Altisource Portfolio Solutions S.A.
Form 10-Q
July 23, 2015

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, 2015

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 (State or other jurisdiction of incorporation or organization)	98-0554932 (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 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 or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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, 2015, there were 18,736,479 outstanding shares of the registrant's shares of beneficial interest (excluding 6,676,269 shares held as treasury stock).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

FORM 10-Q

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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, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$130,079	$161,361
Accounts receivable, net	116,766	112,183
Prepaid expenses and other current assets	19,087	23,567
Deferred tax assets, net	4,987	4,987
Total current assets	270,919	302,098
Premises and equipment, net	126,637	127,759
Goodwill	90,851	90,851
Intangible assets, net	227,369	245,246
Other assets	20,232	22,267
Total assets	$736,008	$788,221
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$79,118	$111,766
Current portion of long-term debt	5,945	5,945
Deferred revenue	9,012	9,829
Other current liabilities	13,133	13,227
Total current liabilities	107,208	140,767
Long-term debt, less current portion	563,993	582,669
Deferred tax liabilities, net	2,699	2,694
Other non-current liabilities	13,205	20,648
Commitments, contingencies and regulatory matters (Note 20)		
Equity:		
Common stock ($1.00 par value; 25,413 shares authorized and issued and 18,737 outstanding as of June 30, 2015; 25,413 shares authorized and issued and 20,279 outstanding as of December 31, 2014)	25,413	25,413
Additional paid-in capital	92,824	91,509
Retained earnings	415,914	367,967
Treasury stock, at cost (6,676 shares as of June 30, 2015 and 5,134 shares as of December 31, 2014)	(486,556)	(444,495)
Altisource equity	47,595	40,394
Non-controlling interests	1,308	1,049

Total equity	48,903	41,443
Total liabilities and equity	$736,008	$788,221

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue	$268,321	$296,072	$508,803	$535,341
Cost of revenue	168,159	183,999	340,985	331,804
Gross profit	100,162	112,073	167,818	203,537
Selling, general and administrative expenses	43,975	49,021	96,381	92,555
Income from operations	56,187	63,052	71,437	110,982
Other income (expense), net:				
Interest expense	(7,195)	(4,784)	(14,355)	(9,560)
Other than temporary impairment loss on HLSS equity securities	—	—	(3,285)	—
Gain on sale of and dividends from HLSS equity securities	1,431	—	1,431	—
Other income (expense), net	821	(43)	824	4
Total other income (expense), net	(4,943)	(4,827)	(15,385)	(9,556)
Income before income taxes and non-controlling interests	51,244	58,225	56,052	101,426
Income tax provision	(4,398)	(3,493)	(4,798)	(6,548)
Net income	46,846	54,732	51,254	94,878
Net income attributable to non-controlling interests	(896)	(631)	(1,606)	(1,146)
Net income attributable to Altisource	$45,950	$54,101	$49,648	$93,732
Earnings per share:				
Basic	$2.35	$2.45	$2.50	$4.20
Diluted	$2.22	$2.24	$2.38	$3.84
Weighted average shares outstanding:				
Basic	19,571	22,089	19,870	22,301
Diluted	20,669	24,166	20,830	24,415
Transactions with related parties included above:				
Revenue	See Note 3	$179,027	See Note 3	$324,585
Cost of revenue	See Note 3	9,554	See Note 3	16,842
Selling, general and administrative expenses	See Note 3	(489)	See Note 3	(731)

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	Treasury stock, at cost	Non-controlling interests	Total
	Shares						
Balance, December 31, 2013	25,413	$25,413	$89,273	$239,561	$(197,548)	$ 1,042	$157,741
Net income	—	—	—	93,732	—	1,146	94,878
Distributions to non-controlling interest holders	—	—	—	—	—	(1,207)	(1,207)
Share-based compensation expense	—	—	1,130	—	—	—	1,130
Exercise of stock options	—	—	—	(2,932)	3,571	—	639
Repurchase of shares	—	—	—	—	(80,702)	—	(80,702)
Balance, June 30, 2014	25,413	$25,413	$90,403	$330,361	$(274,679)	$ 981	$172,479
Balance, December 31, 2014	25,413	$25,413	$91,509	$367,967	$(444,495)	$ 1,049	$41,443
Net income	—	—	—	49,648	—	1,606	51,254
Distributions to non-controlling interest holders	—	—	—	—	—	(1,347)	(1,347)
Share-based compensation expense	—	—	1,315	—	—	—	1,315
Exercise of stock options	—	—	—	(1,701)	1,904	—	203
Repurchase of shares	—	—	—	—	(43,965)	—	(43,965)
Balance, June 30, 2015	25,413	$25,413	$92,824	$415,914	$(486,556)	$ 1,308	$48,903

