Altisource Portfolio Solutions S.A.
Form 10-Q
October 26, 2017

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 1-34354

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided by Section 13(a) of the Exchange Act. o

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

As of October 20, 2017, there were 17,904,739 outstanding shares of the registrant's shares of beneficial interest (excluding 7,508,009 shares held as treasury stock).

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FORM 10-Q

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PART I — FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

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

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 114,123 | $ 149,294 |
| Available for sale securities | 46,044 | 45,754 |
| Accounts receivable, net | 63,177 | 87,821 |
| Prepaid expenses and other current assets | 59,880 | 42,608 |
| Total current assets | 283,224 | 325,477 |
| | | |
| Premises and equipment, net | 80,823 | 103,473 |
| Goodwill | 86,283 | 86,283 |
| Intangible assets, net | 128,289 | 155,432 |
| Deferred tax assets, net | 7,214 | 7,292 |
| Other assets | 10,568 | 11,255 |
| | | |
| Total assets | $ 596,401 | $ 689,212 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 83,352 | $ 83,135 |
| Accrued litigation settlement | — | 32,000 |
| Current portion of long-term debt | 5,945 | 5,945 |
| Deferred revenue | 9,746 | 8,797 |
| Other current liabilities | 10,982 | 19,061 |
| Total current liabilities | 110,025 | 148,938 |
| | | |
| Long-term debt, less current portion | 414,431 | 467,600 |
| Other non-current liabilities | 7,796 | 10,480 |
| | | |
| Commitments, contingencies and regulatory matters (Note 20) | | |
| | | |
| Equity: | | |
| Common stock ($1.00 par value; 100,000 shares authorized, 25,413 issued and 17,905 outstanding as of September 30, 2017; 25,413 shares authorized and issued and 18,774 outstanding as of December 31, 2016) | 25,413 | 25,413 |
| Additional paid-in capital | 111,457 | 107,288 |
| Retained earnings | 342,111 | 333,786 |
| Accumulated other comprehensive loss | (1,533) | (1,745) |
| Treasury stock, at cost (7,508 shares as of September 30, 2017 and 6,639 shares as of December 31, 2016) | (414,668) | (403,953) |

| | | |
|---|---|---|
| Altisource equity | 62,780 | 60,789 |
| Non-controlling interests | 1,369 | 1,405 |
| Total equity | 64,149 | 62,194 |
| Total liabilities and equity | $ 596,401 | $ 689,212 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | $234,979 | $252,745 | $726,147 | $758,676 |
| Cost of revenue | 174,898 | 174,002 | 538,244 | 517,236 |
| Gross profit | 60,081 | 78,743 | 187,903 | 241,440 |
| Selling, general and administrative expenses | 46,622 | 53,886 | 146,793 | 161,709 |
| Income from operations | 13,459 | 24,857 | 41,110 | 79,731 |
| Other income (expense), net: | | | | |
| Interest expense | (5,599) | (5,952) | (16,862) | (18,481) |
| Other income (expense), net | 2,497 | (109) | 8,015 | 2,608 |
| Total other income (expense), net | (3,102) | (6,061) | (8,847) | (15,873) |
| Income before income taxes and non-controlling interests | 10,357 | 18,796 | 32,263 | 63,858 |
| Income tax provision | (2,591) | (7,324) | (7,615) | (12,808) |
| Net income | 7,766 | 11,472 | 24,648 | 51,050 |
| Net income attributable to non-controlling interests | (805) | (883) | (2,107) | (1,973) |
| Net income attributable to Altisource | $6,961 | $10,589 | $22,541 | $49,077 |
| Earnings per share: | | | | |
| Basic | $0.39 | $0.57 | $1.23 | $2.63 |
| Diluted | $0.38 | $0.54 | $1.20 | $2.49 |
| Weighted average shares outstanding: | | | | |
| Basic | 18,023 | 18,715 | 18,337 | 18,669 |
| Diluted | 18,429 | 19,568 | 18,854 | 19,738 |
| Comprehensive income: | | | | |
| Net income | $7,766 | $11,472 | $24,648 | $51,050 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on securities, net of income tax benefit (provision) of $2,054, $(2,070), $(78), $889, respectively | (5,530) | 5,016 | 212 | (2,156) |
| Comprehensive income, net of tax | 2,236 | 16,488 | 24,860 | 48,894 |
| Comprehensive income attributable to non-controlling interests | (805) | (883) | (2,107) | (1,973) |
| Comprehensive income attributable to Altisource | $1,431 | $15,605 | $22,753 | $46,921 |

See accompanying notes to condensed consolidated financial statements.

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

| | Altisource Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock, at cost | Non-controlling interests | Total |
| | Shares | | | | | | | |
| Balance, December 31, 2015 | 25,413 | $25,413 | $96,321 | $369,270 | $ — | $(440,026) | $ 1,292 | $52,270 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | 49,077 | — | — | 1,973 | 51,050 |
| Other comprehensive loss, net of tax | — | — | — | — | (2,156) | — | — | (2,156) |
| Distributions to non-controlling interest holders | — | — | — | — | — | — | (1,637) | (1,637) |
| Share-based compensation expense | — | — | 4,692 | — | — | — | — | 4,692 |
| Exercise of stock options and issuance of restricted shares | — | — | — | (58,912) | — | 67,788 | — | 8,876 |
| Repurchase of shares | — | — | — | — | — | (34,321) | — | (34,321) |
| Balance, September 30, 2016 | 25,413 | $25,413 | $101,013 | $359,435 | $ (2,156) | $(406,559) | $ 1,628 | $78,774 |
| Balance, December 31, 2016 | 25,413 | $25,413 | $107,288 | $333,786 | $ (1,745) | $(403,953) | $ 1,405 | $62,194 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | 22,541 | — | — | 2,107 | 24,648 |
| Other comprehensive income, net of tax | — | — | — | — | 212 | — | — | 212 |
| Distributions to non-controlling interest holders | — | — | — | — | — | — | (2,143) | (2,143) |
| Share-based compensation expense | — | — | 3,237 | — | — | — | — | 3,237 |
| Cumulative effect of an accounting change (Note 1) | — | — | 932 | (932) | — | — | — | — |
| Exercise of stock options and issuance of restricted shares | — | — | — | (11,787) | — | 13,871 | — | 2,084 |
| Treasury shares withheld for the payment of tax on restricted share issuances | — | — | — | (1,497) | — | 409 | — | (1,088) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Repurchase of shares | — | — | — | — | — | (24,995 ) | — | (24,995 ) |
| Balance, September 30, 2017 | 25,413 | $25,413 | $111,457 | $342,111 | $ (1,533 ) | $(414,668) | $ 1,369 | $64,149 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | $24,648 | $51,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 27,411 | 27,521 |
| Amortization of intangible assets | 27,143 | 36,432 |
| Change in the fair value of acquisition related contingent consideration | 24 | (1,174) |
| Share-based compensation expense | 3,237 | 4,692 |
| Bad debt expense | 3,101 | 763 |
| Gain on early extinguishment of debt | (5,419) | (5,464) |
| Amortization of debt discount | 225 | 307 |
| Amortization of debt issuance costs | 625 | 850 |
| Deferred income taxes | — | 17 |
| Loss on disposal of fixed assets | 2,776 | 30 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 21,543 | 3,505 |
| Prepaid expenses and other current assets | (17,272) | (10,167) |
| Other assets | 760 | 496 |
| Accounts payable and accrued expenses | 165 | 7,005 |
| Other current and non-current liabilities | (41,838) | (9,828) |
| Net cash provided by operating activities | 47,129 | 106,035 |
| | | |
| Cash flows from investing activities: | | |
| Additions to premises and equipment | (7,485) | (16,525) |
| Acquisition of businesses, net of cash acquired | — | (9,617) |
| Purchase of available for sale securities | — | (48,219) |
| Change in restricted cash | (73) | — |
| Other investing activities | — | 266 |
| Net cash used in investing activities | (7,558) | (74,095) |
| | | |
| Cash flows from financing activities: | | |
| Repayment and repurchases of long-term debt | (48,600) | (49,237) |
| Proceeds from stock option exercises | 2,084 | 8,876 |
| Purchase of treasury shares | (24,995) | (34,321) |
| Distributions to non-controlling interests | (2,143) | (1,637) |
| Payment of tax withholding on issuance of restricted shares | (1,088) | — |
| Net cash used in financing activities | (74,742) | (76,319) |
| | | |
| Net decrease in cash and cash equivalents | (35,171) | (44,379) |
| Cash and cash equivalents at the beginning of the period | 149,294 | 179,327 |
| | | |
| Cash and cash equivalents at the end of the period | $114,123 | $134,948 |

