December 31, 2017. During the three and six months ended June 30, 2018, we recognized an unrealized gain (loss) of $1.5 million and $(6.0) million, respectively, on our investment in RESI in other income (expense), net in the condensed consolidated statements of operations and comprehensive income as a result of a change in the market value of RESI common shares. During the three and six months ended June 30, 2017, an unrealized gain (loss) on our investment in RESI of $(7.0) million and $5.7 million, respectively, net of income tax expense (benefit), was reflected in other comprehensive income in the condensed consolidated statements of operations and comprehensive income (see Note 1 for additional information on the adoption of the new accounting standard on investments in equity securities). During the six months ended June 30, 2018 and 2017, we earned dividends of $1.2 million in each period related to this investment ($0.6 million in both the second quarter of 2018 and 2017).

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 4 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2018	December 31, 2017
Billed	$39,313	$ 40,787
Unbilled	17,446	22,532
Subtotal	56,759	63,319
Less: Allowance for doubtful accounts	(11,333)	(10,579)
Total	$45,426	$ 52,740

Unbilled accounts receivable consist primarily of certain real estate asset management and sales services for which we generally recognize revenue when the service is provided but collect upon closing of the sale, and foreclosure trustee services, for which we generally recognize revenues over the service delivery period but bill following completion of the service. We also include amounts in unbilled accounts receivable that are earned during a month and billed in the following month.

NOTE 5 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
Short-term investments in real estate	$35,289	$ 29,405
Maintenance agreements, current portion	4,961	8,014
Income taxes receivable	11,396	9,227
Prepaid expenses	7,501	7,898
Other current assets	10,862	10,198
Total	$70,009	$ 64,742

NOTE 6 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

(in thousands)	June 30, 2018	December 31, 2017
Computer hardware and software	$182,606	$ 179,567
Leasehold improvements	32,658	33,417
Furniture and fixtures	13,695	14,092
Office equipment and other	8,887	9,388
	237,846	236,464
Less: Accumulated depreciation and amortization	(179,026)	(163,191)