

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Altisource Portfolio Solutions S.A.  
Form 10-Q  
July 21, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR  
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 ☒ No ☐

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

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

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

As of July 15, 2016, there were 18,349,451 outstanding shares of the registrant's shares of beneficial interest (excluding 7,063,297 shares held as treasury stock).

---

Table of Contents

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

FORM 10-Q

	Page
<u>PART I — Financial Information</u>	
<u>Item 1 Interim Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Equity</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	<u>46</u>
<u>Item 4 Controls and Procedures</u>	<u>46</u>
<u>PART II — Other Information</u>	
<u>Item 1 Legal Proceedings</u>	<u>47</u>
<u>Item 1A Risk Factors</u>	<u>48</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 6 Exhibits</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>

Table of Contents

## 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, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 120,486	\$ 179,327
Available for sale securities	38,087	—
Accounts receivable, net	100,165	105,023
Prepaid expenses and other current assets	27,747	21,751
Total current assets	286,485	306,101
Premises and equipment, net	114,576	119,121
Goodwill	81,406	82,801
Intangible assets, net	173,406	197,003
Deferred tax assets, net	6,917	3,619
Other assets	12,686	13,153
Total assets	\$ 675,476	\$ 721,798
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 88,748	\$ 91,871
Current portion of long-term debt	5,945	5,945
Deferred revenue	11,717	15,060
Other current liabilities	14,309	16,266
Total current liabilities	120,719	129,142
Long-term debt, less current portion	469,776	522,233
Other non-current liabilities	16,561	18,153
Commitments, contingencies and regulatory matters (Note 22)		
Equity:		
Common stock (\$1.00 par value; 25,413 shares authorized and issued and 18,350 outstanding as of June 30, 2016; 25,413 shares authorized and issued and 19,021 outstanding as of December 31, 2015)	25,413	25,413
Additional paid-in capital	99,890	96,321
Retained earnings	403,460	369,270
Accumulated other comprehensive loss	(7,172 )	—
Treasury stock, at cost (7,063 shares as of June 30, 2016 and 6,392 shares as of December 31, 2015)	(454,488 )	(440,026 )
Altisource equity	67,103	50,978

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Non-controlling interests	1,317	1,292
Total equity	68,420	52,270
Total liabilities and equity	\$675,476	\$ 721,798

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## 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,	
	2016	2015	2016	2015
Revenue	\$255,799	\$268,321	\$505,931	\$508,803
Cost of revenue	174,371	168,159	343,234	340,985
Gross profit	81,428	100,162	162,697	167,818
Selling, general and administrative expenses	54,207	51,566	107,823	103,972
Change in the fair value of Equator Earn Out	—	(7,591 )	—	(7,591 )
Income from operations	27,221	56,187	54,874	71,437
Other income (expense), net:				
Interest expense	(5,988 )	(7,195 )	(12,529 )	(14,355 )
Gain (loss) on HLSS equity securities and dividends received	—	1,431	—	(1,854 )
Other income (expense), net	2,744	821	2,717	824
Total other income (expense), net	(3,244 )	(4,943 )	(9,812 )	(15,385 )
Income before income taxes and non-controlling interests	23,977	51,244	45,062	56,052
Income tax provision	(3,291 )	(4,398 )	(5,484 )	(4,798 )
Net income	20,686	46,846	39,578	51,254
Net income attributable to non-controlling interests	(692 )	(896 )	(1,090 )	(1,606 )
Net income attributable to Altisource	\$19,994	\$45,950	\$38,488	\$49,648
Earnings per share:				
Basic	\$1.08	\$2.35	\$2.06	\$2.50
Diluted	\$1.02	\$2.22	\$1.94	\$2.38
Weighted average shares outstanding:				
Basic	18,437	19,571	18,646	19,870
Diluted	19,604	20,669	19,822	20,830
Comprehensive income:				
Net income	\$20,686	\$46,846	\$39,578	\$51,254
Other comprehensive income (loss), net of tax:				
Unrealized loss on securities, net of income tax benefit of \$3,249, \$0, \$2,960, \$0	(7,871 )	—	(7,172 )	—
Comprehensive income, net of tax	12,815	46,846	32,406	51,254
Comprehensive income attributable to non-controlling interests	(692 )	(896 )	(1,090 )	(1,606 )
Comprehensive income attributable to Altisource	\$12,123	\$45,950	\$31,316	\$49,648

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

	Altisource Equity						Non-controlling interests	Total
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock, at cost			
	Shares							
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
Balance, December 31, 2015	25,413	\$25,413	\$96,321	\$369,270	\$ —	\$(440,026)	\$ 1,292	\$52,270
Comprehensive income:								
Net income	—	—	—	38,488	—	—	1,090	39,578
Other comprehensive loss, net of tax	—	—	—	—	(7,172 )	—	—	(7,172 )
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,065 )	(1,065 )
Share-based compensation expense	—	—	3,569	—	—	—	—	3,569
Exercise of stock options	—	—	—	(4,298 )	—	5,284	—	986
Repurchase of shares	—	—	—	—	—	(19,746 )	—	(19,746 )
Balance, June 30, 2016	25,413	\$25,413	\$99,890	\$403,460	\$ (7,172 )	\$(454,488)	\$ 1,317	\$68,420

See accompanying notes to condensed consolidated financial statements.



Table of Contents

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

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$39,578	\$51,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,346	18,432
Amortization of intangible assets	24,967	17,877
Loss on HLSS equity securities and dividends received, net	—	1,854
Change in the fair value of acquisition related contingent consideration	193	(7,346 )
Share-based compensation expense	3,569	1,315
Bad debt expense	1,041	2,143
Gain on early extinguishment of debt	(5,464 )	(1,114 )
Amortization of debt discount	201	255
Amortization of debt issuance costs	557	585
Deferred income taxes	18	5
Loss on disposal of fixed assets	9	20
Changes in operating assets and liabilities:		
Accounts receivable	3,407	(6,726 )
Prepaid expenses and other current assets	(6,012 )	4,480
Other assets	447	1,338
Accounts payable and accrued expenses	(4,454 )	(28,557 )
Other current and non-current liabilities	(6,998 )	(1,008 )
Net cash provided by operating activities	69,405	54,807
Cash flows from investing activities:		
Additions to premises and equipment	(12,441 )	(21,421 )
Purchase of available for sale securities	(48,219 )	(29,966 )
Proceeds received from sale of and dividends from HLSS equity securities	—	28,112
Other investing activities	(10 )	(4 )
Net cash used in investing activities	(60,670 )	(23,279 )
Cash flows from financing activities:		
Repayment and repurchases of long-term debt	(47,751 )	(17,701 )
Proceeds from stock option exercises	986	203
Purchase of treasury stock	(19,746 )	(43,965 )
Distributions to non-controlling interests	(1,065 )	(1,347 )
Net cash used in financing activities	(67,576 )	(62,810 )
Net decrease in cash and cash equivalents	(58,841 )	(31,282 )
Cash and cash equivalents at the beginning of the period	179,327	161,361
Cash and cash equivalents at the end of the period	\$120,486	\$130,079

Supplemental cash flow information:

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Interest paid	\$ 11,694	\$ 13,345
Income taxes paid, net	5,618	3,490
Non-cash investing and financing activities:		
Increase (decrease) in payables for purchases of premises and equipment	\$ 1,369	\$(4,091 )

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 23 for a description of our business segments).

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 current year presentation.

Altisource consolidates two cooperative entities which are managed by the Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource: Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® mortgage cooperative (“Lenders One”) and Best Partners Mortgage Brokers Cooperative, Inc., doing business as the Wholesale One® mortgage cooperative (“Wholesale 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) and to Wholesale One under a management agreement that ends on July 8, 2039 (with automatic renewals for three successive five-year periods).

The management agreements between MPA and Lenders One and Wholesale One, pursuant to which MPA is the management company, represent variable interests in variable interest entities. MPA is the primary beneficiary of Lenders One and Wholesale One as it has the power to direct the activities that most significantly impact each of these cooperatives’ economic performance and the right to receive benefits from each of these cooperatives. As a result, Lenders One and Wholesale One are 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, 2016, Lenders One had total assets of \$2.8 million and total liabilities of \$1.3 million. As of December 31, 2015, Lenders One had total assets of \$4.9 million and total liabilities of \$3.7 million. As of June 30, 2016 and December 31, 2015, Wholesale One had less than \$0.1 million in total assets and less than \$0.1 million in total liabilities.

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, 2015, as filed with the SEC on March 15, 2016.

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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.

Recently Adopted Accounting Pronouncement

On January 1, 2016, Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, became effective. As a result of this accounting change, the Company now presents debt issuance costs, net as a direct deduction from the related debt (see Note 12). Prior to January 1, 2016, debt issuance costs, net were included in other assets. We adopted the standard retrospectively. Accordingly, prior period amounts were reclassified to conform to the current presentation.

Future Adoption of New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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 this 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 standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position. In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard will require 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 will be effective for annual periods beginning after December 31, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In February 2016, 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. The 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 this guidance may have on its results of operations and financial position.

In March 2016, FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This standard clarifies guidance on principal versus agent considerations in connection with revenue recognition. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In March 2016, FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard will require companies to recognize all award-related excess tax benefits and tax deficiencies in their income statements, classify any excess tax benefits as an operating activity in their statements of cash flows, provide companies with the option of estimating forfeitures or recognizing forfeitures as they occur, modify the statutory tax withholding requirements and classify cash paid by employers when directly withholding shares for tax withholding purposes as an investing activity in their statements of cash flows. This standard will be effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In April 2016, FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This standard provides guidance on identifying performance obligations in a contract with a customer and clarifying several licensing considerations, including whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time) and guidance on sales-based and usage-based royalties. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In May 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This standard addresses collectability, sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

**NOTE 2 — CUSTOMER CONCENTRATION**

Ocwen Financial Corporation together with its subsidiaries ("Ocwen") is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments to master services agreements (collectively, the "Service Agreements") with terms extending through August 2025. Certain of 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. Certain 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.

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, 2016		Six months ended June 30, 2015	
Mortgage Services	59 %	62 %	59 %	63 %
Financial Services	19 %	19 %	17 %	22 %
Technology Services	38 %	57 %	41 %	52 %
Consolidated revenue	55 %	59 %	55 %	59 %

For the six months ended June 30, 2016 and 2015, we generated revenue from Ocwen of \$280.7 million and \$301.0 million, respectively (\$140.5 million and \$159.6 million for the second quarter of 2016 and 2015, respectively).

Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales,

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 mortgage charge-off collections. Services provided to Ocwen and reported in the Technology Services segment included information technology infrastructure management and software applications. As of June 30, 2016, accounts receivable from Ocwen totaled \$30.9 million, \$19.4 million of which was billed and \$11.5 million of which was unbilled. As of December 31, 2015, accounts receivable from Ocwen totaled \$38.2 million, \$20.4 million of which was billed and \$17.8 million of which was unbilled.

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, 2016 and 2015, we recognized revenue of \$98.0 million and \$108.0 million, respectively (\$51.3 million and \$54.5 million for the second quarter of 2016 and 2015, 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 deriving 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 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 and are not necessarily reflective of current activities with these former related parties.

**Ocwen**

**Revenue**

For the period from January 1, 2015 through January 16, 2015, we estimated 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, information technology infrastructure management and software applications.

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 have used Ocwen’s contractors and/or employees to support Altisource related services. Ocwen generally billed 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 period from January 1, 2015 through January 16, 2015, we estimated 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 and comprehensive income.

We provided certain other services to Ocwen and Ocwen provided certain other services to us in connection with Support Services Agreements. These services primarily included such areas as vendor management, corporate services and facilities related services. 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. Of the January 2015 billings to Ocwen, we estimated that \$0.1 million related to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimated that \$0.3 million related 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 and comprehensive income.

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 period from January 1, 2015 through January 16, 2015, our billings to HLSS were immaterial.

Residential and AAMC

Residential is focused on acquiring, owning and managing single family rental properties throughout the United States. AAMC's primary business is to provide asset management and certain corporate governance services to institutional investors. Currently, AAMC's primary client is Residential.

We have agreements, which extend through 2027, to provide Residential with renovation management, lease management, property management, real estate owned asset management, title insurance, settlement and valuation services. In addition, we have agreements with Residential and AAMC pursuant to which we may 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 period from January 1, 2015 through January 16, 2015, we estimated that we generated revenue from Residential of \$1.0 million. This amount is reflected in revenue in the condensed consolidated statements of operations and comprehensive income. This excludes revenue from services we provide to Residential's loans serviced by Ocwen or other loan servicers where we were retained by Ocwen or Residential's other loan servicers.

For the period from January 1, 2015 through January 16, 2015, our billings to AAMC were immaterial.

NOTE 4 — ACQUISITIONS

RentRange, Investability and Onit Solutions Acquisitions

On October 9, 2015, we acquired GoldenGator, LLC (doing business as RentRange®) ("RentRange"), REIsmart, LLC (doing business as Investability) ("Investability") and Onit Solutions, LLC, a support company for RentRange and Investability (collectively "RentRange and Investability") for \$24.8 million. RentRange is a leading provider of rental home data and information to the financial services and real estate industries, delivering a wide assortment of address and geography level data, analytics and rent-based valuation solutions for single and multi-family properties.