| | | |
|---|---|---|
| Supplemental cash flow information: | | |
| Interest paid | $16,203 | $17,244 |
| Income taxes paid, net | 15,445 | 14,178 |
| | | |
| Non-cash investing and financing activities: | | |
| Increase in payables for purchases of premises and equipment | $52 | $2,458 |

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements
NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business
Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as “Altisource,” the “Company,” “we,” “us” or “our”), is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing market.
Altisource Portfolio Solutions S.A. is organized under the laws of Luxembourg and is publicly traded on the NASDAQ Global Select Market under the symbol “ASPS.”
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.
Effective January 1, 2017, our reportable segments changed as a result of changes in our internal organization, which changed the way our Chief Executive Officer (our chief operating decision maker) manages our businesses, allocates resources and evaluates performance. We now report our operations through two new reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. Prior to the January 1, 2017 change in reportable segments, our reportable segments were Mortgage Services, Financial Services and Technology Services. Prior year comparable period segment disclosures have been restated to conform to the current year presentation. See Note 21 for a description of our business segments.
Altisource consolidates Best Partners Mortgage Cooperative, Inc., which is managed by The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource. Best Partners Mortgage Cooperative, Inc. is a mortgage cooperative doing business as Lenders One® (“Lenders One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA’s option).
The management agreement between MPA and Lenders One, pursuant to which MPA is the management company, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact the cooperative’s economic performance and the right to receive benefits from the cooperative. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of September 30, 2017, Lenders One had total assets of $4.6 million and total liabilities of $2.0 million. As of December 31, 2016, Lenders One had total assets of $3.8 million and total liabilities of $1.5 million.
These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on February 16, 2017.
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

The Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, became effective on January 1, 2017. 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 requires companies to recognize all award-related excess tax benefits and tax deficiencies in the income statement, classify any excess tax benefits as an operating activity in the statement of cash flows, limit tax withholding up to the maximum statutory tax rates in order to continue to apply equity accounting rules and classify cash paid by employers when directly withholding shares for tax withholding purposes as an investing activity in the statement of cash flows. The standard also provides companies with the option of estimating forfeitures or recognizing forfeitures as they occur. In connection with the adoption of this standard, the Company made an accounting policy election to account for forfeitures in compensation expense as they occur, rather than continuing to apply the Company's previous policy of estimating forfeitures. This policy election resulted in a cumulative effect adjustment of $0.9 million to retained earnings and additional paid-in capital as of January 1, 2017 using the modified retrospective transition method. There were no other significant impacts of the adoption of this standard on the Company's results of operations and financial position.

Future Adoption of New Accounting Pronouncements

In May 2014, the 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 new standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company plans to adopt ASU No. 2014-09 retrospectively with the cumulative effect of initially applying the new standard recognized on the date of the initial application. The new standard will be effective for the Company on January 1, 2018. Based on the Company's analysis of all sources of revenue from customers for the nine months ended September 30, 2017, the Company estimates that less than 3% of consolidated revenue, primarily related to software development professional services, would likely be deferred and recognized over future periods under the new standard. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard 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 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. Based on the Company's analysis of this guidance, upon adoption of ASU No. 2016-01 the Company will reflect changes in the fair value of its available for sale securities in income. These changes in fair value are currently reflected in other comprehensive income. The Company will adopt ASU No. 2016-01 with a cumulative effect adjustment to the balance sheet as of the beginning of the year of adoption. The Company currently has one

investment that will be impacted by this standard, its investment in Altisource Residential Corporation ("RESI") (see Note 4). As of September 30, 2017 and December 31, 2016, the unrealized loss in accumulated other comprehensive loss related to the RESI investment was $1.5 million and $1.7 million, respectively.
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard introduces a new lessee model that brings substantially all leases on the balance sheet. 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 of this guidance on its results of operations and financial position. Based on the Company's preliminary analysis of its lease arrangements as of September 30, 2017 where the Company is a lessee, less than $25.0 million, primarily related to office leases, would be recorded as right-of-use assets and

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lease liabilities on the Company's balance sheet under the new standard. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

In March 2016, the 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 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. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In April 2016, the 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. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In May 2016, the 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. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard will require that companies recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. Current guidance prohibits companies from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This standard will require that companies include restricted cash and restricted cash equivalents in their cash and cash equivalent balances in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the

beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its statement of cash flows. As of September 30, 2017 and December 31, 2016, restricted cash was $4.2 million and $4.1 million, respectively.
In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The FASB issued 13 technical corrections and improvements to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), including providing optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. The amendments in this standard also expand the information that is required to be disclosed when an entity applies one of the optional exemptions. This standard will be effective for annual periods beginning after December 15, 2017, including interim

periods within that reporting period. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position in connection with its adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as described above.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This standard clarifies the definition of a business and provides a screen to determine if a set of inputs, processes and outputs is a business. The screen requires that when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the assets acquired would not be a business. Under the new guidance, in order to be considered a business, an acquisition must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. In addition, the standard narrows the definition of the term “output” so that it is consistent with how it is described in ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Current guidance requires that companies compute the implied fair value of goodwill under Step 2 by performing procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This standard will require companies to perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period, and will be applied prospectively. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements.

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

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides guidance about which changes to the terms or conditions of a share-based payment award require the application of modification accounting. This standard will require companies to continue to apply modification accounting, unless the fair value, vesting conditions and classification of an award all do not change as a result of the modification. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted. The Company currently does not expect the adoption of this guidance to have a material effect on its results of operations and financial position.