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,	
	2015	2014
Cash flows from operating activities:		
Net income	$51,254	$94,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,432	13,375
Amortization of intangible assets	17,877	19,573
Goodwill impairment	—	37,473
Other than temporary impairment loss on HLSS equity securities	3,285	—
Gain on sale of and dividends from HLSS equity securities	(1,431)	—
Change in the fair value of acquisition related contingent consideration	(7,346)	(37,924)
Share-based compensation expense	1,315	1,130
Bad debt expense	2,143	4,250
Gain on early extinguishment of debt	(1,114)	—
Amortization of debt discount	255	90
Amortization of debt issuance costs	585	483
Deferred income taxes	5	462
Loss on disposal of fixed assets	20	98
Changes in operating assets and liabilities:		
Accounts receivable	(6,726)	(24,510)
Prepaid expenses and other current assets	4,480	(5,131)
Other assets	1,338	(2,089)
Accounts payable and accrued expenses	(28,557)	21,319
Other current and non-current liabilities	(1,008)	(11,950)
Net cash provided by operating activities	54,807	111,527
Cash flows from investing activities:		
Additions to premises and equipment	(21,421)	(30,522)
Purchase of HLSS equity securities	(29,966)	—
Proceeds received from sale of and dividends from HLSS equity securities	28,112	—
Other investing activities	(4)	(294)
Net cash used in investing activities	(23,279)	(30,816)
Cash flows from financing activities:		
Repayment of long-term debt	(17,701)	(1,986)
Proceeds from stock option exercises	203	639
Purchase of treasury stock	(43,965)	(80,702)
Distributions to non-controlling interests	(1,347)	(1,207)
Net cash used in financing activities	(62,810)	(83,256)
Net decrease in cash and cash equivalents	(31,282)	(2,545)
Cash and cash equivalents at the beginning of the period	161,361	130,429
Cash and cash equivalents at the end of the period	$130,079	$127,884

Supplemental cash flow information:		
Interest paid	$13,345	$9,074
Income taxes paid, net	3,490	1,561
Non-cash investing and financing activities:		
Decrease in payables for purchases of premises and equipment	$(4,091)	$(3,339)
Decrease in acquisition of businesses from subsequent working capital true-ups	—	(3,711)

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 a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource's proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.

We are incorporated under the laws of Luxembourg and are publicly traded on the NASDAQ Global Select Market under the symbol "ASPS."
We conduct our operations through three reportable segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures and eliminations separately (see Note 21 for a description of our business segments).

Basis of 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 notes 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 and inter-segment transactions and accounts have been eliminated in consolidation. Certain prior year amounts reported by the Mortgage Services and Technology Services segments have been reclassified to conform with the current year presentation.

The Mortgage Partnership of America, L.L.C. ("MPA"), a wholly-owned subsidiary of Altisource, serves as the manager of Best Partners Mortgage Cooperative, Inc. doing business as the Lenders One® mortgage cooperative ("Lenders One"). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025. The management agreement between MPA and Lenders One, pursuant to which MPA is the management company of Lenders One, 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 Lenders One's economic performance and the right to receive benefits from Lenders One. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of June 30, 2015, Lenders One had total assets of $3.1 million and total liabilities of $1.8 million. As of December 31, 2014, Lenders One had total assets of $7.7 million and total liabilities of $6.7 million.

In September 2014, Best Partners Mortgage Brokers Cooperative, Inc. was launched, doing business as the Wholesale One™ Mortgage Cooperative ("Wholesale One"), for the wholesale mortgage industry. Wholesale One assists mortgage brokers and other third party originators with tools to improve their businesses. In April 2015, Best Partners

Residential Investor Cooperative, Inc. was launched, doing business as the Residential Investor One™ cooperative ("Residential Investor One"). Residential Investor One was formed to deliver savings and efficiencies to individual and institutional residential real estate investors. MPA provides services to both Wholesale One and Residential Investor One under management agreements that end on July 8, 2039 (with automatic renewals for three successive five year periods) and March 12, 2040 (with automatic renewals for three successive five year periods), respectively. Such management agreements between MPA and the respective cooperative, together with the membership agreements that each of the members sign with the respective cooperative upon joining, represent variable interests in variable interest entities. MPA is the primary beneficiary of Wholesale One and Residential Investor One as it has the power to direct the activities that most significantly impact the economic performance of Wholesale One and Residential Investor One and the right to receive benefits from Wholesale One and Residential Investor One. As a result, Wholesale One and Residential Investor One are presented in the accompanying condensed consolidated financial statements on a consolidated basis with the