Investability is an online residential real estate search and acquisition platform that utilizes data and analytics to allow real estate investors to access the estimated cash flow, capitalization rate, net yield and market value of properties for sale in the United States. The purchase price was composed of \$17.5 million in cash and 247 thousand shares of restricted common stock of the Company with a value of \$7.3 million as of the closing date. Upon issuance, the restricted stock is subject to transfer restrictions and potential forfeiture provisions. These restrictions and forfeiture provisions will lapse over a four year period, subject to the recipients meeting certain continued employment conditions with the Company and the satisfaction of certain acquisition related escrow release conditions. RentRange and Investability are not material in relation to the Company's results of operations or financial position.

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

The preliminary allocation of the purchase price is as follows:

(in thousands)

Cash	\$3
Accounts receivable, net	245
Premises and equipment, net	1,206
Other assets	199
Software	1,265
Trademarks and trade names	1,205
Databases/other	910
Non-compete agreements	330
Customer relationships	255
Goodwill	19,565
	25,183
Accounts payable and accrued expenses	(391 )

Purchase price \$24,792

## CastleLine Acquisition

On July 17, 2015, we acquired CastleLine Holdings, LLC and its subsidiaries (“CastleLine”) for \$33.4 million. CastleLine is a specialty risk management and insurance services firm that provides financial products and services to parties involved in the origination, underwriting, purchase and securitization of residential mortgages. The purchase consideration was composed of \$12.3 million of cash at closing, \$10.5 million of cash payable over four years from the acquisition date and 495 thousand shares of restricted common stock of the Company with a value of \$14.4 million as of the closing date. Of the cash payable following acquisition, \$3.8 million is contingent on certain future employment conditions of certain of the sellers, and therefore excluded from the purchase price. After the acquisition date, management adjusted the allocation of the purchase price based upon information that subsequently became available relating to acquisition date working capital and the purchase price allocation to intangible assets. This adjustment was recorded during the second quarter of 2016. The CastleLine acquisition is not material in relation to the Company’s results of operations or financial position.

The initial and final allocation of the purchase price is as follows:

(in thousands)	Initial purchase price allocation	Adjustments	Final purchase price allocation
Cash	\$ 1,088	\$ —	\$ 1,088
Accounts receivable, net	510	(410 )	100
Prepaid expenses	66	(46 )	20
Restricted cash	2,501	—	2,501
Non-compete agreements	1,105	25	1,130
Databases/other	465	1,335	1,800
Customer relationships	395	—	395
Trademarks and trade names	150	10	160
Deferred taxes	—	356	356
Goodwill	28,125	(1,395 )	26,730

	34,405	(125 )	34,280
Accounts payable and accrued expenses	(875 )	38	(837 )
Deferred revenue	(87 )	87	—
Purchase price	\$ 33,443	\$ —	\$ 33,443

NOTE 5 — AVAILABLE FOR SALE SECURITIES

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for \$48.2 million. This investment is classified as available for sale and reflected in the condensed consolidated balance sheets at fair value at the balance sheet date (\$38.1 million as of June 30, 2016) (no comparative amount as of December 31, 2015). Unrealized gains and losses

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

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 would record a charge to earnings and a new cost basis in the investment would be established. In the second quarter of 2016, we incurred expenses of \$3.4 million and earned dividends of \$1.0 million related to this investment (no comparative amounts in 2015).

**NOTE 6 — ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Billed	\$61,211	\$ 67,021
Unbilled	50,548	56,458
	111,759	123,479
Less: allowance for doubtful accounts	(11,594 )	(18,456 )
Total	\$100,165	\$ 105,023

Unbilled receivables consist primarily of certain asset management and default management services for which we generally 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 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Maintenance agreements, current portion	\$8,131	\$ 7,000
Income taxes receivable	988	633
Prepaid expenses	7,975	7,873
Other current assets	10,653	6,245
Total	\$27,747	\$ 21,751

**NOTE 8 — PREMISES AND EQUIPMENT, NET**

Premises and equipment, net consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Computer hardware and software	\$183,490	\$ 177,010
Office equipment and other	25,934	21,720
Furniture and fixtures	15,338	14,443
Leasehold improvements	36,807	35,503
	261,569	248,676
Less: accumulated depreciation and amortization	(146,993 )	(129,555 )
Total	\$114,576	\$ 119,121

Depreciation and amortization expense amounted to \$18.3 million and \$18.4 million for the six months ended June 30, 2016 and 2015, respectively (\$9.1 million and \$9.6 million for the second quarter of 2016 and 2015,

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 and comprehensive income.

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 9 — 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 as of December 31, 2015	\$80,423	\$ 2,378	\$	—\$82,801
Acquisition of CastleLine <sup>(1)</sup>	(1,395 )	—	—	(1,395 )
Balance as of June 30, 2016	\$79,028	\$ 2,378	\$	—\$81,406

<sup>(1)</sup> During the second quarter of 2016, goodwill was revised to reflect a purchase accounting measurement period adjustment related to the CastleLine acquisition. See Note 4.

## Intangible assets, net

Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount June 30, 2016	December 31, 2015	Accumulated amortization June 30, 2016	December 31, 2015	Net book value June 30, 2016	December 31, 2015
Definite lived intangible assets:							
Trademarks and trade names	13	\$ 15,254	\$ 15,244	\$(7,121 )	\$(6,491 )	\$ 8,133	\$ 8,753
Customer related intangible assets	10	274,428	274,428	(136,440 )	(113,725 )	137,988	160,703
Operating agreement	20	35,000	35,000	(11,229 )	(10,354 )	23,771	24,646
Non-compete agreements	4	1,460	1,435	(314 )	(115 )	1,146	1,320
Intellectual property	10	300	300	(70 )	(55 )	230	245
Other intangible assets	5	2,710	1,375	(572 )	(39 )	2,138	1,336
Total		\$329,152	\$ 327,782	\$(155,746 )	\$(130,779 )	\$173,406	\$ 197,003

Amortization expense for definite lived intangible assets was \$25.0 million and \$17.9 million for the six months ended June 30, 2016 and 2015, respectively (\$12.8 million and \$9.0 million for the second quarter of 2016 and 2015, respectively). Expected annual definite lived intangible asset amortization for 2016 through 2020 is \$39.9 million, \$27.0 million, \$23.9 million, \$21.7 million and \$19.6 million, respectively.

## NOTE 10 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Security deposits	\$5,365	\$ 5,341
Maintenance agreements, non-current portion	1,334	1,570

Restricted cash	4,781	4,801
Other	1,206	1,441
Total	\$ 12,686	\$ 13,153

14

---



Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 11 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
----------------	---------------	-------------------

Accounts payable	\$15,114	\$ 11,644
Accrued expenses - general	29,906	30,347
Accrued salaries and benefits	38,320	46,564
Income taxes payable	5,408	3,316

Total	\$88,748	\$ 91,871
-------	----------	-----------

Other current liabilities consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
----------------	---------------	-------------------

Unfunded cash account balances	\$3,660	\$ 6,395
Other	10,649	9,871

Total	\$14,309	\$ 16,266
-------	----------	-----------

## NOTE 12 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
----------------	---------------	-------------------

Senior secured term loan	\$482,626	\$ 536,598
Less: debt issuance costs, net	(5,071 )	(6,184 )
Less: unamortized discount, net	(1,834 )	(2,236 )
Net long-term debt	475,721	528,178
Less: current portion	(5,945 )	(5,945 )

Long-term debt, less current portion	\$469,776	\$ 522,233
--------------------------------------	-----------	------------

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain wholly-owned subsidiaries are guarantors of the term loan (collectively, the “Guarantors”). We subsequently amended the senior secured 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). 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 or as otherwise provided in the loan agreement upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, subject to certain exceptions, the term loan is 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, as calculated in accordance with the provisions of the senior secured

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

term loan (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were owed for the six months ended June 30, 2016.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of \$51.0 million at a weighted average discount of 13.2%, recognizing a net gain of \$5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of \$16.0 million at a 9.0% discount, recognizing a net gain of \$1.1 million on the early extinguishment of debt. The net gains were included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

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, 2016 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, dividends and repayment of junior indebtedness; 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 our 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.

As of June 30, 2016, debt issuance costs were \$5.1 million, net of \$5.2 million of accumulated amortization. As of December 31, 2015, debt issuance costs were \$6.2 million, net of \$4.1 million of accumulated amortization. Interest expense on the term loans totaled \$12.5 million and \$14.4 million for the six months ended June 30, 2016 and 2015, respectively (\$6.0 million and \$7.2 million for the second quarter of 2016 and 2015, respectively).

**NOTE 13 — OTHER NON-CURRENT LIABILITIES**

Other non-current liabilities consist of the following:

	June 30,	December 31,
(in thousands)	2016	2015

Acquisition related obligations	\$5,446	\$ 8,422
Other non-current liabilities	11,115	9,731

Total	\$ 16,561	\$ 18,153
-------	-----------	-----------

16

---

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 14 — FAIR VALUE

## Fair Value Measurements on a Recurring Basis

Available for sale securities are carried at fair value and consist of 4.1 million shares of Residential common stock with a fair value of \$38.1 million as of June 30, 2016 (no comparative amount as of December 31, 2015). Available for sale securities are measured using Level 1 inputs as these securities have quoted prices in active markets.

In accordance with ASC Topic 805, Business Combinations, liabilities for contingent consideration are 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 certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. and Owners Advantage, LLC in 2014. The total fair value of the liabilities for acquisition related contingent consideration was \$4.1 million and \$3.9 million as of June 30, 2016 and December 31, 2015, respectively. 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 include sensitivities pertaining to discount rates and financial projections.

In the second quarter of 2015, we reached an agreement with the former owners of Equator, LLC (“Equator”) to extinguish any liability for the Equator related contingent consideration (“Equator Earn Out”) in exchange for \$0.5 million. In connection with this settlement, we reduced the liability for the Equator Earn Out to \$0 and recognized a \$7.6 million reduction in operating expenses in the condensed consolidated statements of operations and comprehensive income.

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 as of June 30, 2016 and December 31, 2015. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP are as follows:

(in thousands)	June 30, 2016		December 31, 2015			
	Carrying amount	Fair value	Carrying amount	Fair value	Level 1	Level 2
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	\$ 120,486	\$ 120,486	\$ —	\$ 179,327	\$ —	\$ —
Restricted cash	4,781	4,781	—	4,801	4,801	—
Long-term debt	482,626	—	412,645	536,598	—	469,523

Our financial assets and financial 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. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.

## NOTE 15 — SHAREHOLDERS’ EQUITY AND SHARE-BASED COMPENSATION

## Stock Repurchase Plan

On May 18, 2016, our shareholders approved a new share repurchase program, which replaced the previous share repurchase program. Under the new program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval 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 prior programs. Under the existing and prior programs, we purchased 0.8 million shares of common stock at an average price of \$25.79 per share during the six months ended June 30, 2016 and 1.6 million shares at an average price of \$28.02 per share during the six months ended June 30, 2015 (0.3 million shares at an average price of \$26.74

per share for the second quarter of 2016 and 1.4 million shares at an average price of \$28.57 per share for the second quarter of 2015). As of June 30, 2016, approximately 4.5 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

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

repurchases and may prevent repurchases in certain circumstances. As of June 30, 2016, approximately \$333 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 \$3.6 million and \$1.3 million for the six months ended June 30, 2016 and 2015, respectively (\$1.7 million and \$0.9 million for the second quarter of 2016 and 2015, respectively). As of June 30, 2016, estimated unrecognized compensation costs related to share-based awards amounted to \$9.0 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.58 years.

**Stock Options**

Stock option grants are composed of a combination of service-based, market-based and performance-based options.

**Service-Based Options.** These 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 1.2 million service-based awards were outstanding at June 30, 2016.

**Market-Based Options.** These option grants generally 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. For substantially all market-based awards, 25% vest upon the achievement of the criteria and the remaining 75% vest thereafter in three equal annual installments. Market-based options generally expire on the earlier of ten years after the date of grant or following termination of service, unless the performance criteria is met prior to termination of service or in the final three years of the option term, in which case vesting will generally continue in accordance with the provisions of the award agreement. A total of 1.8 million market-based awards were outstanding at June 30, 2016.

**Performance-Based Options.** These option grants begin to vest upon the achievement of certain business unit specific financial measures. 25% of the awards vest upon the achievement of the performance criteria and the remaining 75% vest thereafter in three equal annual installments. The award of performance-based options is adjusted based on the level of achievement specified in the award agreements. If the performance criteria achieved is below a certain threshold, the award is cancelled. The options expire on the earlier of ten years after the date of grant or following termination of service. A total of 0.1 million performance-based awards were outstanding at June 30, 2016.

The Company granted 0.1 million stock options (at a weighted average exercise price of \$27.43 per share) and 0.7 million stock options (at a weighted average exercise price of \$23.17 per share) during the six months ended June 30, 2016 and 2015, respectively.

The fair values of the service-based and performance-based options were 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, 2016		Six months ended June 30, 2015	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate (%)	1.25 - 1.89	0.23 - 1.97	1.50 - 1.78	0.02 - 2.26
Expected stock price volatility (%)	59.75 - 62.14	59.76 - 62.14	55.06 - 57.60	55.06 - 57.60
Expected dividend yield	—	—	—	—

# Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Expected option life (in years)	6.00 - 6.25	4.54 - 4.88	6.00 - 6.25	4.54 - 4.88
Fair value	\$11.15 - \$17.09	\$11.06 - \$17.58	\$10.01 - \$16.05	\$9.91 - \$16.13

We determined the expected option life of all service-based stock option grants using the simplified method. We use the simplified method because we believe that our historical data does not provide a reasonable basis upon which to estimate expected option life.