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

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
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NOTE 2 — CUSTOMER CONCENTRATION
Ocwen Financial Corporation (“Ocwen”) is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments thereto (collectively, the “Ocwen Service Agreements”) with terms extending through August 2025. Certain of the Ocwen Service Agreements, among other things, contain a “most favored nation” provision and also grant the parties the right to renegotiate pricing. Certain of the Ocwen Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource’s services with respect to the Homeward Residential, Inc. and Residential Capital, LLC servicing portfolios acquired by Ocwen in December 2012 and February 2013, respectively. In addition, Ocwen purchases certain origination services from Altisource under an agreement that continues until January 23, 2019, but which is subject to a 90 day termination right by Ocwen.
Ocwen has disclosed that on July 23, 2017 it entered into a master agreement and a transfer agreement with New Residential Investment Corp. (individually, together with one or more of its subsidiaries, or one or more of its subsidiaries individually, “NRZ”) to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen’s remaining interests in Ocwen’s non-government-sponsored enterprise (“non-GSE”) mortgage servicing rights (“MSRs”) and subservicing relating to approximately $110 billion in unpaid principal balance as of June 30, 2017. On August 28, 2017, the Company entered into a Cooperative Brokerage Agreement and related letter agreement with NRZ. As a result, we expect that over time NRZ would become our largest customer, potentially representing more than 50% of our revenues.
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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Mortgage Market | 68 % | 65 % | 68 % | 65 % |
| Real Estate Market | 1 % | — % | 1 % | — % |
| Other Businesses, Corporate and Eliminations | 7 % | 25 % | 11 % | 24 % |
| Consolidated revenue | 58 % | 56 % | 58 % | 56 % |

For the nine months ended September 30, 2017 and 2016, we generated revenue from Ocwen of $422.1 million and $422.2 million, respectively ($136.4 million and $141.6 million for the third quarter of 2017 and 2016, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Market segment included real estate asset management and sales, residential property valuation, trustee management services, property preservation and inspection services, insurance services, mortgage charge-off collections and certain software applications. Services provided to Ocwen and reported in the Real Estate Market segment included rental property management. Services provided to Ocwen and reported as Other Businesses, Corporate and Eliminations included information technology (“IT”) infrastructure management. As of September 30, 2017, accounts receivable from Ocwen totaled $23.7 million, $18.9 million of which was billed and $4.8 million of which was unbilled. As of December 31, 2016, accounts receivable from Ocwen totaled $26.2 million, $15.8 million of which was billed and $10.4 million of which was unbilled.
We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen or NRZ selects Altisource as the service provider. For the nine months ended September 30, 2017 and 2016, we recognized revenue of $118.0 million and $146.0 million, respectively ($35.1 million and $48.0 million for the third quarter of 2017 and 2016, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen or NRZ

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.
We earned revenue from NRZ of $0.8 million related to the MSRs transferred by Ocwen to NRZ in the third quarter of 2017. We earned additional revenue of $1.0 million in the third quarter of 2017 related to the MSRs transferred by Ocwen to NRZ when a party other than NRZ selects Altisource as the service provider.
NOTE 3 — ACQUISITION
Granite Acquisition
On July 29, 2016, we acquired certain assets and assumed certain liabilities of Granite Loan Management of Delaware, LLC ("Granite") for $9.5 million in cash. Granite provides residential and commercial loan disbursement processing, risk mitigation

and construction inspection services to lenders. The Granite acquisition is not material in relation to the Company's results of operations or financial position.

The final allocation of the purchase price is as follows:

| (in thousands) | |
|---|---|
| Accounts receivable, net | $1,024 |
| Prepaid expenses | 22 |
| Other assets | 25 |
| Premises and equipment, net | 299 |
| Non-compete agreements | 100 |
| Trademarks and trade names | 100 |
| Customer relationships | 3,400 |
| Goodwill | 4,827 |
| | 9,797 |
| Accounts payable and accrued expenses | (57) |
| Other current liabilities | (192) |
| Purchase price | $9,548 |

NOTE 4 — AVAILABLE FOR SALE SECURITIES

During the nine months ended September 30, 2016, we purchased 4.1 million shares of RESI 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 respective balance sheet dates ($46.0 million as of September 30, 2017 and $45.8 million as of December 31, 2016). Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we would record a charge to earnings and a new cost basis in the investment would be established. During the nine months ended September 30, 2017 and 2016, we earned dividends of $1.9 million and $1.0 million, respectively ($0.6 million for the third quarter of 2017 and no comparative amount for the third quarter of 2016), related to this investment. In addition, during the nine months ended September 30, 2016, we incurred expenses of $3.4 million (no comparative amounts in 2017 and the third quarter of 2016) related to this investment.

NOTE 5 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Billed | $ 48,108 | $ 58,392 |
| Unbilled | 23,951 | 39,853 |
| | 72,059 | 98,245 |
| Less: Allowance for doubtful accounts | (8,882) | (10,424) |
| Total | $ 63,177 | $ 87,821 |

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

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS
Prepaid expenses and other current assets consist of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Short-term investments in real estate | $ 24,644 | $ 13,025 |
| Income taxes receivable | 13,219 | 5,186 |
| Prepaid expenses | 7,712 | 6,919 |
| Maintenance agreements, current portion | 4,658 | 6,590 |
| Litigation settlement insurance recovery | — | 4,000 |
| Other current assets | 9,647 | 6,888 |
| Total | $ 59,880 | $ 42,608 |

NOTE 7 — PREMISES AND EQUIPMENT, NET
Premises and equipment, net consists of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Computer hardware and software | $ 175,512 | $ 164,877 |
| Office equipment and other | 12,077 | 20,188 |
| Furniture and fixtures | 13,826 | 13,997 |
| Leasehold improvements | 33,570 | 33,808 |
| | 234,985 | 232,870 |
| Less: Accumulated depreciation and amortization | (154,162) | (129,397) |
| Total | $ 80,823 | $ 103,473 |

Depreciation and amortization expense totaled $27.4 million and $27.5 million for the nine months ended September 30, 2017 and 2016, respectively ($8.5 million and $9.2 million for the third quarter of 2017 and 2016, respectively). These expenses are 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.