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interests of the members reflected as non-controlling interests. Neither Wholesale One nor Residential Investor One has commenced significant operations as of June 30, 2015.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2014, filed with the SEC on March 2, 2015, which contains a summary of our significant accounting policies. Certain footnote detail in the Form 10-K is omitted from the information included herein.

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.

Future Adoption of New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

In February 2015, FASB issued ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis. This standard addresses the consolidation of certain legal entities relative to current requirements under GAAP of a reporting entity to consolidate another legal entity in situations in which the reporting entity’s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity’s voting rights or the reporting entity is not exposed to a majority of the legal entity’s economic benefits or obligations. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the standard in an interim period, any adjustments should be reflected as of the beginning of the year that includes that interim period. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

In April 2015, FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This revised standard changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. This standard will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this standard to have a material impact on its results of operations or financial position.

NOTE 2 — CUSTOMER CONCENTRATION

Ocwen Financial Corporation and its subsidiaries (“Ocwen”) is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of the master services agreements and amendments to the master services agreements (collectively, the “Service Agreements”) with terms extending through August 2025. The Service Agreements, among other things, contain a “most favored nation” provision and the parties to the Service Agreements have the right to renegotiate pricing. The 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 portfolios. In addition, Ocwen purchases certain origination services from Altisource under an agreement that extends through January 2017. We settle amounts with Ocwen on a daily, weekly or monthly basis depending upon the nature of the service and when the service is provided.

Revenue from Ocwen primarily consists of revenue earned directly from Ocwen and revenue earned from the loans serviced by Ocwen when Ocwen designates us as the service provider. Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Mortgage Services	62 %	65 %	63 %	67 %
Financial Services	19 %	28 %	22 %	27 %
Technology Services	57 %	41 %	52 %	39 %
Consolidated revenue	59 %	59 %	59 %	60 %

For the six months ended June 30, 2015 and 2014, we generated revenue from Ocwen of $301.0 million and $319.8 million, respectively ($159.6 million and $175.1 million for the second quarter of 2015 and 2014, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation and insurance services. Services provided to Ocwen and reported in the Financial Services segment included charge-off mortgage collections. Services provided to Ocwen and reported in the Technology Services segment included IT infrastructure management and software applications including our software platforms. As of June 30, 2015, accounts receivable from Ocwen totaled $42.1 million, $27.7 million of which is billed and $14.4 million of which is unbilled (see Note 7).

We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen selects Altisource as the service provider. For the six months ended June 30, 2015 and 2014, we recognized revenue of $108.0 million and $133.1 million respectively ($54.5 million and $78.4 million for the second quarter of 2015 and 2014, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen selected Altisource as the service provider. These amounts are not included in arriving at revenue from Ocwen as a percentage of revenue in the table above.

NOTE 3 — TRANSACTIONS WITH RELATED PARTIES

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen and Chairman of each of Home Loan Servicing Solutions, Ltd. ("HLSS"), Altisource Residential Corporation ("Residential") and Altisource Asset Management Corporation ("AAMC"). Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, HLSS, Residential and AAMC and is no longer a member of the Board of Directors for any of these companies. Consequently, these companies are no longer related parties of Altisource, as defined by FASB Accounting Standards Codification ("ASC") Topic 850, Related Party Disclosures. The disclosures in this note are limited to the periods that each of Ocwen, HLSS, Residential and AAMC were related parties of Altisource.

Ocwen

Revenue

For the six months ended June 30, 2014 and second quarter of 2014, we generated revenue from Ocwen of $319.8 million and $175.1 million, respectively. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Ocwen of $22.9 million. Services provided to Ocwen during such periods included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation, insurance services, charge-off mortgage collections, IT infrastructure management and software applications including our software platforms. As of December 31, 2014, accounts receivable from Ocwen totaled $37.4 million, $22.8 million of which is billed and $14.6 million of which is unbilled (see Note 7).

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We record revenue we earn from Ocwen under the Service Agreements at rates we believe to be comparable market rates as we believe they are consistent with the fees we charge to other customers and/or fees charged by our competitors for comparable services.