18

---



# Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

### Notes to Condensed Consolidated Financial Statements (Continued)

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

(in thousands, except per share amounts)	Six months ended June 30,	
	2016	2015
Weighted average grant date fair value of stock options granted per share	\$ 15.81	\$ 12.49
Intrinsic value of options exercised	1,002	176
Grant date fair value of stock options that vested	2,010	530

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, 2015	3,163,125	\$ 20.13	4.94	\$ 35,842
Granted	93,500	27.43		
Exercised	(79,726 )	12.36		
Forfeited	(46,950 )	25.32		
Outstanding at June 30, 2016	3,129,949	20.47	4.43	34,598
Exercisable at June 30, 2016	2,286,429	15.19	2.84	32,079

#### Other Share-Based Awards

The Company's other share-based and similar types of awards are composed 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. The Company granted 12 thousand restricted shares (at a weighted average price of \$26.66 per share) during the six months ended June 30, 2016.

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

	Number of restricted shares
Outstanding at December 31, 2015	272,326
Granted	12,378
Issued	(13,388 )
Forfeited	(5,100 )
Outstanding at June 30, 2016	266,216

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 generally vest in equal installments on the first, second, third and fourth anniversaries of the grant date. Performance-based EARs generally begin to vest on the date certain performance criteria are achieved by the applicable division of the Company.

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 that are exercised. After a holding period of six months

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

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 under its shareholder approved equity incentive plan, 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 outstanding 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 EAR plan and any outstanding EARs.

The following table reflects outstanding EARs (expressed as a percentage of each of the divisions):

	Consumer Analytics		Document Solutions		Marketplace Solutions	
Outstanding at December 31, 2015	5.6	%	5.6	%	5.3	%
Granted	—		—		—	
Forfeited	(0.5	)	—		(0.1	)

Outstanding at June 30, 2016      5.1    %    5.6    %    5.2    %

Share-based compensation expense for stock options, restricted shares and EARs is recorded net of estimated forfeiture rates ranging from 0% to 40%.

**NOTE 16 — REVENUE**

Revenue includes service revenue, reimbursable expenses and non-controlling interests. Service revenue consists of amounts attributable to our fee-based services. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One and Wholesale One, consolidated entities not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource (see Note 1). The components of revenue were as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Service revenue	\$241,324	\$236,595	\$475,604	\$444,411
Reimbursable expenses	13,783	30,830	29,237	62,786
Non-controlling interests	692	896	1,090	1,606
Total	\$255,799	\$268,321	\$505,931	\$508,803

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 17 — 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 costs 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,		Six months ended June 30,	
	2016	2015	2016	2015
Compensation and benefits	\$69,773	\$64,890	\$134,836	\$134,216
Outside fees and services	73,326	54,822	145,129	108,069
Reimbursable expenses	13,783	30,830	29,237	62,786
Technology and telecommunications	10,703	10,355	20,643	22,248
Depreciation and amortization	6,786	7,262	13,389	13,666
Total	\$174,371	\$168,159	\$343,234	\$340,985

## NOTE 18 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include payroll and employee benefits associated with personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, professional fees, marketing costs, depreciation and amortization of non-operating assets and other expenses. The components of selling, general and administrative expenses were as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Compensation and benefits	\$14,324	\$13,636	\$28,315	\$26,399
Occupancy related costs	8,799	10,047	17,882	20,701
Amortization of intangible assets	12,756	8,986	24,967	17,877
Professional services	6,696	6,639	13,436	14,629
Marketing costs	5,671	5,920	12,163	11,273
Depreciation and amortization	2,352	2,344	4,957	4,766
Other	3,609	3,994	6,103	8,327
Total	\$54,207	\$51,566	\$107,823	\$103,972

## NOTE 19 — GAIN (LOSS) ON HLSS EQUITY SECURITIES AND DIVIDENDS RECEIVED

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for \$30.0 million. This investment was classified as available for sale. 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. During April 2015, we received liquidating dividends and other dividends from HLSS totaling \$20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for \$7.7 million. As a result of these transactions, we recognized a net gain of \$1.4 million in the second quarter of 2015 and a net loss of \$1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.



# Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

### Notes to Condensed Consolidated Financial Statements (Continued)

#### NOTE 20 — OTHER INCOME (EXPENSE), NET

Other income (expense), net consists of the following:

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Gain on early extinguishment of debt	\$5,464	\$1,114	\$5,464	\$1,114
Expenses related to the purchase of available for sale securities	(3,356 )	—	(3,356 )	—
Interest income	6	31	17	62
Other, net	630	(324 )	592	(352 )
Total	\$2,744	\$821	\$2,717	\$824

#### NOTE 21 — EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities using the treasury stock method.

Basic and diluted EPS are calculated as follows:

(in thousands, except per share data)	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income attributable to Altisource	\$19,994	\$45,950	\$38,488	\$49,648
Weighted average common shares outstanding, basic	18,437	19,571	18,646	19,870
Dilutive effect of stock options and restricted shares	1,167	1,098	1,176	960
Weighted average common shares outstanding, diluted	19,604	20,669	19,822	20,830
Earnings per share:				
Basic	\$1.08	\$2.35	\$2.06	\$2.50
Diluted	\$1.02	\$2.22	\$1.94	\$2.38

For the six months ended June 30, 2016 and 2015, 0.4 million options and 0.7 million options, respectively, that were anti-dilutive have been excluded from the computation of diluted EPS (0.4 million options and 0.7 million options for the second quarter of 2016 and 2015, respectively). These options were anti-dilutive and excluded from the computation of diluted EPS because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS are 0.4 million options and 0.3 million options for the six months ended June 30, 2016 and 2015, respectively (0.4 million and 0.3 million options for the second quarter of 2016 and 2015, respectively), granted for shares that begin to vest upon the achievement of certain market and performance criteria related to our common stock price and an annualized rate of return to investors that have not yet been met.

#### NOTE 22 — COMMITMENTS, CONTINGENCIES AND REGULATORY MATTERS

Litigation

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

On September 8, 2014, the West Palm Beach Firefighters' Pension Fund filed a putative securities class action suit against Altisource Portfolio Solutions S.A. and certain of its current or former officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource Portfolio Solutions S.A. share prices. The Court subsequently appointed the Pension Fund for the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund for the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which added Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of Altisource Portfolio Solutions S.A. securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource Portfolio Solutions S.A. moved to dismiss the suit on March 23, 2015. On September 4, 2015, the Court granted the defendants' motion to dismiss, finding that the Lead Plaintiffs' amended complaint failed to state a claim as to any of the defendants, but permitting the Lead Plaintiffs to file another amended complaint. Lead Plaintiffs subsequently filed second and third amended complaints with substantially similar claims and theories. Altisource Portfolio Solutions S.A. moved to dismiss the third amended complaint on October 22, 2015. On December 22, 2015, the Court issued an order dismissing with prejudice all claims against Ocwen Financial Corporation and certain claims against Altisource Portfolio Solutions S.A. and the officer and director defendants, but denying the motion to dismiss as to other claims. Altisource Portfolio Solutions S.A. intends to continue to vigorously defend this suit.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen Financial Corporation's officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. Altisource Portfolio Solutions S.A. filed a motion to dismiss the complaint on November 9, 2015. While that motion was pending, additional lawsuits alleging similar claims for alleged breaches of fiduciary duties by current or former Ocwen Financial Corporation officers and directors were filed in or transferred to the Court. The Court subsequently consolidated these actions and denied Altisource Portfolio Solutions S.A.'s motion to dismiss the Sokolowski complaint without prejudice to re-file following appointment of lead counsel for the consolidated action and the filing or designation of an operative complaint. Lead counsel for plaintiffs filed their Consolidated Verified Shareholder Derivative Complaint (the "Consolidated Complaint") on March 8, 2016. The Consolidated Complaint alleges claims that Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants aided and abetted alleged breaches of fiduciary duties by Ocwen Financial Corporation officers and directors and/or were unjustly enriched in connection with business dealings with Ocwen Financial Corporation. The Consolidated Complaint also seeks contribution from Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants for amounts Ocwen Financial Corporation paid in connection with a settlement with the New York State Department of Financial Services. Altisource Portfolio Solutions S.A. and Beltline Road Insurance Agency, Inc. filed motions to dismiss the Consolidated Complaint on May 13, 2016 and intend to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duties by the current or former Ocwen Financial Corporation officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. On November 9, 2015, the Court entered an order staying all proceedings in the case pending further order of the Court. If



the litigation proceeds, Altisource Portfolio Solutions S.A. intends to vigorously defend the lawsuit and to move to dismiss all claims against it.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that the motion to dismiss in the second case has not been adjudicated, a stay has been entered in the third case and significant legal and factual issues remain to be determined in all three cases.

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

#### Regulatory Matters

Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

Ocwen Related Matters

Ocwen is our largest customer and 55% of our revenue for the six months ended June 30, 2016 (55% of our revenue for the second quarter of 2016) was from Ocwen. Additionally, 19% of our revenue for the six months ended June 30, 2016 (20% of our revenue for the second quarter of 2016) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions and is subject to pending legal proceedings that have or could result in adverse regulatory or other actions against Ocwen. While not all inclusive, regulatory actions to date have included subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights. Ocwen may become subject to future federal and state regulatory investigations, inquiries, requests for information and legal proceedings, any of which could also result in adverse regulatory or other actions against Ocwen.

As a result of the sale of substantially all of the assets of HLSS to NRZ in April of 2015, NRZ owns the rights to approximately 78% of Ocwen's non-government-sponsored enterprise ("non-GSE") servicing rights as of March 31, 2016. Under an agreement between NRZ and Ocwen, NRZ has the right (not necessarily the obligation or ability) to transfer servicing away from Ocwen if Ocwen fails to achieve and maintain certain minimum servicer ratings on or after April 6, 2017.

Ocwen has also disclosed that in 2015 certain bondholders of Ocwen-serviced residential mortgage-backed securities ("RMBS") alleged that Ocwen, as servicer defaulted on these servicing agreements. Ocwen has further disclosed that it has been directed by the trustee for two of the RMBS trusts to transfer servicing to another loan servicing company based on rating downgrades. Additional bondholders of RMBS may attempt to replace Ocwen as servicer as a result of such ratings downgrades or the alleged defaults.

All of the foregoing may have significant adverse effects on Ocwen's business and our continuing relationships with Ocwen. For example, Ocwen may be required to alter the way it conducts business, including the parties it contracts with for services (including information technology and software services), it may be required to seek changes to its existing pricing structure with us, it may lose or sell some or all of its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing licenses. Additional regulatory actions or adverse financial developments may impose additional restrictions on or require changes in Ocwen's business that could require it to sell assets or change its business operations. Any or all of these effects could result in our eventual loss of Ocwen as a customer or a reduction in the number and/or volume of services they purchase from us or the loss of other customers. If any of the following events occurred, Altisource's revenue would be significantly lower and our results of operations would be materially adversely affected, including from the possible impairment or write-off of goodwill, intangible assets, property and equipment, other assets and accounts receivable:

- Altisource loses Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us

- Ocwen loses or sells a significant portion or all of its non-GSE servicing rights or subservicing arrangements and Altisource fails to be retained as a service provider

- Ocwen loses state servicing licenses in states with a significant number of loans in Ocwen's servicing portfolio

- Altisource fails to be retained as a service provider

- The contractual relationship between Ocwen and Altisource changes significantly or there are significant changes to our pricing to Ocwen for services from which we generate material revenue

Management cannot predict the outcome of the Ocwen Related Matters or the impact they may have on Altisource.

However, in the event these Ocwen Related Matters materially negatively impact Altisource, we believe the impact to

Altisource would occur over an extended period of time and the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that we believe would allow us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, RMBS trustees, lenders and others.

During this period of time, we believe we would continue to generate revenue from the services we provide to the transferred portfolio. Additionally, we have

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

several strategic initiatives that focus on diversifying and growing our revenue and customer base. Our major strategic initiatives include:

• Continue to grow our Servicer Solutions business

• Continue to grow our Origination Solutions business

• Continue to grow our Consumer Real Estate Solutions business

• Continue to grow our Real Estate Investor Solutions business

We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs. However, there can be no assurance that our plans would be successful or our operations would be profitable.

**Escrow and Trust Balances**

We hold customers' assets in escrow and trust accounts at various financial institutions pending completion of certain real estate activities. We also hold cash in trust accounts at various financial institutions where contractual obligations mandate maintaining dedicated bank accounts for our Financial Services segment's collections. These amounts are held in escrow and trust accounts for limited periods of time and are not included in the condensed consolidated balance sheets. Amounts held in escrow and trust accounts were \$86.2 million and \$66.6 million at June 30, 2016 and December 31, 2015, respectively.

**NOTE 23 — SEGMENT REPORTING**

Our business segments are based upon our organizational structure, which focuses primarily on the services offered, and are consistent with the internal reporting used by our Chief Executive Officer (our Chief Operating Decision Maker) to evaluate operating performance and to assess the allocation of our resources.