NOTE 8 — GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill
The following is a summary of goodwill by segment:

| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Total |
|---|---|---|---|---|
| Balance as of September 30, 2017 and December 31, 2016 | $ 73,259 | $ 10,056 | $ 2,968 | $ 86,283 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

Intangible assets, net
Intangible assets, net consist of the following:

| (in thousands) | Weighted average estimated useful life (in years) | Gross carrying amount September 30, 2017 | Gross carrying amount December 31, 2016 | Accumulated amortization September 30, 2017 | Accumulated amortization December 31, 2016 | Net book value September 30, 2017 | Net book value December 31, 2016 |
|---|---|---|---|---|---|---|---|
| Definite lived intangible assets: | | | | | | | |
| Trademarks and trade names | 13 | $ 15,354 | $ 15,354 | $ (8,630) | $ (7,724) | $ 6,724 | $ 7,630 |
| Customer related intangible assets | 10 | 277,828 | 277,828 | (181,019) | (156,980) | 96,809 | 120,848 |
| Operating agreement | 20 | 35,000 | 35,000 | (13,424) | (12,104) | 21,576 | 22,896 |
| Non-compete agreements | 4 | 1,560 | 1,560 | (799) | (507) | 761 | 1,053 |
| Intellectual property | 10 | 300 | 300 | (108) | (85) | 192 | 215 |
| Other intangible assets | 5 | 3,745 | 3,745 | (1,518) | (955) | 2,227 | 2,790 |
| Total | | $ 333,787 | $ 333,787 | $ (205,498) | $ (178,355) | $ 128,289 | $ 155,432 |

Amortization expense for definite lived intangible assets was $27.1 million and $36.4 million for the nine months ended September 30, 2017 and 2016, respectively ($8.6 million and $11.5 million for the third quarter of 2017 and 2016, respectively). Anticipated annual definite lived intangible asset amortization for 2017 through 2021 is $34.6 million, $26.2 million, $21.8 million, $18.2 million and $12.3 million, respectively.

NOTE 9 — OTHER ASSETS

Other assets consist of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Security deposits | $ 5,164 | $ 5,508 |
| Restricted cash | 4,200 | 4,127 |
| Maintenance agreements, non-current portion | 503 | 853 |
| Other | 701 | 767 |
| Total | $ 10,568 | $ 11,255 |

NOTE 10 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Accounts payable | $ 12,251 | $ 8,787 |
| Accrued salaries and benefits | 42,312 | 47,614 |
| Accrued expenses - general | 28,789 | 26,426 |
| Income taxes payable | — | 308 |
| Total | $ 83,352 | $ 83,135 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

Other current liabilities consist of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Unfunded cash account balances | $ 5,054 | $ 7,137 |
| Other | 5,928 | 11,924 |
| Total | $ 10,982 | $ 19,061 |

NOTE 11 — LONG-TERM DEBT
Long-term debt consists of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Senior secured term loan | $ 425,067 | $ 479,653 |
| Less: Debt issuance costs, net | (3,445) | (4,486) |
| Less: Unamortized discount, net | (1,246) | (1,622) |
| Net long-term debt | 420,376 | 473,545 |
| Less: Current portion | (5,945) | (5,945) |
| Long-term debt, less current portion | $ 414,431 | $ 467,600 |

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 subsidiaries are guarantors of the term loan (collectively, the “Guarantors”). We subsequently entered into three amendments to 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, 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 senior secured term 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 term loan agreement (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were owed for the nine months ended September 30, 2017.

During the nine months ended September 30, 2017, we repurchased portions of our senior secured term loan with an aggregate par value of $50.1 million at a weighted average discount of 12.2%, recognizing a net gain of $5.4 million on the early extinguishment of debt (repurchased aggregate par value of $24.1 million at a weighted average discount of 7.5%, recognizing a net gain of $1.5 million on the early extinguishment of debt for the third quarter of 2017).

During the nine months ended September 30, 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 (no repurchases in the third quarter of 2016).

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 September 30, 2017 was 4.74%.

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 September 30, 2017, debt issuance costs were $3.4 million, net of $6.8 million of accumulated amortization. As of December 31, 2016, debt issuance costs were $4.5 million, net of $5.8 million of accumulated amortization.

NOTE 12 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Deferred revenue | $ 3,369 | $ 5,680 |
| Other non-current liabilities | 4,427 | 4,800 |
| Total | $ 7,796 | $ 10,480 |

NOTE 13 — FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The following table presents the carrying amount and estimated fair value of financial instruments and certain liabilities measured at fair value as of September 30, 2017 and December 31, 2016. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

| (in thousands) | September 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | Carrying amount | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | | | |
| Cash and cash equivalents | $114,123 | $114,123 | $ — | $ — | $149,294 | $149,294 | $ — | $ — |
| Restricted cash | 4,200 | 4,200 | — | — | 4,127 | 4,127 | — | — |
| Available for sale securities | 46,044 | 46,044 | — | — | 45,754 | 45,754 | — | — |
| Liabilities: | | | | | | | | |
| Acquisition contingent consideration | 401 | — | — | 401 | 376 | — | — | 376 |
| Long-term debt | 425,067 | — | 399,563 | — | 479,653 | — | 474,856 | — |

Fair Value Measurements on a Recurring Basis

Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair values due to the highly liquid nature of these instruments and were measured using Level 1 inputs.

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Notes to Condensed Consolidated Financial Statements (Continued)

Available for sale securities are carried at fair value and consist of 4.1 million shares of RESI common stock. Available for sale securities are measured using Level 1 inputs as these securities have quoted prices in active markets.

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.

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 acquisitions in prior years. 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.

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

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk primarily consist of cash and cash equivalents and accounts receivable. Our policy is to deposit our cash and cash equivalents with larger, highly rated financial institutions. The Company derives the largest portion of its revenues from Ocwen (see Note 2 for additional information on Ocwen revenues and accounts receivable balance). The Company mitigates its concentrations of credit risk with respect to accounts receivable by actively monitoring past due accounts and the economic status of customers, if known.

NOTE 14 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Share Repurchase Program

On May 17, 2017, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 18, 2016, which replaced the previous share repurchase program. Under the 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, for a period of five years from the date of approval. Under the existing and prior programs, we purchased 1.1 million shares of common stock at an average price of $22.48 per share during the nine months ended September 30, 2017 and 1.3 million shares at an average price of $26.94 per share during the nine months ended September 30, 2016 (0.3 million shares at an average price of $23.48 per share for the third quarter of 2017 and 0.5 million shares at an average price of $28.68 per share for the third quarter of 2016). As of September 30, 2017, approximately 3.9 million shares of common stock remain available for repurchase under the program. Our senior secured term loan limits the amount we can spend on share repurchases, which was approximately $403 million as of September 30, 2017, and may prevent repurchases in certain circumstances.

Share-Based Compensation

We issue share-based awards in the form of stock options and restricted shares for certain employees, officers and directors. We recorded share-based compensation expense of $3.2 million and $4.7 million for the nine months ended September 30, 2017 and 2016, respectively ($1.4 million and $1.1 million for the third quarter of 2017 and 2016, respectively). As of September 30, 2017, estimated unrecognized compensation costs related to share-based awards amounted to $9.4 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.15 years.

In connection with the January 1, 2017 adoption of FASB ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (see Note 1), the Company made an accounting policy election to account for forfeitures in compensation expense as they occur, rather than continuing to apply the Company's previous policy of estimating forfeitures. Prior to this accounting change, share-based compensation expense for stock options and restricted shares was recorded net of estimated forfeiture rates ranging from 0% to 40%.

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 vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 736 thousand service-based awards were outstanding as of September 30, 2017.