Cost of Revenue and Selling, General and Administrative Expenses

At times, we use Ocwen's contractors and/or employees to support Altisource related services. Ocwen generally bills us for these contractors and/or employees based on their fully-allocated cost. Additionally, through March 31, 2015, we purchased certain data relating to Ocwen's servicing portfolio in connection with a Data Access and Services Agreement. Based upon our previously provided notice, the Data Access and Services Agreement was terminated effective March 31, 2015. For the six months ended June 30, 2014 and second quarter of 2014, Ocwen billed us $16.8 million and $9.6 million, respectively, for these items. For the period from January 1, 2015 through January 16, 2015, we estimate that we incurred $1.9 million of expenses related to these items. These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations.

We provide certain other services to Ocwen and Ocwen provides certain other services to us in connection with Support Services Agreements. Prior to January 1, 2015, these services included such areas as human resources, vendor management, vendor oversight, corporate services, facilities related services, quality assurance, quantitative analytics, tax and treasury. Billings for these services were generally based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service or estimates thereof. For the six months ended June 30, 2014 and the second quarter of 2014, we billed Ocwen $2.2 million and $1.2 million, respectively, for these items. In addition, for the six months ended June 30, 2014 and the second quarter of 2014, Ocwen billed us $2.4 million and $1.2 million, respectively, for these items. Of the January 2015 billings to Ocwen, we estimate that $0.1 million relates to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimate that $0.3 million relates to the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

As of December 31, 2014, accounts payable and accrued expenses payable to Ocwen totaled $11.6 million (see Note 12).

HLSS

Prior to April 2015, HLSS was a publicly traded company whose primary objective was the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. We provided HLSS certain finance, human resources, tax and facilities services and sold information technology services to HLSS under a support services agreement. For the six months ended June 30, 2014 and second quarter of 2014, we billed HLSS $0.4 million and $0.2 million, respectively. These amounts are immaterial for the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations. As of December 31, 2014, accounts receivable from HLSS was $0.1 million (see Note 7).

Residential and AAMC

Residential and AAMC were separated from Altisource on December 21, 2012 and their equity was distributed to our shareholders on December 24, 2012, and they are each separate publicly traded companies. Residential is engaged in the acquisition and ownership of single family rental assets. Their primary sourcing strategy to acquire these assets includes purchase of sub-performing and non-performing mortgages as well as single family homes at or following the foreclosure sale. They pursue opportunities to acquire single family rental assets throughout the United States as long as such assets meet their desired property characteristics and provide acceptable long term returns. AAMC's primary business is to provide asset management and certain corporate governance services to institutional investors. Currently, its primary client is Residential.

For purposes of governing certain ongoing relationships between Altisource, Residential and AAMC, we entered into certain agreements with Residential and AAMC. We have agreements, which extend through 2027, to provide Residential with renovation management, lease management, property management and real estate owned asset management services. In addition, we have agreements with Residential and AAMC to provide services such as finance, human resources, facilities, technology and insurance risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.

For the six months ended June 30, 2014 and the second quarter of 2014, we generated revenue from Residential of $4.7 million and $3.9 million, respectively, under these services agreements. For the period from January 1, 2015 through January 16, 2015, we estimate that we generated revenue from Residential of $1.0 million. These amounts are reflected in revenue in the condensed consolidated statements of operations. This excludes revenue from services we provide to Residential's loans serviced by Ocwen where we are retained by Ocwen. That revenue is included in Ocwen related party revenue for the six months ended June 30, 2014 and the second quarter of 2014. As of December 31, 2014, accounts receivable from Residential was $11.3 million (see Note 7).

For the six months ended June 30, 2014 and the second quarter of 2014, we billed AAMC $0.6 million and $0.3 million, respectively, under these services agreements. Of these amounts, less than $0.1 million in each period is reflected in revenue in the condensed consolidated statements of operations. For the six months ended June 30, 2014 and the second quarter of 2014, $0.5 million and $0.3 million, respectively, is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. These amounts are immaterial for the period from January 1, 2015 through January 16, 2015. As of December 31, 2014, accounts receivable from AAMC was $0.1 million (see Note 7).