We classify our businesses into three reportable segments. The Mortgage Services segment provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators, home investors and other sellers and buyers of single family homes. The Financial Services segment provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility, insurance and hotel industries. The Technology Services segment provides a portfolio of software, data analytics and information technology infrastructure management services that support the management of mortgage and real estate activities and marketplace transactions across the lifecycle. In addition, Corporate Items and Eliminations include eliminations of transactions between the reportable segments, interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk and sales and marketing costs not allocated to the business units. Intercompany transactions primarily consist of information technology infrastructure management services.

Financial information for our segments is as follows:

(in thousands)	Three months ended June 30, 2016				
	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	\$208,561	\$19,758	\$38,100	\$(10,620)	\$255,799
Cost of revenue	127,626	14,149	42,424	(9,828)	174,371
Gross profit (loss)	80,935	5,609	(4,324)	(792)	81,428
Selling, general and administrative expenses	28,607	4,204	7,440	13,956	54,207
Income (loss) from operations	52,328	1,405	(11,764)	(14,748)	27,221
Total other income (expense), net	35	22	93	(3,394)	(3,244)

Income (loss) before income taxes and non-controlling interests	\$52,363	\$ 1,427	\$(11,671 )	\$(18,142 )	\$ 23,977
---	----------	----------	-------------	-------------	-----------

25

---

Table of Contents

## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

		Three months ended June 30, 2015				
(in thousands)		Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue		\$ 197,361	\$ 23,389	\$ 55,992	\$ (8,421 )	\$ 268,321
Cost of revenue		112,710	15,537	47,423	(7,511 )	168,159
Gross profit (loss)		84,651	7,852	8,569	(910 )	100,162
Selling, general and administrative expenses		25,228	4,588	7,246	14,504	51,566
Change in the fair value of Equator Earn Out		—	—	(7,591 )	—	(7,591 )
Income (loss) from operations		59,423	3,264	8,914	(15,414 )	56,187
Total other income (expense), net		23	2	(18 )	(4,950 )	(4,943 )
Income (loss) before income taxes and non-controlling interests		\$ 59,446	\$ 3,266	\$ 8,896	\$ (20,364 )	\$ 51,244
		Six months ended June 30, 2016				
(in thousands)		Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue		\$ 407,547	\$ 39,862	\$ 78,747	\$ (20,225 )	\$ 505,931
Cost of revenue		249,144	28,407	84,317	(18,634 )	343,234
Gross profit (loss)		158,403	11,455	(5,570 )	(1,591 )	162,697
Selling, general and administrative expenses		55,576	8,513	13,998	29,736	107,823
Income (loss) from operations		102,827	2,942	(19,568 )	(31,327 )	54,874
Total other income (expense), net		49	35	100	(9,996 )	(9,812 )
Income (loss) before income taxes and non-controlling interests		\$ 102,876	\$ 2,977	\$ (19,468 )	\$ (41,323 )	\$ 45,062
		Six months ended June 30, 2015				
(in thousands)		Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue		\$ 374,367	\$ 45,743	\$ 107,962	\$ (19,269 )	\$ 508,803
Cost of revenue		227,514	30,640	100,146	(17,315 )	340,985
Gross profit (loss)		146,853	15,103	7,816	(1,954 )	167,818
Selling, general and administrative expenses		45,789	9,303	14,561	34,319	103,972
Change in the fair value of Equator Earn Out		—	—	(7,591 )	—	(7,591 )
Income (loss) from operations		101,064	5,800	846	(36,273 )	71,437
Total other income (expense), net		19	(10 )	(17 )	(15,377 )	(15,385 )
Income (loss) before income taxes and non-controlling interests		\$ 101,083	\$ 5,790	\$ 829	\$ (51,650 )	\$ 56,052
(in thousands)		Mortgage	Financial	Technology		Consolidated

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

	Services	Services	Services	Corporate Items and Eliminations	Altisource
Total assets:					
June 30, 2016	\$333,136	\$46,348	\$ 144,719	\$ 151,273	\$ 675,476
December 31, 2015	325,461	53,757	165,778	176,802	721,798

26

---

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

Our services are provided to customers primarily located in the United States. Premises and equipment, net consist of the following, by country:

(in thousands)      June 30,      December 31,  
2016                      2015

United States	\$81,540	\$ 85,021
India	17,370	21,187
Luxembourg	12,650	9,944
Philippines	2,777	2,664
Uruguay	239	305
Total	\$114,576	\$ 119,121



## Table of Contents

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations ("MD&A") is a supplement to the accompanying interim condensed consolidated financial statements and is intended to provide a reader of our financial statements with a narrative from the perspective of management on our businesses, current developments, financial condition, results of operations and liquidity. Our MD&A should be read in conjunction with our Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on March 15, 2016.

#### FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q regarding anticipated financial outcomes, business and market conditions, outlook and other similar statements related to Altisource's future financial and operational performance are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of terminology such as "anticipate," "intend," "expect," "may," "could," "should," "would," "plan," "estimate," "believe," "predict," "potential" or "continue" or the negative and other comparable terminology. Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. The following are examples of such items and are not intended to be all inclusive:

- assumptions related to the sources of liquidity and the adequacy of financial resources;
- assumptions about our ability to grow our business, including executing on our strategic initiatives;
- assumptions about our ability to improve margins;
- expectations regarding collection rates and placements in our Financial Services segment;
- assumptions regarding the impact of seasonality;
- estimates regarding the calculation of our effective tax rate; and
- estimates regarding our reserves and valuations.

Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section of our Form 10-K for the year ended December 31, 2015 and include the following:

- if, as a result of difficulties faced by Ocwen Financial Corporation and its subsidiaries ("Ocwen"), we were to lose Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us;
- our ability to execute on our strategic initiatives;
- our ability to retain our existing customers, expand relationships and attract new customers;
- the level of loan delinquencies and charge-offs;
- the level of origination volume;
- technology failures;
- the trend toward outsourcing;
- our ability to raise debt;
- our ability to retain our directors, executive officers and key personnel;
- our ability to integrate acquired businesses;
- our ability to comply with and burdens imposed by governmental regulations and policies and any changes in such regulations and policies; and
- significant changes in the Luxembourg tax regime or interpretations of the Luxembourg tax regime.

We caution you not to place undue reliance on these forward-looking statements as they reflect our view only as of the date of this report. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## Table of Contents

### OVERVIEW

#### Our Business

When we refer to “Altisource,” the “Company,” “we,” “us” or “our” we mean Altisource Portfolio Solutions S.A., a Luxembourg société anonyme, or public limited liability company, and its wholly-owned subsidiaries.

We are 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 classify our businesses into the following three reportable segments:

**Mortgage Services:** Provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators, home investors and other sellers and buyers of single family homes. The majority of these services are provided to Ocwen. We also have longstanding relationships with commercial banks, insurance companies, mortgage bankers and other companies involved in the mortgage industry. Within the Mortgage Services segment, we provide the following services:

**Asset management services** - Asset management services principally include property preservation, property inspection, real estate owned (“REO”) asset management, the HubZu and Owners.com® consumer real estate portals and real estate brokerage services. We also provide property management, lease management and renovation management services for single family rental properties. Through RentRange and Investability, we provide rental home data and information to the financial services and real estate industries and an online residential real estate investor search and acquisition platform.

**Insurance services** - Insurance services principally include an array of insurance services including pre-foreclosure, REO and refinance title searches, title insurance agency services, settlement and escrow services and loss draft claims processing. Through CastleLine, we provide financial products (including insurance) and services to parties involved in the origination, underwriting, purchase and securitization of residential mortgages.

**Residential property valuation services** - Residential property valuation services principally include traditional appraisal products through our licensed appraisal management company and alternative valuation products, some of which are provided through our network of real estate professionals. We generally provide these services for residential loan servicers, residential lenders and investors in single family homes.

**Default management services** - Default management services principally include foreclosure trustee services for loan servicers and non-legal processing and related services for and under the supervision of foreclosure, bankruptcy and eviction attorneys.

**Origination management services** - Origination management services principally include products, services and solutions utilized in the origination, underwriting and purchase of primarily residential mortgages. Through the Mortgage Partnership of America, L.L.C. (“MPA”) and our Altisource Origination Services business, which provides loan due diligence, fulfillment, contract underwriting and quality control services, we are focused largely on the residential mortgage market. MPA serves as the manager of Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® mortgage cooperative (“Lenders One”) and Best Partners Mortgage Brokers Cooperative, Inc., doing business as the Wholesale One® mortgage cooperative (“Wholesale One”). Lenders One is a national end-to-end marketplace for mortgage bankers and other mortgage market participants. Wholesale One assists mortgage brokers and other third party originators with tools to improve their businesses and obtain better access to the capital markets. We provide other origination related services in the residential property valuation services business and insurance services businesses. In the second quarter of 2016, we introduced Vendorly™, a comprehensive vendor oversight service initially being sold to the mortgage banking community.

**Financial Services:** Provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility, insurance and hotel industries. Within the Financial Services segment, we provide the following services:

**Asset recovery management** - Asset recovery management principally includes post-charge-off debt collection services on a contingency fee basis.



## Table of Contents

Customer relationship management - Customer relationship management principally includes customer care, technical support and early stage collections services as well as insurance call center services and administrative support.

Technology Services: Provides a portfolio of software, data analytics and infrastructure management services that support the management of mortgage and real estate activities and marketplace transactions across the mortgage and real estate lifecycles. We provide our information technology (“IT”) infrastructure management services to Ocwen, Altisource Residential Corporation (“Residential”) and Altisource Asset Management Corporation (“AAMC”) through managed services agreements, and our other segments in a shared services model. Our software and analytics solutions primarily include the following software solutions, as described briefly below:

REALServicing® - An enterprise residential mortgage loan servicing platform that offers a platform for loan servicing, including loss mitigation and loan modifications. This solution spans the loan servicing lifecycle from loan boarding to satisfaction including automation for collections, borrower communications, payment processing and reporting.

REALSynergy® - A commercial real estate and multi-family loan servicing application that provides servicing and asset management capabilities.

REALResolution™ - A technology platform that provides servicers with an automated default management and home retention solution for delinquent and defaulted loans.

REALTrans® - A patented electronic services marketplace platform that automates vendor selection and the ordering, tracking and fulfilling of vendor provided services principally related to real estate and mortgage marketplaces. This technology solution, whether accessed through the web or integrated into existing business processing applications, connects to a marketplace of services through a single platform and delivers a method for managing a large scale network of vendors.

REALRemit® - A patented electronic invoicing and payment system that provides vendors with the ability to submit invoices electronically, provides payors with the ability to automatically adjudicate invoices according to user defined rules and for electronic payments to be fulfilled subject to approval review rules and workflows.

REALDoc® - An automated document management platform that consists of three primary modules: REALDoc Capture, which converts document images into processable data, indexes documents and provides customizable workflows based on data attributes; REALDoc Correspondence, which provides a scalable correspondence generation, management and delivery platform; and REALDoc Vault, which provides a scalable and distributed storage platform and secure document viewer.

Equator® - An integrated real estate management platform consisting of the following modules: EQ Workstation®, EQ Marketplace®, EQ Midsource® and EQ Portal™ that can be used separately or together as an end-to-end solution. EQ Workstation provides comprehensive, end-to-end workflow and transaction services to manage real estate and foreclosure related activities. EQ Marketplace provides a coordinated means of purchasing a variety of real estate services from vendors including real estate brokerage, title, closing, inspection and valuation. EQ Midsource allows users of EQ Workstation to outsource all or specific components of real estate related activities. EQ Portal provides realtors direct access to process real estate transactions with secure exchange of data and documents along with realtor marketing, training and certification.

Mortgage Builder® - A loan origination platform consisting of the following modules: Architect®, Surveyance®, Colonnade® and LoanXEngine™ for mortgage banks, community banks, credit unions and other financial institutions. The Architect platform is a cloud-based, all-inclusive origination platform that manages loans from prequalification through interim servicing and delivery. The Surveyance platform is a mobile origination solution that provides originators with the ability to service their clients remotely. The Colonnade platform is a loan servicing solution and the LoanXEngine platform provides customer relationship management and product pricing and eligibility solutions. REALAnalytics™ - A data analytics and delivery platform that utilizes advanced econometric modeling and behavioral economics to assist mortgage and real estate service providers in optimizing risk management, value measurement, loss mitigation and consumer behavior outcomes across the mortgage and real estate lifecycle.

Pointillist™ - A cloud-based customer intelligence platform that empowers marketers to identify critical customer paths to purchase, upsell and increase customer satisfaction. The Pointillist marketing analytics platform is designed to reveal how consumer experiences drive business outcomes and analyze customer behavior to drive results across channels and over time.



## Table of Contents

Corporate Items and Eliminations: Includes interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk and sales and marketing costs not allocated to the business units, and also includes eliminations of transactions between the reportable segments.

Corporate Items and Eliminations also include the cost of certain facilities.

We classify revenue in three categories: service revenue, revenue from reimbursable expenses and non-controlling interests. In evaluating our performance, we focus on service revenue. Service revenue consists of amounts attributable to our fee-based services. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One and Wholesale One, consolidated entities not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource.

### Stock Repurchase Plan

On May 18, 2016, our shareholders approved a new share repurchase program, which replaced the previous share repurchase program. Under the new program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval 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 prior programs. Under the existing and prior programs, we purchased 0.8 million shares of common stock at an average price of \$25.79 per share during the six months ended June 30, 2016 and 1.6 million shares at an average price of \$28.02 per share during the six months ended June 30, 2015 (0.3 million shares at an average price of \$26.74 per share for the second quarter of 2016 and 1.4 million shares at an average price of \$28.57 per share for the second quarter of 2015). As of June 30, 2016, approximately 4.5 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, 2016, approximately \$333 million was available to repurchase our common stock under our senior secured term loan.