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

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 as “ordinary performance” grants, generally 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 as “extraordinary performance” grants, generally 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. Market-based awards vest in three or four year installments with the first installment vesting upon the achievement of the criteria and the remaining installments vesting thereafter in 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 935 thousand market-based awards were outstanding as of September 30, 2017.

Performance-Based Options. These option grants begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-third vest on each anniversary of the grant date. For certain other financial measures, awards cliff-vest upon the achievement of the specific performance during the period from 2017 through 2021. 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 above threshold performance levels, participants have the opportunity to vest in 70% to 150% of the option grants, depending upon performance achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. The options expire on the earlier of ten years after the date of grant or following termination of service. There were 126 thousand performance-based awards outstanding as of September 30, 2017.

The Company granted 216 thousand stock options (at a weighted average exercise price of $34.07 per share) and 143 thousand stock options (at a weighted average exercise price of $29.22 per share) during the nine months ended September 30, 2017 and 2016, respectively.

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

| | Nine months ended September 30, 2017 | | Nine months ended September 30, 2016 | |
|---|---|---|---|---|
| | Black-Scholes | Binomial | Black-Scholes | Binomial |
| Risk-free interest rate (%) | 1.89 - 2.29 | 0.77 - 2.38 | 1.25 - 1.89 | 0.23 - 1.97 |
| Expected stock price volatility (%) | 61.49 - 71.31 | 66.68 - 71.31 | 59.75 - 62.14 | 59.76 - 62.14 |
| Expected dividend yield | — | — | — | — |
| Expected option life (in years) | 6.00 - 7.50 | 2.55 - 4.32 | 6.00 - 6.25 | 4.54 - 4.88 |
| Fair value | $13.57 - $24.80 | $11.94 - $24.30 | $11.15 - $18.60 | $11.06 - $19.27 |

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.

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:

| | Nine months ended September 30, | |
|---|---|---|
| (in thousands, except per share amounts) | 2017 | 2016 |

| | | |
|---|---|---|
| Weighted average grant date fair value of stock options granted per share | $20.95 | $16.85 |
| Intrinsic value of options exercised | 2,524 | 17,280 |
| Grant date fair value of stock options that vested | 2,063 | 2,372 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

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, 2016 | 1,996,509 | $ 25.98 | 5.32 | $ 15,942 |
| Granted | 216,430 | 34.07 | | |
| Exercised | (192,378 ) | 10.83 | | |
| Forfeited | (222,920 ) | 31.21 | | |
| Outstanding at September 30, 2017 | 1,797,641 | 27.93 | 5.14 | 8,413 |
| Exercisable at September 30, 2017 | 1,170,148 | 22.56 | 3.48 | 7,723 |

Other Share-Based Awards
The Company’s other share-based and similar types of awards are composed of restricted shares and, through August 29, 2016, Equity Appreciation Rights (“EAR”). The restricted shares are composed of a combination of service-based awards and performance-based awards.
Service-Based Awards. These awards generally 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. A total of 272 thousand service-based awards were outstanding as of September 30, 2017.
Performance-Based Awards. These awards generally begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-third vest on each anniversary of the grant date. The award of performance-based restricted shares is adjusted based on the level of achievement specified in the award agreements. If the performance criteria achieved is above threshold performance levels, participants have the opportunity to vest in 80% to 150% of the restricted share award, depending on performance achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. A total of 42 thousand performance-based awards were outstanding as of September 30, 2017.
The Company granted 189 thousand restricted shares (at a weighted average grant date fair value of $30.94 per share) during the nine months ended September 30, 2017.
The following table summarizes the activity related to our restricted shares:

| | Number of restricted shares |
|---|---|
| Outstanding at December 31, 2016 | 231,730 |
| Granted | 188,622 |
| Issued | (49,538 ) |
| Forfeited/canceled | (56,575 ) |
| Outstanding at September 30, 2017 | 314,239 |

Effective August 29, 2016, the EAR plans were terminated.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 15 — REVENUE
Revenue includes service revenue, reimbursable expenses and non-controlling interests. Service revenue consists of amounts attributable to our fee-based services and sales of short-term investments in real estate. 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 that we pass directly on to our customers without a markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity not owned by Altisource, and is 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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Service revenue | $224,308 | $239,782 | $692,254 | $715,386 |
| Reimbursable expenses | 9,866 | 12,080 | 31,786 | 41,317 |
| Non-controlling interests | 805 | 883 | 2,107 | 1,973 |
| Total | $234,979 | $252,745 | $726,147 | $758,676 |

NOTE 16 — COST OF REVENUE
Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, cost of real estate sold, reimbursable expenses, technology and telecommunications costs as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Compensation and benefits | $60,332 | $66,357 | $186,090 | $201,193 |
| Outside fees and services | 83,670 | 77,445 | 250,883 | 222,574 |
| Cost of real estate sold | 4,411 | — | 16,461 | — |
| Reimbursable expenses | 9,866 | 12,080 | 31,786 | 41,317 |
| Technology and telecommunications | 10,389 | 11,502 | 32,681 | 32,145 |
| Depreciation and amortization | 6,230 | 6,618 | 20,343 | 20,007 |
| Total | $174,898 | $174,002 | $538,244 | $517,236 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 17 — 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, facilities, risk management, 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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Compensation and benefits | $15,068 | $14,145 | $43,115 | $42,460 |
| Occupancy related costs | 8,536 | 8,903 | 28,347 | 26,785 |
| Amortization of intangible assets | 8,604 | 11,465 | 27,143 | 36,432 |
| Professional services | 3,886 | 4,097 | 11,983 | 17,533 |
| Marketing costs | 3,992 | 9,275 | 11,958 | 21,438 |
| Depreciation and amortization | 2,286 | 2,557 | 7,068 | 7,514 |
| Other | 4,250 | 3,444 | 17,179 | 9,547 |
| Total | $46,622 | $53,886 | $146,793 | $161,709 |

NOTE 18 — OTHER INCOME (EXPENSE), NET
Other income (expense), net consists of the following:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | 2017 | 2016 |
| Gain on early extinguishment of debt | $1,482 | $— | $5,419 | $5,464 |
| Expenses related to the purchase of available for sale securities | — | — | — | (3,356 ) |
| Interest income | 27 | 11 | 169 | 28 |
| Other, net | 988 | (120 ) | 2,427 | 472 |
| Total | $2,497 | $(109) | $8,015 | $2,608 |

NOTE 19 — 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:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share data) | 2017 | 2016 | 2017 | 2016 |
| Net income attributable to Altisource | $6,961 | $10,589 | $22,541 | $49,077 |
| Weighted average common shares outstanding, basic | 18,023 | 18,715 | 18,337 | 18,669 |
| Dilutive effect of stock options and restricted shares | 406 | 853 | 517 | 1,069 |

| | | | | |
|---|---|---|---|---|
| Weighted average common shares outstanding, diluted | 18,429 | 19,568 | 18,854 | 19,738 |
| Earnings per share: | | | | |
| Basic | $0.39 | $0.57 | $1.23 | $2.63 |
| Diluted | $0.38 | $0.54 | $1.20 | $2.49 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

For the nine months ended September 30, 2017 and 2016, 0.5 million options and 0.4 million options, respectively, that were anti-dilutive have been excluded from the computation of diluted EPS (0.9 million options and 0.4 million options for the third quarter of 2017 and 2016, 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 0.3 million options and restricted shares and 0.4 million options for the nine months ended September 30, 2017 and 2016, respectively (0.4 million options and restricted shares and 0.4 million options for the third quarter of 2017 and 2016, respectively), which begin to vest upon the achievement of certain market criteria related to our common stock price, performance criteria and an annualized rate of return to shareholders that have not yet been met.