NOTE 4 — ACQUISITIONS

Mortgage Builder Acquisition

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder") pursuant to a Purchase and Sale Agreement dated July 18, 2014 (the "Purchase and Sale Agreement"). Mortgage Builder is a provider of residential mortgage loan origination and servicing software systems. Pursuant to the terms of the Purchase and Sale Agreement, we paid $15.7 million at closing in cash (net of closing working capital adjustments). Additionally, the Purchase and Sale Agreement provides for the payment of up to $7.0 million in potential additional consideration (the "MB Earn-Out") based on Adjusted Revenue (as defined in the Purchase and Sale Agreement) in the three consecutive 12-month periods following closing. At closing, we estimated the fair value of the MB Earn-Out to be $1.6 million determined based on the present value of future estimated MB Earn-Out payments. The Mortgage Builder acquisition is not material in relation to the Company's results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Cash	$726
Accounts receivable, net	1,120
Prepaid expenses	38
Premises and equipment, net	553
Software	1,509
Trademarks and trade names	209
Customer relationship	4,824
Goodwill	9,135
	18,114
Accounts payable and accrued expenses	(881)
Purchase price	$17,233

Owners Acquisition

On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC ("Owners"). Owners is a self-directed online real estate marketplace. We paid $19.8 million at closing in cash plus contingent consideration of up to an additional $7.0 million over two years ("Owners Earn Out"), based on Adjusted Revenue (as defined in the purchase agreement). At closing, we estimated the fair value of the Owners Earn Out to be $1.9 million determined based on the present value of future estimated Owners Earn Out payments. The Owners acquisition is not material in relation to the Company's results of operations or financial position.

The preliminary allocation of the purchase price is as follows:
(in thousands)

Accounts receivable, net	$41
Prepaid expenses	32
Software	501
Trademarks and trade names	1,431
Goodwill	19,775
	21,780
Accounts payable	(41)
Purchase price	$21,739

NOTE 5 — FAIR VALUE

Fair Value Measurements on a Recurring Basis

In accordance with FASB ASC Topic 805, Business Combinations, the liability for contingent consideration is reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with the acquisitions of Equator, LLC (“Equator”) in 2013 and Mortgage Builder and Owners in 2014. As of June 30, 2015 and December 31, 2014, the fair value of acquisition related contingent consideration was $3.8 million and $11.6 million, respectively (see Note 14). We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which included sensitivities pertaining to discount rates and financial projections.

In the second quarter of 2015, we paid the former owners of Equator $0.5 million to extinguish any liability for Equator related contingent consideration (“Equator Earn Out”). In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings. This is reflected as a reduction in selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

During the second quarter of 2014, the fair value of the Equator Earn Out was reduced by $37.9 million with a corresponding increase in earnings based on management’s revised estimates that expected earnings of Equator were lower than projected at the time of acquisition. The reduction in fair value was recorded in the second quarter of 2014 and is reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

There were no transfers between different levels during the periods presented.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments held by the Company at June 30, 2015 and December 31, 2014 that are not carried at fair value. The fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

(in thousands)	June 30, 2015 Carrying amount	Fair value			December 31, 2014 Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	$130,079	$130,079	$—	$—	$161,361	$161,361	$—	$—
Restricted cash	3,026	3,026	—	—	3,022	3,022	—	—
Long-term debt	572,571	—	511,020	—	591,543	—	467,319	—

Our financial assets and liabilities primarily include cash and cash equivalents, restricted cash and long-term debt. Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments and were measured using Level 1 inputs. The fair value of our long-term debt is based on quoted market prices. We do not believe that there is an active market for our debt, based on the frequency of trading. Therefore, the quoted prices are considered Level 2 inputs.

NOTE 6 — AVAILABLE FOR SALE SECURITIES - INVESTMENT IN HLSS

From March 10, 2015 to March 17, 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million (1,613,125 shares at an average price per share of $18.58). This investment was classified as available for sale. Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we record a charge to earnings and a new cost basis in the investment is established.

On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. ("NRZ") and adopted a plan of complete liquidation and dissolution. Accordingly, we determined that our investment in HLSS was other than
temporarily impaired and we recognized an other than temporary impairment loss on HLSS equity securities of $3.3 million during the three months ended March 31, 2015.

This amount reflected the difference between the cost and fair value of the HLSS equity securities as of March 31, 2015 (based on 1,613,125 shares at $16.54 per share).

During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million. Between April 22, 2015 and April 29, 2015, we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million (1,613,125 shares at an average price per share of $4.75).

As a result of these transactions, we recognized a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014) and a gain of $1.4 million for the second quarter of 2015 (no comparative amount for the second quarter of 2014) in connection with our investment in HLSS.