### Strategy and Growth Initiatives

Altisource provides a suite of mortgage, real estate and consumer debt services, leveraging our technology platform and global operations. Altisource is focused on becoming the premier provider of real estate and mortgage marketplaces and related services to a broad and diversified customer base. Within the real estate and mortgage markets, we facilitate transactions and provide products, solutions and services related to home sales, home purchases, home rentals, home maintenance, mortgage origination and mortgage servicing.

Strategically, we are focused on (1) our four key business initiatives discussed below, (2) continuing to strengthen our compliance management system and (3) maintaining strong performance and relationships with our strategic customers.

Each of our four key business initiatives positions Altisource to grow and diversify our customer and revenue base. We believe these initiatives address very large markets and directly leverage our core competencies and distinct competitive advantages. Our four strategic initiatives and a brief description of each follow:

#### Mortgage market:

Continue to grow our Servicer Solutions business (the products, services and certain technologies typically used or licensed by loan servicers): We are focused on expanding services purchased by our existing customer base and attracting new customers. Even as delinquencies return to historical norms, we believe there is a very large addressable market for the services we provide, as well as a strong and increasing customer focus on regulatory compliance and operational quality. We are one of only a few service providers with a comprehensive offering of services and technologies on a national scale. We believe we are well positioned to gain market share as customers consolidate to larger, full-service vendors and continue to outsource services that have historically been performed in-house.

## Table of Contents

Continue to grow our Origination Solutions business (the products, services and technologies typically used or licensed by participants in the loan origination market): We are focused on building an industry leading, integrated origination services platform that provides end-to-end solutions to our customers, expand our product offerings to our existing client base and actively add new customers. We are leveraging our enterprise wide sales organization to

2. offer our origination services to larger bank and non-bank originators and correspondents and plan to expand our middle market sales organization to address other prospects. We believe we are well positioned to gain market share as customers consolidate to larger full-service vendors and by offering our existing customers (e.g., the members of Lenders One, the customers of Mortgage Builder and CastleLine and our preferred vendors and partners) an attractive suite of products and services that meet their growing needs.

### Real estate market:

Continue to grow our Consumer Real Estate Solutions business (an online marketplace that connects consumer home buyers and home sellers and offers the related services) primarily through Owners.com: Owners.com provides self-directed home buyers and sellers with a full suite of real estate services from which to choose. We are focused

3. on growing Owners.com by building brand awareness, driving customer engagement and increasing consumer adoption of our buy side and sell side brokerage services. With a growing segment of the population demonstrating a desire to engage in self-directed transactions, we believe Owners.com is well positioned to become a market leader.

Continue to grow our Real Estate Investor Solutions business (an online marketplace that connects home buyers and home sellers of one to four family rental homes and offers the related services to buy, manage and sell homes): We

4. are focused on supporting the growth of our existing customers, expanding services purchased by our existing customer base and attracting new customers. With our real estate brokerage operation, vendor network, property management and renovation footprint, existing customer base and growing suite of technologies (e.g., Investability and RentRange), we believe we are well positioned to grow.

There can be no assurance that growth from our strategic initiatives will be successful or our operations will be profitable.

### Ocwen Related Matters

Revenue from Ocwen represented 55% of our revenue for the six months ended June 30, 2016 (55% of consolidated revenue for the second quarter of 2016). Additionally, 19% of our revenue for the six months ended June 30, 2016 (20% of consolidated revenue for the second quarter of 2016) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions and is subject to pending legal proceedings that have or could result in adverse regulatory or other actions against Ocwen. While not all inclusive, regulatory actions to date have included subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights. Ocwen may become subject to future federal and state regulatory investigations, inquiries, requests for information and legal proceedings, any of which could also result in adverse regulatory or other actions against Ocwen (see Note 22 to the condensed consolidated financial statements). Management cannot predict the outcome of the Ocwen Related Matters or the impact they may have on Altisource. However, in the event these Ocwen Related Matters materially negatively impact Altisource, we believe the impact to Altisource would occur over an extended period of time and the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that we believe would allow us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, residential mortgage-backed securities trustees, lenders and others. During this period of time, we believe we would continue to generate revenue from the services we provide to the transferred portfolio. Additionally, we have several strategic initiatives that focus on diversifying and growing our revenue and customer base. Our major strategic initiatives are described in the Strategy and Growth Initiatives section above. We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs. However, there can be no assurance that our plans will be successful or our operations will be profitable.



## Table of Contents

### Factors Affecting Comparability

The following items may impact the comparability of our results:

The average number of loans serviced by Ocwen on REALServicing was 1.5 million for the six months ended June 30, 2016 compared to 2.3 million for the six months ended June 30, 2015 (1.5 million for the second quarter of 2016 and 2.2 million for the second quarter of 2015). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing was 230 thousand for the six months ended June 30, 2016 compared to 295 thousand for the six months ended June 30, 2015 (222 thousand for the second quarter of 2016 and 279 thousand for the second quarter of 2015);

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of \$51.0 million at a weighted average discount of 13.2%, recognizing a net gain of \$5.5 million on the early extinguishment of debt; in the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of \$16.0 million at a 9.0% discount, recognizing a net gain of \$1.1 million on the early extinguishment of debt;

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for \$48.2 million. In the second quarter of 2016, we incurred expenses of \$3.4 million and earned dividends of \$1.0 million related to this investment (no comparative amounts in 2015);

On October 9, 2015, we acquired GoldenGator, LLC (doing business as RentRange) ("RentRange"), REIsmart, LLC (doing business as Investability) ("Investability") and Onit Solutions, LLC, a support company for RentRange and Investability, for \$24.8 million, composed of \$17.5 million in cash and 247 thousand shares of restricted common stock of the Company with a value of \$7.3 million as of the closing date;

On July 17, 2015, we acquired CastleLine Holdings, LLC and its subsidiaries ("CastleLine") for \$33.4 million. The purchase consideration was composed of \$12.3 million of cash at closing, \$10.5 million of cash payable over four years from the acquisition date and 495 thousand shares of restricted common stock of the Company with a value of \$14.4 million as of the closing date. Of the cash payable following acquisition, \$3.8 million is contingent on certain future employment conditions of certain of the sellers, and therefore excluded from the purchase price;

In the second quarter of 2015, we paid the former owners of Equator, LLC ("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;

During the six month ended June 30, 2015, we recognized a loss on the sale of Home Loan Servicing Solutions, Ltd. ("HLSS") equity securities, net of dividends received, of \$1.9 million (during the second quarter of 2015, we recognized a gain on the sale of HLSS equity securities and dividends of \$1.4 million); and

Effective March 31, 2015, we terminated the Data Access and Services Agreement with Ocwen.

Table of Contents

## CONSOLIDATED RESULTS OF OPERATIONS

## Summary Consolidated Results

The following is a discussion of our consolidated results of operations for the periods indicated. For a more detailed discussion of the factors that affected the results of our business segments in these periods, see “Segment Results of Operations” below.

The following table sets forth information regarding our results of operations:

(in thousands, except per share data)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Service revenue						
Mortgage Services	\$194,110	\$165,674	17	\$377,272	\$310,055	22
Financial Services	19,734	23,350	(15 )	39,810	45,663	(13 )
Technology Services	38,100	55,992	(32 )	78,747	107,962	(27 )
Eliminations	(10,620 )	(8,421 )	26	(20,225 )	(19,269 )	5
Total service revenue	241,324	236,595	2	475,604	444,411	7
Reimbursable expenses	13,783	30,830	(55 )	29,237	62,786	(53 )
Non-controlling interests	692	896	(23 )	1,090	1,606	(32 )
Total revenue	255,799	268,321	(5 )	505,931	508,803	(1 )
Cost of revenue	174,371	168,159	4	343,234	340,985	1
Gross profit	81,428	100,162	(19 )	162,697	167,818	(3 )
Selling, general and administrative expenses	54,207	51,566	5	107,823	103,972	4
Change in the fair value of Equator Earn Out	—	(7,591 )	(100 )	—	(7,591 )	(100 )
Income from operations	27,221	56,187	(52 )	54,874	71,437	(23 )
Other income (expense), net:						
Interest expense	(5,988 )	(7,195 )	(17 )	(12,529 )	(14,355 )	(13 )
Gain (loss) on HLSS equity securities and dividends received	—	1,431	(100 )	—	(1,854 )	(100 )
Other income (expense), net	2,744	821	234	2,717	824	230
Total other income (expense), net	(3,244 )	(4,943 )	(34 )	(9,812 )	(15,385 )	(36 )
Income before income taxes and non-controlling interests	23,977	51,244	(53 )	45,062	56,052	(20 )
Income tax provision	(3,291 )	(4,398 )	(25 )	(5,484 )	(4,798 )	14
Net income	20,686	46,846	(56 )	39,578	51,254	(23 )
Net income attributable to non-controlling interests	(692 )	(896 )	(23 )	(1,090 )	(1,606 )	(32 )
Net income attributable to Altisource	\$19,994	\$45,950	(56 )	\$38,488	\$49,648	(22 )
Margins:						
Gross profit/service revenue	34	% 42	%	34	% 38	%
Income from operations/service revenue	11	% 24	%	12	% 16	%
Earnings per share:						
Basic	\$1.08	\$2.35	(54 )	\$2.06	\$2.50	(18 )
Diluted	\$1.02	\$2.22	(54 )	\$1.94	\$2.38	(18 )



## Table of Contents

### Revenue

We recognized service revenue of \$475.6 million for the six months ended June 30, 2016, a 7% increase compared to the six months ended June 30, 2015 (\$241.3 million for the second quarter of 2016, a 2% increase compared to the second quarter of 2015). The increases were driven by revenue growth in the asset management services businesses from higher volumes of property preservation referrals, growth in the percentage of homes sold through auction on Hubzu and growth in the number of non-Ocwen properties sold on Hubzu in the Mortgage Services segment. These increases were partially offset by decreases in IT infrastructure services in the Technology Services segment, which are typically billed on a cost plus basis, decreases in software services revenue due to lower rates charged to Ocwen for certain services and a decline in the number of loans on REALServicing in the Technology Services segment and lower customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us as well as lower mortgage charge-off collections in the Financial Services segment. During the fourth quarter of 2015, we began transitioning resources supporting technology infrastructure to Ocwen as a part of the previously announced separation of technology infrastructure. We anticipate this transition will be largely complete during the fourth quarter of 2016. In addition, in early 2015, the pricing model to Ocwen for REO preservation services within asset management services changed. Historically, we billed (1) a fixed fee per REO asset (which was recognized as service revenue) and (2) actual vendor costs (which were recognized as reimbursable expenses revenue). For new REO referrals, beginning in early 2015, our pricing is on a per service basis (which is recognized as service revenue). This change results in certain services that were historically reimbursable expenses revenue becoming service revenue. As a result, service revenue in the Mortgage Services segment asset management services businesses increased and reimbursable expenses revenue decreased. Certain of our revenues are impacted by seasonality. More specifically, Mortgage Services' revenue is impacted by REO sales and lawn maintenance, which tend to be at their lowest level during the fall and winter months and at their highest level during the spring and summer months. Financial Services' asset recovery management revenue tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year.

### Cost of Revenue and Gross Profit

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 costs, and depreciation and amortization of operating assets.

We recognized cost of revenue of \$343.2 million for the six months ended June 30, 2016, a 1% increase compared to the six months ended June 30, 2015 (\$174.4 million for the second quarter of 2016, a 4% increase compared to the second quarter of 2015). The increases were driven by higher outside fees and services, partially offset by decreases in reimbursable expenses. Outside fees and services increased due to higher volumes of property preservation referrals and the change in billing discussed in the revenue section above, partially offset for the six months ended June 30, 2016 by the March 31, 2015 termination of the Data Access and Services Agreement. Reimbursable expenses declined as a result of the change in billing discussed in the revenue section above. Compensation and benefits cost increased, particularly in the second quarter of 2016, to support certain of our growth initiatives in the Mortgage Services segment, partially offset by cost savings initiatives and the transition of resources supporting technology infrastructure to Ocwen.

Gross profit decreased to \$162.7 million, representing 34% of service revenue, for the six months ended June 30, 2016 compared to \$167.8 million, representing 38% of service revenue, for the six months ended June 30, 2015 (decreased to \$81.4 million representing 34% of service revenue, for the second quarter of 2016 compared to \$100.2 million, representing 42% of service revenue for the second quarter of 2015). Gross profit as a percentage of service revenue decreased for the six months ended June 30, 2016 and the second quarter of 2016 primarily due to higher growth in the lower margin property preservation services in Mortgage Services and from declines in revenue in Technology Services that exceeded the decline in expenses. These decreases for the six months ended June 30, 2016 were partially offset by the March 31, 2015 termination of the Data Access and Services Agreement with Ocwen.

Selling, General and Administrative Expenses, Other Operating Expenses and Income from Operations

Selling, general and administrative expenses (“SG&A”) include payroll for personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, amortization of intangible assets, professional services, marketing costs, and depreciation and amortization.