## NOTE 20 — COMMITMENTS, CONTINGENCIES AND REGULATORY MATTERS

We record a liability for contingencies 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.

### Litigation

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.

As previously disclosed, Altisource received a Notice and Opportunity to Respond and Advise (“NORA”) letter on November 10, 2016 from the Consumer Financial Protection Bureau (“CFPB”) indicating that the CFPB is considering a potential enforcement action against Altisource relating to an alleged violation of federal law that primarily concerns certain technology services provided to Ocwen. The NORA letter provides the recipient an opportunity to present its positions to the CFPB before an enforcement action is recommended or commenced. On December 5, 2016, we provided a written response to the NORA letter setting forth the legal, policy and factual reasons why we believe an enforcement action is not warranted. We are committed to resolving any potential concerns of the CFPB. If the CFPB were to bring an enforcement action against us, the resolution of such action could have a material adverse impact on our business, reputation, financial condition and results of operations. However, we believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with any potential CFPB enforcement action.

### Ocwen Related Matters

As discussed in Note 2, Ocwen is our largest customer. Ocwen disclosed that, on July 23, 2017, it entered into a master agreement and a transfer agreement with NRZ to undertake certain actions to facilitate the transfer of Ocwen’s remaining interests in approximately $110 billion in unpaid principal balance (as of June 30, 2017) of its non-government-sponsored enterprise (“non-GSE”) mortgage servicing rights (the “Subject MSRs”) to NRZ. As of June 30, 2017, the Subject MSRs represented approximately 78% of Ocwen’s non-GSE MSRs. In the event the required third party consents are not obtained by July 23, 2018 or an earlier date agreed to by Ocwen and NRZ, the applicable Subject MSRs may (i) become subject to a new agreement to be negotiated between Ocwen and NRZ, (ii) be acquired by Ocwen, or, if Ocwen does not desire or is otherwise unable to purchase, sold to one or more third parties, or (iii) remain subject to their existing agreements. Ocwen also disclosed that it entered into a five year subservicing agreement with NRZ pursuant to which Ocwen will subservice the mortgage loans related to the Subject MSRs that are transferred to NRZ. In addition, Ocwen disclosed that during the five year subservicing agreement term, NRZ may terminate the subservicing agreement for convenience, subject to Ocwen’s right to receive a termination fee and proper notice.

As disclosed in our report on Form 8-K filed on August 28, 2017, REALHome Services and Solutions, Inc. and REALHome Services and Solutions - CT, Inc. (collectively, “RHSS”), two licensed real estate brokerage subsidiaries of the Company, entered into a Cooperative Brokerage Agreement (the “Brokerage Agreement”) with a licensed real estate brokerage subsidiary of NRZ pursuant to which RHSS will be the exclusive provider, irrespective of the subservicer, of real estate brokerage services for portfolios associated with Subject MSRs that are transferred to NRZ (the “Ocwen Transferred Portfolio”) and with respect to approximately $6 billion of non-Ocwen serviced non-GSE portfolios. NRZ’s brokerage subsidiary will receive a cooperative brokerage commission on the sale of certain real estate owned ("REO") properties from these portfolios. In addition, Altisource and RHSS entered into a letter agreement with NRZ which provides for NRZ to directly appoint RHSS (or another real estate brokerage subsidiary designated by Altisource) to perform the real estate brokerage services with respect to REO properties in the Ocwen Portfolio, subject to certain specified exceptions, in the event that NRZ's brokerage subsidiary does not refer real estate listings from the Ocwen Portfolio to RHSS. In this case, the designated Altisource brokerage subsidiary would retain the full seller's brokerage commission. The Brokerage Agreement and the letter agreement are effective through August 31, 2025 unless earlier terminated in accordance with their respective terms. Contemporaneously with the execution of the Brokerage Agreement, Altisource Solutions S.à r.l. executed a non-binding letter of intent ("LOI") with NRZ to enter into a Services Agreement, setting forth the terms pursuant to which Altisource Solutions S.à r.l. would remain the exclusive service provider of fee-based services on the Ocwen Transferred Portfolio through August 2025, irrespective of the subservicer. The LOI provides for the parties to negotiate in good faith toward the execution of a Services Agreement within 30 days from the date of the LOI. This term was automatically extended by a further 30 days by the parties, pursuant to the terms of the LOI, as the parties continued to negotiate in good faith toward the completion and execution of a Services Agreement (such period, including as extended, the "Standstill Period"). Furthermore, as a result of continuing good faith negotiations on a Services Agreement, effective as of October 23, 2017, the parties amended the LOI to extend the term of the LOI and Standstill Period to November 30, 2017. This term will be automatically extended until January 12, 2018 if the parties are still negotiating the terms of the Services Agreement in good faith as of November 30, 2017. Pursuant to the LOI, the parties intend to negotiate all of the definitive and binding terms of the Services Agreement. RHSS has the right to terminate the Brokerage Agreement upon 90 days' notice (which period may be shortened by NRZ) if a services agreement is not signed between Altisource and NRZ during the Standstill Period. The Brokerage Agreement may otherwise only be terminated upon the occurrence of certain specified events. NRZ has agreed that, during such notice period and/or the Standstill Period, it will not replace or reduce the role of Altisource as a service provider with respect to the Ocwen Transferred Portfolio.

Following the execution of the Services Agreement and the transfer of the Subject MSRs from Ocwen to NRZ, we anticipate that revenue from NRZ would increase and revenue from Ocwen would decrease. As MSRs continue to transfer from Ocwen to NRZ, we anticipate that NRZ will become our largest customer. Had NRZ acquired all of the Subject MSRs and our agreements with NRZ were in place as of the beginning of the year, we estimate that approximately 50% of our revenue would have been related to NRZ. There can be no assurance that the parties will reach an agreement with respect to the terms of the Services Agreement or that a Services Agreement will be entered into on a timely basis or at all.