NOTE 7 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2015	December 31, 2014
Billed	$75,896	$73,532
Unbilled	65,407	61,326
	141,303	134,858
Less: allowance for doubtful accounts	(24,537)	(22,675)
Total	$116,766	$112,183

Unbilled receivables consist primarily of asset management and default management services for which we recognize revenues over the service delivery period but bill following completion of the service. We also include in unbilled receivables amounts that are earned during a month and billed in the following month.

NOTE 8 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Maintenance agreements, current portion	$5,642	$6,367
Income taxes receivable	2,814	5,258
Prepaid expenses	5,484	6,989
Other current assets	5,147	4,953
Total	$19,087	$23,567

NOTE 9 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Computer hardware and software	$158,937	$140,799
Office equipment and other	32,870	36,032
Furniture and fixtures	13,305	12,231
Leasehold improvements	35,026	34,069
	240,138	223,131
Less: accumulated depreciation and amortization	(113,501)	(95,372)
Total	$126,637	$127,759

Depreciation and amortization expense amounted to $18.4 million and $13.4 million for the six months ended June 30, 2015 and 2014, respectively ($9.6 million and $7.2 million for the second quarter of 2015 and 2014, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations.

NOTE 10 — GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance, June 30, 2015 and December 31, 2014	$32,733	$2,378	$55,740	$90,851

During the second quarter of 2015, management evaluated goodwill and determined that there were no impairments.

During the second quarter of 2014, management evaluated and determined that Equator goodwill should be tested for impairment as a result of the decline in the fair value of the Equator Earn Out (see Note 5). Consequently, we initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of Equator to its fair value based on a discounted cash flow analysis. Based on our assessment, we determined that the fair value of Equator was less than its carrying value and goodwill was impaired. Consequently, we recorded an impairment loss of $37.5 million in the second quarter of 2014, which is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 17).

Intangible Assets, net

Intangible assets, net consist of the following:

(in thousands)	Weighted average	Gross carrying amount	Accumulated amortization	Net book value

	estimated useful life (in years)	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Definite lived intangible assets:							
Trademarks and trade names	13	$13,889	$ 13,889	$(5,999)	$ (5,016)	$7,890	$ 8,873
Customer related intangible assets	10	289,308	289,308	(95,610)	(79,606)	193,698	209,702
Operating agreement	20	35,000	35,000	(9,479)	(8,604)	25,521	26,396
Intellectual property	10	300	300	(40)	(25)	260	275
Total		$338,497	$ 338,497	$(111,128)	$ (93,251)	$227,369	$ 245,246

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Amortization expense for definite lived intangible assets was $17.9 million and $19.6 million for the six months ended June 30, 2015 and 2014, respectively ($9.0 million and $10.1 million for the second quarter of 2015 and 2014, respectively). Expected annual definite lived intangible asset amortization for 2015 through 2019 is $38.0 million, $34.6 million, $30.4 million, $26.5 million and $23.3 million, respectively.

NOTE 11 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Security deposits, net	$6,000	$7,277
Debt issuance costs, net	7,281	8,099
Maintenance agreements, non-current portion	2,888	3,324
Restricted cash	3,026	3,022
Other	1,037	545
Total	$20,232	$22,267

NOTE 12 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Accounts payable	$10,207	$28,280
Income taxes payable	6,139	7,643
Accrued expenses - general	29,267	31,693
Accrued salaries and benefits	33,505	44,150
Total	$79,118	$111,766

Other current liabilities consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Book overdrafts	$6,814	$4,788
Other	6,319	8,439
Total	$13,133	$13,227

NOTE 13 — LONG-TERM DEBT

Long-term debt consists of the following:
(in thousands)

	June 30, 2015	December 31, 2014
Senior secured term loan	$572,571	$591,543
Less: unamortized discount, net	(2,633)	(2,929)
Net long-term debt	569,938	588,614
Less: current portion	(5,945)	(5,945)
Long-term debt, less current portion	$563,993	$582,669

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of the Company, entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. The Company and certain wholly-owned subsidiaries are guarantors of the term loan (collectively, the “Guarantors”). We subsequently amended the senior secured

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term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). As of June 30, 2015, $569.9 million, net of unamortized discount of $2.6 million, was outstanding under the senior secured term loan agreement, as amended, compared to $588.6 million, net of unamortized discount of $2.9 million, as of December 31, 2014.

After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, the term loan is (with certain exceptions) subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00. No mandatory prepayments were owed for the six months ended June 30, 2015.