## Table of Contents

We recognized SG&A of \$107.8 million for the six months ended June 30, 2016, a 4% increase compared to the six months ended June 30, 2015 (\$54.2 million for the second quarter of 2016, a 5% increase compared to the second quarter of 2015). The increases were primarily due to higher amortization of intangible assets, partially offset by lower occupancy costs due to the completion of several office relocations in 2015.

We recognized a gain in other operating expenses on the change in the fair value of the Equator Earn Out of \$7.6 million for the six months ended June 30, 2015 (\$7.6 million for the second quarter of 2015) (no comparative amount in 2016). The liability for contingent consideration was reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. In 2015, we reached an agreement with the former owners of Equator to extinguish any liability for the 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.

Income from operations decreased to \$54.9 million, representing 12% of service revenue, for the six months ended June 30, 2016 compared to \$71.4 million, representing 16% of service revenue, for the six months ended June 30, 2015 (decreased to \$27.2 million, representing 11% of service revenue, for the second quarter of 2016 compared to \$56.2 million, representing 24% of service revenue, for the second quarter of 2015). The decrease in operating income margin was primarily the result of the decrease in gross profit margin, higher SG&A expenses and the 2015 Equator Earn Out gain, as discussed above.

### Other Income (Expense), net

Other income (expense), net principally includes interest expense and other non-operating gains and losses. Interest expense was \$12.5 million for the six months ended June 30, 2016, a decrease of \$1.8 million compared to the six months ended June 30, 2015 (\$6.0 million for the second quarter of 2016, a decrease of \$1.2 million compared to the second quarter of 2015), primarily from the 2016 and 2015 repurchases of portions of our senior secured term loan with an aggregate par value of \$100.0 million.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of \$51.0 million at a weighted average discount of 13.2%, recognizing a net gain of \$5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of \$16.0 million at a 9.0% discount, recognizing a net gain of \$1.1 million on the early extinguishment of debt. In the third and fourth quarters of 2015, we repurchased portions of our senior secured term loan with an aggregate par value of \$33.0 million at a weighted average discount of 11.0%.

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for \$48.2 million. In the second quarter of 2016, we incurred expenses of \$3.4 million and earned dividends of \$1.0 million related to this investment (no comparative amounts in 2015).

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for \$30.0 million. This investment was classified as available for sale. 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. During April 2015, we received liquidating dividends and other dividends from HLSS totaling \$20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for \$7.7 million. As a result of these transactions, we recognized a net gain of \$1.4 million in the second quarter of 2015 and a net loss of \$1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

### Income Tax Provision

We recognized an income tax provision of \$5.5 million for the six months ended June 30, 2016 compared to \$4.8 million for the six months ended June 30, 2015 (\$3.3 million and \$4.4 million for the second quarter of 2016 and 2015, respectively). Our effective tax rate was 12.2% and 8.6% for the six months ended June 30, 2016 and June 30, 2015, respectively (13.7% and 8.6% for the second quarter of 2016 and 2015, respectively). Our effective tax rate differs from the Luxembourg statutory tax rate of 29.2% primarily due to the effect of certain deductions in Luxembourg and the mix of income and losses with varying tax rates in multiple taxing jurisdictions. The higher effective income tax rates for the six months ended June 30, 2016 and the second quarter of 2016 were primarily the result of a change in the mix of revenue across jurisdictions. Our consolidated effective income tax rate for financial reporting purposes may change periodically due to changes in enacted tax rates, fluctuations in the mix of income

earned from our domestic and international operations and our ability to utilize net operating loss and tax credit carryforwards.

Table of Contents

## SEGMENT RESULTS OF OPERATIONS

The following section provides a discussion of pre-tax results of operations of our business segments. Transactions between segments are accounted for as third party arrangements for purposes of presenting segment results of operations. Intercompany transactions primarily consist of IT infrastructure management services and professional services billed by Technology Services. We reflect these as service revenue in the Technology Services segment and technology and telecommunications costs within cost of revenue and SG&A in the segment receiving the services. Certain prior year SG&A cost allocations from Corporate to the segments have been reclassified to conform to the current year presentation.

Financial information for our segments is as follows:

		Three months ended June 30, 2016				
(in thousands)		Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue						
Service revenue		\$194,110	\$19,734	\$38,100	\$ (10,620 )	\$241,324
Reimbursable expenses		13,759	24	—	—	13,783
Non-controlling interests		692	—	—	—	692
		208,561	19,758	38,100	(10,620 )	255,799
Cost of revenue		127,626	14,149	42,424	(9,828 )	174,371
Gross profit (loss)		80,935	5,609	(4,324 )	(792 )	81,428
Selling, general and administrative expenses		28,607	4,204	7,440	13,956	54,207
Income (loss) from operations		52,328	1,405	(11,764 )	(14,748 )	27,221
Total other income (expense), net		35	22	93	(3,394 )	(3,244 )
Income (loss) before income taxes and non-controlling interests		\$52,363	\$1,427	\$(11,671)	\$ (18,142 )	\$23,977
Margins:						
Gross profit (loss)/service revenue		42	% 28	% (11 )	% N/M	34 %
Income (loss) from operations/service revenue		27	% 7	% (31 )	% N/M	11 %
N/M — not meaningful.						

		Three months ended June 30, 2015				
(in thousands)		Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue						
Service revenue		\$165,674	\$23,350	\$55,992	\$ (8,421 )	\$236,595
Reimbursable expenses		30,791	39	—	—	30,830
Non-controlling interests		896	—	—	—	896
		197,361	23,389	55,992	(8,421 )	268,321
Cost of revenue		112,710	15,537	47,423	(7,511 )	168,159
Gross profit (loss)		84,651	7,852	8,569	(910 )	100,162
Selling, general and administrative expenses		25,228	4,588	7,246	14,504	51,566
Change in the fair value of Equator Earn Out		—	—	(7,591 )	—	(7,591 )
Income (loss) from operations		59,423	3,264	8,914	(15,414 )	56,187
Total other income (expense), net		23	2	(18 )	(4,950 )	(4,943 )



Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Income (loss) before income taxes and non-controlling interests	\$59,446	\$3,266	\$8,896	\$ (20,364 )	\$51,244
---	----------	---------	---------	--------------	----------

Margins:

Gross profit/service revenue	51	% 34	% 15	% N/M	42	%
Income (loss) from operations/service revenue	36	% 14	% 16	% N/M	24	%

N/M — not meaningful.

Six months ended June 30, 2016

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	\$377,272	\$39,810	\$78,747	\$ (20,225 )	\$475,604
Reimbursable expenses	29,185	52	—	—	29,237
Non-controlling interests	1,090	—	—	—	1,090
	407,547	39,862	78,747	(20,225 )	505,931
Cost of revenue	249,144	28,407	84,317	(18,634 )	343,234
Gross profit (loss)	158,403	11,455	(5,570 )	(1,591 )	162,697
Selling, general and administrative expenses	55,576	8,513	13,998	29,736	107,823
Income (loss) from operations	102,827	2,942	(19,568 )	(31,327 )	54,874
Total other income (expense), net	49	35	100	(9,996 )	(9,812 )

Income (loss) before income taxes and non-controlling interests	\$102,876	\$2,977	\$(19,468)	\$ (41,323 )	\$45,062
---	-----------	---------	------------	--------------	----------

Margins:

Gross profit (loss)/service revenue	42	% 29	% (7 )	% N/M	34	%
Income (loss) from operations/service revenue	27	% 7	% (25 )	% N/M	12	%

N/M — not meaningful.

Six months ended June 30, 2015

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	\$310,055	\$45,663	\$107,962	\$ (19,269 )	\$444,411
Reimbursable expenses	62,706	80	—	—	62,786
Non-controlling interests	1,606	—	—	—	1,606
	374,367	45,743	107,962	(19,269 )	508,803
Cost of revenue	227,514	30,640	100,146	(17,315 )	340,985
Gross profit (loss)	146,853	15,103	7,816	(1,954 )	167,818
Selling, general and administrative expenses	45,789	9,303	14,561	34,319	103,972
Change in the fair value of Equator Earn Out	—	—	(7,591 )	—	(7,591 )
Income (loss) from operations	101,064	5,800	846	(36,273 )	71,437
Total other income (expense), net	19	(10 )	(17 )	(15,377 )	(15,385 )

Income (loss) before income taxes and non-controlling interests	\$101,083	\$5,790	\$829	\$ (51,650 )	\$56,052
---	-----------	---------	-------	--------------	----------

Margins:

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Gross profit/service revenue	47	%	33	%	7	%	N/M	38	%
Income (loss) from operations/service revenue	33	%	13	%	1	%	N/M	16	%
N/M — not meaningful.									

37

---

Table of Contents

## Mortgage Services

## Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Service revenue:						
Asset management services	\$143,690	\$114,435	26	\$276,666	\$204,019	36
Insurance services	22,051	24,837	(11 )	44,728	48,479	(8 )
Residential property valuation	17,596	13,994	26	35,129	33,441	5
Default management services	4,602	7,074	(35 )	10,025	13,768	(27 )
Origination management services	6,171	5,334	16	10,724	10,348	4
Total service revenue	194,110	165,674	17	377,272	310,055	22
Reimbursable expenses:						
Asset management services	10,432	27,835	(63 )	22,495	57,838	(61 )
Insurance services	2,668	1,833	46	5,235	3,182	65
Default management services	605	1,087	(44 )	1,357	1,628	(17 )
Origination management services	54	36	50	98	58	69
Total reimbursable expenses	13,759	30,791	(55 )	29,185	62,706	(53 )
Non-controlling interests	692	896	(23 )	1,090	1,606	(32 )

Total revenue \$208,561 \$197,361 6 \$407,547 \$374,367 9

We recognized service revenue of \$377.3 million for the six months ended June 30, 2016, a 22% increase compared to the six months ended June 30, 2015 (\$194.1 million for the second quarter 2016, a 17% increase compared to the second quarter of 2015). The increases were primarily due to revenue growth in the asset management services businesses from higher volumes of property preservation referrals, growth in the percentage of homes sold through auction on Hubzu and growth in the number of non-Ocwen properties sold on Hubzu. In addition, in early 2015, the pricing model to Ocwen for REO preservation services within asset management services changed. Historically, we billed (1) a fixed fee per REO asset (which was recognized as service revenue) and (2) actual vendor costs (which were recognized as reimbursable expenses revenue). For new REO referrals, beginning in early 2015, our pricing is on a per service basis (which is recognized as service revenue). This change results in certain services that were historically reimbursable expenses revenue becoming service revenue. As a result, service revenue in the asset management services businesses increased and reimbursable expenses revenue decreased.

Certain of our Mortgage Services businesses are impacted by seasonality. REO sales and lawn maintenance services within the asset management services business are generally lowest during the fall and winter months and highest during the spring and summer months.

## Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$29,809	\$20,199	48	\$55,434	\$41,004	35
Outside fees and services	72,570	54,129	34	143,659	106,722	35
Reimbursable expenses	13,759	30,791	(55 )	29,185	62,706	(53 )
Technology and telecommunications	10,577	6,663	59	18,991	15,337	24

Depreciation and amortization	911	928	(2	)	1,875	1,745	7
Cost of revenue	\$127,626	\$112,710	13		\$249,144	\$227,514	10

Table of Contents

Cost of revenue for the six months ended June 30, 2016 of \$249.1 million increased by 10% compared to the six months ended June 30, 2015 (\$127.6 million for the second quarter 2016, a 13% increase compared to the second quarter 2015). The increases were primarily attributable to higher outside fees and services and compensation and benefits costs, partially offset by a decrease in reimbursable expenses. Outside fees and services increased from a higher volume of property preservation referrals and the change in billing discussed in the revenue section above, partially offset for the six months ended June 30, 2016 by the termination of the Data Access and Services Agreement effective March 31, 2015. Compensation and benefits costs increased from higher headcount to support certain of our growth initiatives. Reimbursable expenses declined primarily as a result of the change in billing discussed in the revenue section above.

Gross profit increased to \$158.4 million, representing 42% of service revenue, for the six months ended June 30, 2016 compared to \$146.9 million, representing 47% of service revenue, for the six months ended June 30, 2015 (decreased to \$80.9 million representing 42% of service revenue for the second quarter 2016, compared to \$84.7 million representing 51% of service revenue for the second quarter 2015). Gross profit as a percentage of service revenue decreased from a change in revenue mix, as a higher percentage of revenue in 2016 was from lower margin property preservation services. For the six months ended June 30, 2016, this was partially offset by the March 31, 2015 termination of the Data Access and Services Agreement with Ocwen. For the second quarter of 2016, gross profit as a percentage of service revenue also decreased from increased revenue from lower margin property valuation services. Our margins can vary substantially depending upon service revenue mix.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$2,772	\$1,473	88	\$5,842	\$2,011	191
Professional services	2,948	3,568	(17 )	6,650	8,110	(18 )
Occupancy related costs	3,409	2,803	22	6,601	5,403	22
Amortization of intangible assets	10,809	6,779	59	21,321	13,217	61
Depreciation and amortization	748	600	25	1,452	1,154	26
Marketing costs	5,716	5,846	(2 )	11,595	9,780	19
Other	2,205	4,159	(47 )	2,115	6,114	(65 )

Selling, general and administrative expenses \$28,607 \$25,228 13 \$55,576 \$45,789 21

SG&A for the six months ended June 30, 2016 of \$55.6 million increased by 21% compared to the six months ended June 30, 2015 (\$28.6 million for the second quarter 2016, a 13% increase compared to the second quarter 2015). This increase was primarily driven by higher amortization of intangible assets, compensation and benefits costs and marketing costs, partially offset by lower other costs. Compensation and benefits costs increased primarily due to growth of the sales and marketing organizations to support our revenue and customer diversification initiatives and higher headcount to support certain of our growth initiatives. The increase in marketing costs relates primarily to Owners.com, as we launched our buy side brokerage marketing campaign in the first half of 2016. The decrease in other costs was primarily due to a favorable loss accrual adjustment for the three months ended March 31, 2016.