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. For example, on May 15, 2017, Ocwen disclosed that on April 20, 2017, the CFPB and the State of Florida filed separate complaints in the United States District Court for the Southern District of Florida against Ocwen alleging violations of Federal consumer financial law and, in the case of Florida, Florida statutes. As another example, on May 15, 2017, Ocwen also disclosed that on April 28, 2017, the Commonwealth of Massachusetts filed a lawsuit against Ocwen in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to Ocwen's servicing business, including lender-placed insurance and property preservation fees. Ocwen disclosed that the complaints seek to obtain permanent injunctive relief, consumer redress, refunds, restitution, disgorgement, damages, civil penalties, costs and fees and other relief. In addition, Ocwen disclosed that a number of states publicly announced or otherwise undertook various administrative actions against Ocwen related to alleged violations of applicable laws and regulations related to servicing residential mortgages. Certain of the allegations in the complaints and certain of the state administrative actions assert that Ocwen's use of certain Altisource services was a contributing factor to Ocwen's purported violations. Ocwen disclosed that the state administrative actions announced or undertaken purportedly seek sanctions and various injunctive reliefs which may include restrictions on Ocwen obtaining additional mortgage servicing rights, continuing mortgage servicing or debt collection activities, originating or funding loans, initiating foreclosures or other limitations or restrictions on Ocwen's business operations or licenses in certain of these states. Ocwen announced in several Form 8-K filings that it reached settlements with mortgage and banking regulatory agencies from certain of the states, the District of Columbia and state attorneys general that took regulatory actions against it on April 20, 2017 or shortly thereafter. Ocwen disclosed that, as part of these settlements, Ocwen will not acquire any new residential mortgage servicing rights until April 30, 2018 and will develop a plan of action and milestones regarding its transition from the servicing system it currently uses, REALServicing®, to an alternative servicing system and will not board any new loans onto the REALServicing system, as well as other key provisions. All of the forgoing matters could result in adverse regulatory or other actions against Ocwen. While not all inclusive, other 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. In addition, in August 2017, Ocwen disclosed in its second quarter 2017 SEC Form 10-Q that it received a letter from Ginnie Mae that the state regulators' cease and desist orders discussed above create a material change in Ocwen's business status under Ginnie Mae's MBS Guide and that Ginnie Mae has accordingly declared an event of default under guaranty agreements between Ginnie Mae and Ocwen. Ocwen further disclosed that in the letter it received, Ginnie Mae notified Ocwen that it will refrain from immediately exercising any rights relating to this matter for a period of 90 days from the date of the letter. In addition, Ocwen has disclosed that during this period, Ginnie Mae has asked Ocwen to provide certain information regarding the cease and desist orders and certain information regarding Ocwen's business plan, financials results and operations and Ocwen also stated that it continues to operate as a Ginnie Mae issuer in all respects and continues to participate in Ginnie Mae issuing of mortgaged-backed securities and home equity conversion loan pools in the ordinary course. Ocwen also disclosed that adverse actions by Ginnie Mae could materially and adversely impact Ocwen's business, including if Ginnie Mae were to terminate Ocwen as an issuer or servicer of Ginnie Mae securities.

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.

The foregoing may have significant adverse effects on Ocwen's business and/or our continuing relationship 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 its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing or origination 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 could 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, sells or transfers 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

Additionally, Ocwen has stated, including in connection with resolving several state administrative actions discussed above, that it plans to transition from REALServicing to another mortgage servicing software platform. We anticipate that such a transition could be a multi-year project and Altisource would support Ocwen through such a transition. We do not anticipate that a servicing technology transition would impact the other services we provide to Ocwen. For the nine months ended September 30, 2017 and 2016, service revenue from REALServicing was $20.1 million and $25.7 million, respectively ($6.7 million and $8.2 million for the third quarter of 2017 and 2016, respectively). We estimate, with respect to income before income tax, that the REALServicing business currently operates at break-even.

Management cannot predict the outcome of these matters or the amount of any impact they may have on Altisource. However, in the event these matters materially negatively impact Altisource, we believe the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue. Furthermore, in the event of a significant reduction in the volume of services purchased or loans serviced by Ocwen (such as a transfer of Ocwen's servicing rights to a successor servicer), we believe the impact to Altisource could occur over an extended period of time. During this period, we believe that we will continue to generate revenue from all or a portion of Ocwen's portfolio.

Additionally, our Servicer Solutions, Origination Solutions, Consumer Real Estate Solutions and Real Estate Investor Solutions businesses are focused on diversifying and growing our revenue and customer base and we have a sales and marketing strategy to support these businesses.

Management believes our plans, together with current liquidity and cash flows from operations would be sufficient to meet our 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.

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 collections business. 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 $39.2 million and $64.1 million at September 30, 2017 and December 31, 2016, respectively.

NOTE 21 — 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.

Effective January 1, 2017, our reportable segments changed as a result of changes in our internal organization, which changed the way our chief operating decision maker manages our businesses, allocates resources and evaluates performance. We now report our operations through two new reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. Prior to the January 1, 2017 change in reportable segments, our reportable segments were Mortgage Services, Financial Services and Technology Services. The former Mortgage Services segment was separated into the Mortgage Market and Real Estate Market segments (as described below). Furthermore, certain of the software services business units that were formerly in the Technology Services segment and the mortgage charge-off collections business that was formerly in the Financial Services segment are now included in the Mortgage Market. Other Businesses, Corporate and Eliminations includes the other business that were formerly in the Financial Services segment as well as IT infrastructure management services formerly in the Technology Services segment. Prior year comparable period segment disclosures have been restated to conform to the current year presentation.

The Mortgage Market segment provides loan servicers and originators with marketplaces and services and a portfolio of software, data analytics and information technologies that span the mortgage lifecycle. The Real Estate Market segment provides rental property investors and real estate consumers with marketplaces, products and services that span the real estate lifecycle. In addition, the Other Businesses, Corporate and Eliminations segment includes businesses that provide asset recovery management collection services primarily to debt originators (e.g., credit card, auto lending and retail credit), customer relationship management services primarily to the utility, insurance and hotel industries and IT infrastructure management services. Other Businesses, Corporate and Eliminations also includes interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, facilities, risk management, and sales and marketing costs not allocated to the business units as well as eliminations between the reportable segments.

Financial information for our segments is as follows:

| | Three months ended September 30, 2017 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | $199,262 | $22,121 | $ 13,596 | $ 234,979 |
| Cost of revenue | 137,466 | 23,497 | 13,935 | 174,898 |
| Gross profit (loss) | 61,796 | (1,376 ) | (339 ) | 60,081 |
| Selling, general and administrative expenses | 28,006 | 4,208 | 14,408 | 46,622 |
| Income (loss) from operations | 33,790 | (5,584 ) | (14,747 ) | 13,459 |
| Total other income (expense), net | 26 | — | (3,128 ) | (3,102 ) |
| Income (loss) before income taxes and non-controlling interests | $33,816 | $(5,584 ) | $ (17,875 ) | $ 10,357 |