In June 2015, the Company repurchased a portion of its senior secured term loan with a par value of $16.0 million at a 9% discount, recognizing a net gain of $1.1 million on the early extinguishment of a portion of the debt. The net gain is included in other income (expense), net in the condensed consolidated statements of operations.

The term loan bears interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.00% plus (ii) a 3.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) a 2.50% margin. The interest rate at June 30, 2015 was 4.50%.

Term loan payments are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l. and the Guarantors, subject to certain exceptions.

The senior secured term loan agreement includes covenants that restrict or limit, among other things, our ability to: create liens and encumbrances; incur additional indebtedness; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases; change lines of business; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to its fiscal year and engage in mergers and consolidations.

The senior secured term loan agreement contains certain events of default, including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the senior secured term loan agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of covenants, (iv) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due,

(v) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vi) occurrence of a Change of Control, (vii) bankruptcy and insolvency events, (viii) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (ix) the occurrence of certain ERISA events and (x) the failure of certain Loan Documents to be in full force and effect. If any event of default occurs and is not cured within applicable grace periods set forth in the senior secured term loan agreement or waived, all loans and other obligations could become due and immediately payable and the facility could be terminated.

At June 30, 2015, debt issuance costs were $7.3 million, net of $3.0 million of accumulated amortization. At December 31, 2014, debt issuance costs were $8.1 million, net of $2.2 million of accumulated amortization. Debt issuance costs are included in other assets in the accompanying condensed consolidated balance sheets.

Interest expense on the term loans, including amortization of debt issuance costs and the net debt discount, totaled $14.4 million and $9.6 million for the six months ended June 30, 2015 and 2014, respectively ($7.2 million and $4.8 million for the second quarter of 2015 and 2014, respectively).

NOTE 14 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	June 30, 2015	December 31, 2014
Acquisition related contingent consideration	$3,770	$11,616
Other non-current liabilities	9,435	9,032
Total	$13,205	$20,648

NOTE 15 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

On May 20, 2015, our shareholders approved a new stock repurchase program, which replaced the previous stock repurchase program. Under the new program, we are authorized to purchase up to 3.0 million shares of our common stock, based on a limit of 15% of the outstanding shares of common stock on the date of approval, in the open market, at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under the prior programs. We purchased 1.6 million shares of our common stock at an average price of $28.02 per share during the six months ended June 30, 2015 and 0.7 million shares at an average price of $109.00 per share during the six months ended June 30, 2014 (1.4 million shares at an average price of $28.57 per share for the second quarter of 2015 and 0.4 million shares at an average price of $108.24 per share for the second quarter of 2014). As of June 30, 2015, approximately 2.0 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share repurchases and may prevent repurchases in certain circumstances. As of June 30, 2015, approximately $220 million was available to repurchase our common stock under our senior secured term loan.

Share-Based Compensation

We issue share-based awards in the form of stock options and certain other equity-based awards for certain employees and officers. We recorded share-based compensation expense of $1.3 million and $1.1 million for the six months ended June 30, 2015 and 2014, respectively ($0.9 million and $0.5 million for the second quarter of 2015 and 2014, respectively). As of June 30, 2015, estimated unrecognized compensation costs related to share-based awards amounted to $14.1 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.41 years.

Stock Options

Outstanding share-based compensation currently consists primarily of stock option grants that are a combination of service-based and market-based options.

Service-Based Options. These options are granted at fair value on the date of grant. The options generally vest over three or four years with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 1.3 million service-based awards were outstanding at June 30, 2015.

Market-Based Options. These option grants have two components, each of which vests only upon the achievement of certain criteria. The first component, which we refer to internally as “ordinary performance” grants, consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to internally as “extraordinary performance” grants, begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. The vesting schedule for all market-based awards is 25% upon achievement of the criteria and the remaining 75% in three equal annual installments. A total of 2.0 million market-based awards were outstanding at June 30, 2015.

The Company granted 0.7 million stock options (at a weighted average exercise price of $23.17 per share) and less than 0.1 million stock options (at a weighted average exercise price of $105.11 per share) during the six months ended June 30, 2015 and June 30, 2014, respectively.