Income from operations increased to \$102.8 million, representing 27% of service revenue, for the six months ended June 30, 2016 compared to \$101.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 (decreased to \$52.3 million representing 27% of service revenue for the second quarter 2016, compared to \$59.4 million, representing 36% of service revenue for the second quarter 2015). The decrease in operating income margin was primarily the result of lower gross profit margins from the change in the revenue mix and higher SG&A expenses, as discussed above.



Table of Contents

## Financial Services

## Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)

## Service revenue:

Customer relationship management	\$9,374	\$13,789	(32 )	\$20,275	\$25,185	(19 )
Asset recovery management	10,360	9,561	8	19,535	20,478	(5 )
Total service revenue	19,734	23,350	(15 )	39,810	45,663	(13 )

## Reimbursable expenses:

Asset recovery management	24	39	(38 )	52	80	(35 )
Total reimbursable expenses	24	39	(38 )	52	80	(35 )

Total revenue	\$19,758	\$23,389	(16 )	\$39,862	\$45,743	(13 )
---------------	----------	----------	-------	----------	----------	-------

We recognized service revenue of \$39.8 million for the six months ended June 30, 2016, a 13% decrease compared to the six months ended June 30, 2015 (\$19.7 million for the second quarter of 2016, a 15% decrease compared to the second quarter of 2015), primarily due to lower customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us and, for the six months ended June 30, 2016, lower mortgage charge-off collections driven by a decline in referrals in the asset recovery management business.

Certain of our Financial Services businesses are impacted by seasonality. Revenue in the asset recovery management business tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year.

## Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)

Compensation and benefits	\$10,665	\$11,967	(11 )	\$21,535	\$22,954	(6 )
Outside fees and services	784	733	7	1,521	1,430	6
Reimbursable expenses	24	39	(38 )	52	80	(35 )
Technology and telecommunications	2,239	2,332	(4 )	4,419	5,240	(16 )
Depreciation and amortization	437	466	(6 )	880	936	(6 )

Cost of revenue	\$14,149	\$15,537	(9 )	\$28,407	\$30,640	(7 )
-----------------	----------	----------	------	----------	----------	------

Cost of revenue for the six months ended June 30, 2016 of \$28.4 million decreased by 7% compared to the six months ended June 30, 2015 (\$14.1 million for the second quarter of 2016, a 9% decrease compared to the second quarter of 2015). The decreases in cost of revenue were primarily due to a decrease in compensation and benefits costs and lower technology and telecommunications costs resulting from the implementation of cost savings initiatives in 2015. In addition, compensation and benefits costs were lower as a result of reduced headcount in the customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us.

Gross profit decreased to \$11.5 million, representing 29% of service revenue, for the six months ended June 30, 2016 compared to \$15.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 (decreased to \$5.6 million, representing 28% of service revenue, for the second quarter of 2016 compared to \$7.9 million,

representing 34% of service revenue,

40

---



Table of Contents

for the second quarter of 2015). Gross profit margin decreased primarily due to revenue mix as a portion of the revenue decline was in the higher margin mortgage charge-off collections business.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$210	\$339	(38 )	\$389	\$352	11
Professional services	(54 )	428	(113 )	314	639	(51 )
Occupancy related costs	1,651	1,951	(15 )	3,341	3,846	(13 )
Amortization of intangible assets	1,011	945	7	1,774	2,072	(14 )
Depreciation and amortization	598	635	(6 )	1,208	1,214	—
Other	788	290	172	1,487	1,180	26

Selling, general and administrative expenses \$4,204 \$4,588 (8 ) \$8,513 \$9,303 (8 )

SG&A for the six months ended June 30, 2016 of \$8.5 million decreased by 8% compared to the six months ended June 30, 2015 (\$4.2 million for the second quarter of 2016, an 8% decrease compared to the second quarter of 2015).

The decreases were primarily due to lower occupancy related costs driven by lower headcount in the customer relationship management business primarily the result of the reasons discussed above and lower professional services driven by lower legal costs.

Income from operations decreased to \$2.9 million, representing 7% of service revenue, for the six months ended June 30, 2016 compared to \$5.8 million, representing 13% of service revenue, for the six months ended June 30, 2015 (decreased to \$1.4 million, representing 7% of service revenue, for the second quarter of 2016 compared to \$3.3 million, representing 14% of service revenue, for the second quarter of 2015). The decreases in operating income as a percentage of service revenue were primarily the result of lower gross profit margins as discussed above.

#### Technology Services

##### Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Service revenue:						
Software services	\$27,824	\$38,587	(28 )	\$57,159	\$71,211	(20 )
IT infrastructure services	10,276	17,405	(41 )	21,588	36,751	(41 )
Total revenue	\$38,100	\$55,992	(32 )	\$78,747	\$107,962	(27 )

We recognized service revenue of \$78.7 million for the six months ended June 30, 2016, a 27% decrease compared to the six months ended June 30, 2015 (\$38.1 million for the second quarter of 2016, a 32% decrease compared to the second quarter of 2015). These decreases were driven by lower IT infrastructure services due to the implementation of cost reduction initiatives and the transitioning of resources supporting Ocwen's technology infrastructure to Ocwen, both of which are typically billed on a cost plus basis, and a decrease in software services revenue due to lower rates charged to Ocwen for certain services and a decline in the number of loans on REALServicing.

For segment presentation purposes, revenue from services provided by Technology Services to our other reportable segments is eliminated in consolidation. This intercompany revenue is included as revenue in the Technology Services segment and as technology and telecommunications costs, a component of cost of revenue and SG&A, in our other

reportable segments.

41

---

Table of Contents

## Cost of Revenue and Gross Loss

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$29,299	\$32,724	(10 )	\$57,867	\$70,258	(18 )
Outside fees and services	5	13	(62 )	15	13	15
Technology and telecommunications	7,682	8,818	(13 )	15,801	18,890	(16 )
Depreciation and amortization	5,438	5,868	(7 )	10,634	10,985	(3 )

Cost of revenue \$42,424 \$47,423 (11 ) \$84,317 \$100,146 (16 )

Cost of revenue for the six months ended June 30, 2016 of \$84.3 million decreased by 16% compared to the six months ended June 30, 2015 (\$42.4 million for the second quarter of 2016, an 11% decrease compared to the second quarter of 2015). These decreases were primarily due to lower compensation and benefits and technology and telecommunications costs as a result of the implementation of cost savings initiatives in 2015 and the transition of resources supporting technology infrastructure to Ocwen. In addition, compensation and benefits costs for the three months ended March 31, 2015 included \$2.8 million of severance expense related to the reduction of staff.

Gross loss was \$(5.6) million, representing (7)% of service revenue, for the six months ended June 30, 2016 compared to gross profit of \$7.8 million, representing 7% of service revenue, for the six months ended June 30, 2015 (gross loss was \$(4.3) million, representing (11)% of service revenue, for the second quarter of 2016 compared to gross profit of \$8.6 million, representing 15% of service revenue, for the second quarter of 2015) as the decline in revenue exceeded the decline in expenses.

Selling, General and Administrative Expenses, Other Operating Expenses and Loss from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$478	\$995	(52 )	\$1,042	\$1,873	(44 )
Professional services	1,209	255	N/M	1,551	438	N/M
Occupancy related costs	2,680	3,350	(20 )	5,430	7,129	(24 )
Amortization of intangible assets	936	1,262	(26 )	1,872	2,588	(28 )
Depreciation and amortization	866	529	64	1,613	840	92
Marketing costs	305	208	47	490	322	52
Other	966	647	49	2,000	1,371	46

Selling, general and administrative expenses \$7,440 \$7,246 3 \$13,998 \$14,561 (4 )

N/M — not meaningful.

SG&A for the six months ended June 30, 2016 of \$14.0 million decreased by 4% compared to the six months ended June 30, 2015 (\$7.4 million for the second quarter of 2016, a 3% increase compared to the second quarter of 2015).

The decrease was primarily driven by lower occupancy costs related to facility consolidation during 2015, lower compensation from the implementation of cost savings initiatives in 2015 and lower amortization of intangible assets driven by the write-off of certain intangible assets in the fourth quarter of 2015, partially offset by an increase in professional services due to higher legal and regulatory costs and higher depreciation and amortization related to the facility consolidations in 2015.

We recognized a gain in other operating expenses on the change in fair value of the Equator Earn Out of \$7.6 million for the six months ended June 30, 2015 (\$7.6 million for the second quarter of 2015) (no comparative amount in

2016). The liability for contingent consideration was reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. In 2015, we reached an agreement with the former owners of Equator to extinguish any liability for the Equator Earn

## Table of Contents

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.

Loss from operations was \$(19.6) million, representing (25)% of service revenue, for the six months ended June 30, 2016 compared to income from operations of \$0.8 million, representing 1% of service revenue, for the six months ended June 30, 2015 (loss from operations was \$(11.8) million, representing (31)% of service revenue, for the second quarter of 2016 compared to income from operations of \$8.9 million, representing 16% of service revenue, for the second quarter of 2015). Loss from operations as a percentage of service revenue increased primarily due to the increase in gross loss and SG&A, as discussed above.

### Corporate Items and Eliminations

Corporate Items and Eliminations include interest expense, costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing cost not allocated to the business units and non-operating items. It also includes eliminations of transactions between the reportable segments.

Selling, General and Administrative Expenses and Other Income (Expense), net

Corporate costs consist of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	\$10,864	\$10,829	—	\$21,042	\$22,163	(5)
Professional services	2,593	2,388	9	4,921	5,442	(10)
Occupancy related costs	1,059	1,943	(45 )	2,510	4,323	(42)
Depreciation and amortization	140	580	(76 )	684	1,558	(56)
Marketing costs	(329 )	(241 )	(37 )	66	1,061	(94)
Other	(371 )	(995 )	62	513	(228 )	N/M
Selling, general and administrative expenses	13,956	14,504	(4 )	29,736	34,319	(13)
Total other income (expense), net	3,394	4,950	(31 )	9,996	15,377	(35)
Total corporate costs	\$17,350	\$19,454	(11 )	\$39,732	\$49,696	(20)

N/M — not meaningful.

SG&A for the six months ended June 30, 2016 of \$29.7 million decreased by 13% compared to the six months ended June 30, 2015 (\$14.0 million for the second quarter 2016, a 4% decrease compared to the second quarter 2015). These decreases were primarily driven by increases in the allocations to the segments of occupancy related and marketing costs related to the sales and marketing functions.

Other income (expense), net principally includes interest expense and other non-operating gains and losses. Other income (expense), net for the six months ended June 30, 2016 of \$10.0 million decreased by 35% compared to the six months ended June 30, 2015 (\$3.4 million for the second quarter 2016, a 31% decrease compared to the second quarter 2015). Interest expense was \$12.5 million for the six months ended June 30, 2016, a decrease of \$1.8 million compared to the six months ended June 30, 2015 (\$6.0 million for the second quarter of 2016, a decrease of \$1.2 million compared to the second quarter of 2015), primarily from the 2016 and 2015 repurchases of our senior secured term loan with an aggregate par value of \$100.0 million.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of \$51.0 million at a weighted average discount of 13.2%, recognizing a net gain of \$5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of \$16.0 million at a 9.0% discount, recognizing a net gain of \$1.1 million on the early extinguishment of debt. In the third and fourth quarters of 2015, we repurchased portions of our senior secured term loan with an aggregate par value of \$33.0 million at a weighted average discount of 11.0%.

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for \$48.2 million. In the second quarter of 2016, we incurred expenses of \$3.4 million and earned dividends of \$1.0 million related to this investment (no comparative amounts in 2015).

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for \$30.0 million. This investment was classified as available for sale. On April 6, 2015, HLSS completed the sale of substantially all of its assets to NRZ and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling \$20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for \$7.7 million. As a result of these transactions, we recognized a net gain of \$1.4 million in the second quarter of 2015 and a net loss of \$1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

Intercompany revenue that is eliminated in consolidation increased for the six months ended June 30, 2016 and the second quarter of 2016 compared to the six months ended June 30, 2015 and the second quarter of 2015, respectively. These intercompany transactions primarily consisted of IT infrastructure services which are billed on a cost plus basis and professional services billed by Technology Services. The increase is due to the increase in technology costs related to higher volume of activity primarily in Mortgage Services segment. While the expenses are recognized in the Mortgage Services and Financial Services segments above, the elimination of these expenses is reflected in Corporate Items and Eliminations.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Our primary source of liquidity is cash flows from operations. We seek to deploy excess cash generated in a disciplined manner. Principally, we intend to use excess cash to develop complementary services and businesses that we believe will generate attractive margins in line with our core capabilities and strategy. We also use cash to repurchase and repay our senior secured term loan and repurchase shares of our common stock. We also consider and evaluate business acquisitions that may arise from time to time that are aligned with our strategy.

For the six months ended June 30, 2016, we used \$47.8 million (\$46.3 million for the second quarter of 2016) to repay and repurchase portions of the senior secured term loan and make contractual repayments of the senior secured term loan and \$19.7 million (\$8.1 million for the second quarter of 2016) to repurchase shares of our common stock.

### Senior Secured Term Loan

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain wholly-owned subsidiaries are guarantors of the term loan. We subsequently amended the senior secured 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). The lenders of the senior secured term loan, as amended, have no obligation to provide any such additional debt under the accordion provision. As of June 30, 2016, \$482.6 million was outstanding under the senior secured term loan agreement, as amended, compared to \$536.6 million as of December 31, 2015.

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 or as otherwise provided in the loan agreement upon the occurrence of any event of default under the senior secured term loan agreement. However, if the leverage ratio exceeds 3.00 to 1.00, as calculated in accordance with the provisions of the senior secured term loan agreement, a percentage of cash flows must be used to repay principal (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were required for the six months ended June 30, 2016. The interest rate as of June 30, 2016 was 4.50%.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of \$51.0 million at a weighted average discount of 13.2%, recognizing a net gain of \$5.5 million on the early

extinguishment of debt.

43

---

Table of Contents

The debt covenants in the senior secured term loan agreement limit, among other things, our ability to incur additional debt, pay dividends and repurchase shares of our common stock. In the event we require additional liquidity, our ability to obtain it may be limited by the senior secured term loan.

**Cash Flows**

The following table presents our cash flows for the six months ended June 30:

(in thousands)	2016	2015	% Increase (decrease)
Net income adjusted for non-cash items	\$83,015	\$85,280	(3 )
Changes in operating assets and liabilities	(13,610 )	(30,473 )	55
Net cash flows provided by operating activities	69,405	54,807	27
Net cash flows used in investing activities	(60,670 )	(23,279 )	(161 )
Net cash flows used in financing activities	(67,576 )	(62,810 )	(8 )
Net decrease in cash and cash equivalents	(58,841 )	(31,282 )	(88 )
Cash and cash equivalents at the beginning of the period	179,327	161,361	11

Cash and cash equivalents at the end of the period	\$120,486	\$130,079	(7 )
--	-----------	-----------	------

**Cash Flows from Operating Activities**

Cash flows from operating activities generally consist of the cash effects of transactions and events that enter into the determination of net income. For the six months ended June 30, 2016, we generated cash flows from operating activities of \$69.4 million, or approximately \$0.15 for every dollar of service revenue (\$0.17 for every dollar of service revenue for the second quarter of 2016) compared to cash flows from operating activities of \$54.8 million, or approximately \$0.12 for every dollar of service revenue for the six months ended June 30, 2015 (\$0.30 for every dollar of service revenue for the second quarter of 2015). The increase in cash flows from operations for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 is principally driven by lower unfavorable working capital changes. Changes in working capital were principally driven by higher collections of accounts receivable and the timing of payment of accounts payable and other accrued expenses, partially offset by higher prepaid expenses and other current assets.

Operating cash flows per service revenue dollar can be negatively impacted because of the nature of some of our services. Certain services are performed immediately following or shortly after the referral, but the collection of the receivable does not occur until a specific event occurs (e.g., the foreclosure is complete, the REO asset is sold, etc.) and our cash flows from operations may be negatively impacted when comparing one interim period to another.

**Cash Flows from Investing Activities**

Cash flows from investing activities primarily include capital expenditures as well as purchases and sales of available for sale securities. For the six months ended June 30, 2016 and 2015, we spent \$12.4 million and \$21.4 million, respectively, primarily related to investments in IT infrastructure, the development of certain software applications and the completion of facility build-outs. Capital expenditures for the six months ended June 30, 2016 decreased primarily as a result of lower spending on IT infrastructure, software applications and facilities, as several projects were completed in 2015, including several office relocations. In addition, during the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for \$48.2 million, including brokers' commissions. During the quarter ended March 31, 2015, we purchased 1.6 million shares of HLSS common stock for \$30.0 million, including brokers' commissions, in the open market. Cash proceeds received from the liquidating dividends and sale of the HLSS common stock totaled \$28.1 million during the second quarter of 2015.

**Cash Flows from Financing Activities**

Cash flows from financing activities for the six months ended June 30, 2016 and 2015 include activities associated with share repurchases, debt repayment, stock option exercises and payments to non-controlling interests. During the six months ended June 30, 2016 and 2015, we spent \$19.7 million and \$44.0 million, respectively, on repurchases of our common stock. During the six months ended June 30, 2016 and 2015, we used \$47.8 million and \$17.7 million, respectively, to repurchase portions of our senior secured term loan and make scheduled repayments of our senior



secured term loan. Stock option exercises provided proceeds of \$1.0 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. Distributions to non-controlling interests were \$1.1 million and \$1.3 million for the six months ended June 30, 2016 and 2015, respectively.

Table of Contents

Liquidity Requirements after June 30, 2016

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder"). The Mortgage Builder purchase agreement provides for the payment of up to \$7.0 million in potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement). We have estimated the fair value of the Mortgage Builder potential additional consideration to be \$1.8 million as of June 30, 2016. The amount ultimately paid will depend on Mortgage Builder's Adjusted Revenue in the three consecutive 12-month periods following acquisition.

On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC ("Owners"). The Owners purchase agreement provides for a payment of up to \$7.0 million of potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement) earned in the two consecutive 12-month periods following closing. We estimated the fair value of the Owners contingent consideration to be \$2.3 million as of June 30, 2016. The amount ultimately paid will depend on Owners' Adjusted Revenue earned in the two consecutive 12-month periods following acquisition.

On July 17, 2015, we acquired CastleLine. A portion of the purchase consideration totaling \$10.5 million is payable to the sellers over four years from the acquisition date, including \$3.8 million to be paid to certain of the sellers that is contingent on future employment. As of June 30, 2016, \$1.9 million of the \$10.5 million that is payable over four years from the acquisition date and none of the \$3.8 million purchase consideration that is contingent on future employment has been paid to the sellers.

During the third quarter of 2016, we expect to distribute \$0.4 million to the Lenders One members representing non-controlling interests and repay \$1.5 million of the senior secured term loan.

We believe that we will generate sufficient cash flows from operations to fund capital expenditures and required debt and interest payments for the next 12 months.

Contractual Obligations, Commitments and Contingencies

For the six months ended June 30, 2016, there were no significant changes to our contractual obligations from those identified in our Form 10-K for the fiscal year ended December 31, 2015, other than those that occur in the normal course of business. See Note 22 to the condensed consolidated financial statements.

**CRITICAL ACCOUNTING POLICIES, ESTIMATES AND RECENT ACCOUNTING PRONOUNCEMENT**

We prepare our interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. In applying many of these accounting principles, we need to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and judgments, however, are often subjective. Actual results may be negatively affected based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Our critical accounting policies are described in the MD&A section of our Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016. Those policies have not changed during the six months ended June 30, 2016.

Future Adoption of New Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements for a discussion of the future adoption of new accounting pronouncements.

## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Market Risk

Our financial market risk consists primarily of interest rate and foreign currency exchange risk.

#### Interest Rate Risk

As of June 30, 2016, the interest rate charged on the senior secured term loan was 4.50%. The interest rate is calculated based on the Adjusted Eurodollar Rate (as defined in the senior secured term loan agreement) with a minimum floor of 1.00% plus 3.50%.

Based on the principal amount outstanding at June 30, 2016, a one percentage point increase in the Eurodollar Rate would increase our annual interest expense by approximately \$2.2 million, based on the June 30, 2016 Adjusted Eurodollar Rate. There would be no change in our annual interest expense if there was a one percentage point decrease in the Eurodollar Rate.

#### Currency Exchange Risk

We are exposed to currency risk from potential changes in currency values of our non-United States dollar denominated expenses, assets, liabilities and cash flows. Our most significant currency exposure relates to the Indian rupee. Based on expenses incurred in Indian rupees during the six months ended June 30, 2016, a one percentage point increase or decrease in value of the Indian rupee in relation to the United States dollar would increase or decrease our annual expenses by approximately \$1.2 million.

### Item 4. Controls and Procedures

Management, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this quarterly report. Based on such evaluation and solely because we have not completed remediation of the previously disclosed material weakness in internal control over financial reporting (see our Annual Report on Form 10-K for the year ended December 31, 2015) related to ineffective controls related to the review of impairment indicators of long-lived assets, including premises and equipment, and the impairment analysis of indefinite-lived assets, primarily goodwill, management concluded that our internal control over financial reporting was not effective as of June 30, 2016. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

We intend to implement remediation measures to address the above-described material weakness and enhance the Company’s internal control over financial reporting related to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets by taking the following actions:

- Review the processes related to the impairment assessment of long-lived and indefinite-lived assets
- Enhance review controls relating to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets
- Test and evaluate the design and operating effectiveness of the control procedures
- Assess the effectiveness of the remediation plan

We intend to implement a remediation plan during the third and fourth quarters of 2016 and complete remediation of the material weakness by December 31, 2016. We believe the remediation measures will strengthen the Company’s internal control over financial reporting related to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets and remediate the material weakness identified. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate given the circumstances. The material weakness will not be considered remediated until these plans have been fully implemented, tested and are operating effectively for a sufficient period of time.

There were no changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

**PART II — OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

On September 8, 2014, the West Palm Beach Firefighters' Pension Fund filed a putative securities class action suit against Altisource Portfolio Solutions S.A. and certain of its current or former officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource Portfolio Solutions S.A. share prices. The Court subsequently appointed the Pension Fund for the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund for the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which added Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of Altisource Portfolio Solutions S.A. securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource Portfolio Solutions S.A. moved to dismiss the suit on March 23, 2015. On September 4, 2015, the Court granted the defendants' motion to dismiss, finding that the Lead Plaintiffs' amended complaint failed to state a claim as to any of the defendants, but permitting the Lead Plaintiffs to file another amended complaint. Lead Plaintiffs subsequently filed second and third amended complaints with substantially similar claims and theories. Altisource Portfolio Solutions S.A. moved to dismiss the third amended complaint on October 22, 2015. On December 22, 2015, the Court issued an order dismissing with prejudice all claims against Ocwen Financial Corporation and certain claims against Altisource Portfolio Solutions S.A. and the officer and director defendants, but denying the motion to dismiss as to other claims. Altisource Portfolio Solutions S.A. intends to continue to vigorously defend this suit.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen Financial Corporation's officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. Altisource Portfolio Solutions S.A. filed a motion to dismiss the complaint on November 9, 2015. While that motion was pending, additional lawsuits alleging similar claims for alleged breaches of fiduciary duties by current or former Ocwen Financial Corporation officers and directors were filed in or transferred to the Court. The Court subsequently consolidated these actions and denied Altisource Portfolio Solutions S.A.'s motion to dismiss the Sokolowski complaint without prejudice to re-file following appointment of lead counsel for the consolidated action and the filing or designation of an operative complaint. Lead counsel for plaintiffs filed their Consolidated Verified Shareholder Derivative Complaint (the "Consolidated Complaint") on March 8, 2016. The Consolidated Complaint alleges claims that Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants aided and abetted alleged breaches of fiduciary duties by Ocwen Financial Corporation officers and directors and/or were unjustly enriched in connection with business dealings with Ocwen Financial Corporation. The Consolidated Complaint also seeks contribution from Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants for amounts Ocwen Financial Corporation paid in connection with a settlement with the New York State Department of Financial Services. Altisource Portfolio Solutions S.A. and Beltline Road Insurance Agency, Inc. filed motions to dismiss the Consolidated Complaint on May 13, 2016 and intend to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duties by the current or former Ocwen Financial Corporation officers and

directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. On November 9, 2015, the Court entered an order staying all proceedings in the case pending further order of the Court. If the litigation proceeds, Altisource Portfolio Solutions S.A. intends to vigorously defend the lawsuit and to move to dismiss all claims against it.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that the motion to dismiss in the second case has not been adjudicated, a stay has been entered in the third case and significant legal and factual issues remain to be determined in all three cases.

Table of Contents

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

**Regulatory Matters**

Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

**Item 1A. Risk Factors**

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information related to our repurchases of our equity securities during the three months ended June 30, 2016:

Period	Total number of shares purchased <sup>(1)</sup>	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(2)</sup>	Maximum number of shares that may yet be purchased under the plans or programs <sup>(2)</sup>
<b>Common stock:</b>				
April 1 — 30, 2016	164,988	\$ 25.74	164,988	802,654
May 1 — 31, 2016	81,868	28.77	81,868	4,574,146
June 1 — 30, 2016	53,989	26.75	53,989	4,520,157
	300,845	\$ 26.74	300,845	4,520,157

(1) May include shares withheld from employees to satisfy tax withholding obligations that arose from the exercise of stock options.

(2) On May 18, 2016, our shareholders authorized a new share repurchase program that replaces the prior program and authorizes us to purchase up to 4.6 million shares of our common stock in the open market.

Table of Contents

Item 6. Exhibits

\*31.1 Section 302 Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)

\*31.2 Section 302 Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)

\*32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016 is formatted in XBRL interactive data files: (i) Condensed Consolidated Balance Sheets at June 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Equity for the six months ended June 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015; and (v) Notes to Condensed Consolidated Financial Statements.

\*Filed herewith



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

(Registrant)

Date: July 21, 2016 By: /s/ Michelle D. Esterman

Michelle D. Esterman

Chief Financial Officer

(On behalf of the Registrant and as its Principal Financial Officer)