The fair value of the service-based options was determined using the Black-Scholes option pricing model and the fair value of the market-based options was determined using a lattice (binomial) model. The following assumptions were used to determine the fair value as of the grant date:

	Six months ended June 30, 2015		Six months ended June 30, 2014
	Black-Scholes	Binomial	Black-Scholes
Risk-free interest rate (%)	1.50 - 1.78	0.02 - 2.26	1.80
Expected stock price volatility (%)	55.06 - 57.60	55.06 - 57.60	37.57
Expected dividend yield	—	—	—
Expected option life (in years)	6.00 - 6.25	—	6.25
Contractual life (in years)	—	13.00 - 14.00	—
Fair value	$10.01 - $16.05	$9.91 - $16.13	$41.79

The following table summarizes the weighted average grant date fair value of stock options granted, the total intrinsic value of stock options exercised and the grant date fair value of stock options that vested during the period presented:

	Six months ended June 30,	
(in thousands, except per share amounts)	2015	2014
Weighted average grant date fair value of options granted per share	$12.49	$41.79
Intrinsic value of options exercised	176	4,124
Grant date fair value of options that vested during the period	530	950

The following table summarizes the activity related to our stock options:

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2014	2,601,892	$21.21	4.44	$47,805
Granted	710,410	23.17		
Exercised	(21,984)	9.19		
Forfeited	(30,031)	64.66		
Outstanding at June 30, 2015	3,260,287	21.45	5.22	46,119
Exercisable at June 30, 2015	2,281,382	14.34	3.49	40,448

Other Share-Based Awards

The Company’s other share-based awards consist of restricted shares and Equity Appreciation Rights (“EARs”).

The restricted shares are service-based awards that vest over one to four years with either annual cliff-vesting, vesting of all of the restricted shares at the end of the vesting period or vesting beginning after two years of service. Restricted shares are granted at fair value on the date of grant. The Company granted 0.2 million restricted shares (at a weighted average price of $19.06 per share) during the six months ended June 30, 2015 (no comparative amount for the six months ended June 30, 2014). A total of 0.3 million service-based restricted shares were outstanding at June 30, 2015.

The following table summarizes the activity related to our restricted shares:

	Number of restricted shares
Outstanding at December 31, 2014	26,224
Granted	243,438
Issued	(2,836)
Outstanding at June 30, 2015	266,826

EARs provide participating employees of certain divisions of the Company with the potential to receive a percentage of the increase in the value of the applicable division during the term of the EARs. The Company has established EAR plans for three divisions: Consumer Analytics, Document Solutions and Marketplace Solutions. These EAR plans allow for the issuance of EARs representing up to 15% of each of these divisions. The EARs consist of service-based awards and performance-based awards. Service-based EARs vest in equal installments on the first, second, third and fourth anniversaries of the grant date. Performance-based EARs begin to vest on the date certain performance criteria are achieved by the applicable division of the Company. EARs are granted at fair value on the date of grant.

The participating employee will have the opportunity at certain times specified in the award agreement to exercise EARs that have vested and in exchange will receive share equivalency units, the number of which will be based on the increase in value of the division and the amount of EARs awarded to the participating employee. After a holding period of six months and one day, the Company, the applicable division or an affiliate of the Company may redeem the share equivalency units for a payment equal to the then fair market value of the share equivalency units. At the Company’s option, the share equivalency units may be redeemed for cash, shares of Altisource’s common stock, a subordinated note payable or, under certain circumstances where the division has been converted into a company form, shares of that company. Upon the occurrence of certain corporate transactions, including the sale of the division, a qualified initial public offering of the equity of the division or a spin-off of the division, the Company will have the right to repurchase and cancel any redeemed share equivalency units or shares of the division that have been issued in payment of redeemed share equivalency units, and the applicable plan administrator will have the discretion to adjust the terms of the applicable division equity appreciation rights plan and any outstanding EARs.

The Company granted EARs with a total grant date fair value of $0.2 million during the second quarter of 2015 (no comparative amount for the second quarter of 2014) related to the Company's Consumer Analytics, Document Solutions, and Marketplace Solutions divisions, representing the right to potentially receive 1.0% of an increase in the value of such divisions. The Company intends to issue additional EARs to employees of these divisions. 25% of these EARs are service-based and 75% of these EARs are performance-based.

Share-based compensation expense for stock options, restricted shares and EARs is recorded net of estimated forfeiture rates ranging from 0% to 10%.

NOTE 16 — COST OF REVENUE

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, reimbursable expenses, technology and telecommunications expenses as well as depreciation and amortization of operating assets.

The components of cost of revenue were as follows:

(in thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Compensation and benefits	$64,890	$63,121	$134,216	$115,771
Outside fees and services	54,822	71,365	108,069	