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

| | Three months ended September 30, 2016 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | $211,821 | $21,516 | $ 19,408 | $ 252,745 |
| Cost of revenue | 138,646 | 16,634 | 18,722 | 174,002 |
| Gross profit | 73,175 | 4,882 | 686 | 78,743 |
| Selling, general and administrative expenses | 29,903 | 6,961 | 17,022 | 53,886 |
| Income (loss) from operations | 43,272 | (2,079 ) | (16,336 ) | 24,857 |
| Total other income (expense), net | 10 | — | (6,071 ) | (6,061 ) |
| Income (loss) before income taxes and non-controlling interests | $43,282 | $(2,079 ) | $ (22,407 ) | $ 18,796 |

| | Nine months ended September 30, 2017 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | $614,180 | $67,314 | $ 44,653 | $ 726,147 |
| Cost of revenue | 421,942 | 72,484 | 43,818 | 538,244 |
| Gross profit (loss) | 192,238 | (5,170 ) | 835 | 187,903 |
| Selling, general and administrative expenses | 86,493 | 14,084 | 46,216 | 146,793 |
| Income (loss) from operations | 105,745 | (19,254 ) | (45,381 ) | 41,110 |
| Total other income (expense), net | 138 | — | (8,985 ) | (8,847 ) |
| Income (loss) before income taxes and non-controlling interests | $105,883 | $(19,254) | $ (54,366 ) | $ 32,263 |

| | Nine months ended September 30, 2016 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | $626,522 | $70,229 | $ 61,925 | $ 758,676 |
| Cost of revenue | 408,412 | 47,946 | 60,878 | 517,236 |
| Gross profit | 218,110 | 22,283 | 1,047 | 241,440 |
| Selling, general and administrative expenses | 90,498 | 18,755 | 52,456 | 161,709 |
| Income (loss) from operations | 127,612 | 3,528 | (51,409 ) | 79,731 |
| Total other income (expense), net | 144 | — | (16,017 ) | (15,873 ) |
| | $127,756 | $3,528 | $ (67,426 ) | $ 63,858 |

Income (loss) before income taxes and non-controlling interests

| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
|---|---|---|---|---|
| Total assets: | | | | |
| September 30, 2017 | $311,423 | $63,067 | $ 221,911 | $ 596,401 |
| December 31, 2016 | 347,067 | 47,863 | 294,282 | 689,212 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements (Continued)

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

| (in thousands) | September 30, 2017 | December 31, 2016 |
|---|---|---|
| United States | $ 51,900 | $ 71,418 |
| India | 9,657 | 14,006 |
| Luxembourg | 17,117 | 14,791 |
| Philippines | 1,981 | 3,027 |
| Uruguay | 168 | 231 |
| Total | $ 80,823 | $ 103,473 |

NOTE 22 — SUBSEQUENT EVENT

As discussed in Note 20, as a result of continuing good faith negotiations on a Services Agreement, effective as of October 23, 2017, the Company and NRZ amended the LOI to extend the term of the LOI and Standstill Period to November 30, 2017. This term will be automatically extended until January 12, 2018 if the parties are still negotiating the terms of the Services Agreement in good faith as of November 30, 2017. The parties continue to work toward executing a Services Agreement.

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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, 2016 filed with the Securities and Exchange Commission ("SEC") on February 16, 2017.

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;
- assumptions regarding the impact of seasonality;
- estimates regarding 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" in Part II, Item 1A of this Form 10-Q and the "Risk Factors" section of our Form 10-K for the year ended December 31, 2016 and include the following:

- if, as a result of difficulties faced by Ocwen Financial Corporation ("Ocwen"), we were to lose Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us;
- if we are unable to reach agreement with New Residential Investment Corp. (individually, together with one or more of its subsidiaries, or one or more of its subsidiaries individually, "NRZ") on a Services Agreement or if the Collective Brokerage Agreement and related letter agreement are terminated;
- 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 outsourcing trends;
- 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.

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## OVERVIEW

### Our Business

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

We are an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing market.

Effective January 1, 2017, our reportable segments changed as a result of changes in our internal organization, which changed the way our Chief Executive Officer (our chief operating decision maker) manages our businesses, allocates resources and evaluates performance. We now report our operations through two new reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. Prior to the January 1, 2017 change in reportable segments, our reportable segments were Mortgage Services, Financial Services and Technology Services. Prior year comparable period segment disclosures have been restated to conform to the current year presentation.

Mortgage Market: Provides loan servicers and originators with marketplaces, services and technologies that span the mortgage lifecycle. Within the Mortgage Market segment, we provide:

Servicer Solutions - the solutions, services and technologies typically used or licensed primarily by residential loan servicers.

- Property preservation and inspection services
- Real estate brokerage and auction services
- Title insurance (agent and related services) and settlement services
- Appraisal management services and broker and non-broker valuation services
- Foreclosure trustee services
- Non-legal processing and related services for and under the supervision of foreclosure, bankruptcy and eviction attorneys
- Residential and commercial loan servicing technologies
- Vendor management, marketplace transaction management and payment management platforms
- Document management platform
- Default services (real estate owned (“REO”), foreclosure, bankruptcy, eviction) technologies
- Mortgage charge-off collections
- Residential and commercial loan disbursement processing, risk mitigation and construction inspection services

Origination Solutions - the solutions, services and technologies typically used or licensed by loan originators (or other similar mortgage market participants) in originating and buying residential mortgages.

- Title insurance (agent and related services) and settlement services
- Appraisal management services and broker and non-broker valuation services
- Fulfillment services
- Loan origination system
- Document management platform
- Certified loan insurance and certification
- Vendor management oversight platform
- Mortgage banker cooperative, Best Partners Mortgage Cooperative, Inc., doing business as Lenders One® (“Lenders One”)
- Mortgage trading platform

Real Estate Market: Provides real estate consumers and rental property investors with marketplaces and services that span the real estate lifecycle. Within the Real Estate Market segment, we provide:

Consumer Real Estate Solutions - the solutions, services and technologies typically used by home buyers and sellers to handle key aspects of buying and selling a home.

- Real estate brokerage
- Title insurance (agent and related services) and settlement services
- Mortgage brokerage
- Homeowners insurance

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Real Estate Investor Solutions - the solutions, services and technologies used by buyers and sellers of single-family investment homes.

- Property preservation and inspection services
- Real estate brokerage and auction services
- Data solutions
- Title insurance (agent and related services) and settlement services
- Buy-renovate-sell
- Renovation services
- Property management services
- Appraisal management services and broker and non-broker valuation services

Other Businesses, Corporate and Eliminations: Our Other Businesses, Corporate and Eliminations segment includes certain non-core businesses, interest expense and costs related to corporate support functions. The businesses in this segment include post-charge-off consumer debt collection services, customer relationship management services and information technology ("IT") infrastructure management services. Interest expense relates to the Company's senior secured term loan and corporate support functions include executive, finance, law, compliance, human resources, vendor management, facilities, risk management and sales and marketing costs not allocated to the business units. This segment also includes eliminations of transactions between the reportable segments.

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 and sales of short-term investments in real estate. 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 that we pass directly on to our customers without a markup. Non-controlling interests represent the earnings of Lenders One. Lenders One is not owned by Altisource and is included in revenue and reduced from net income to arrive at net income attributable to Altisource.

Share Repurchase Program

On May 17, 2017, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 18, 2016, which replaced the previous share repurchase program. Under the 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, for a period of five years from the date of approval. Under the existing and prior programs, we purchased 1.1 million shares of common stock at an average price of $22.48 per share during the nine months ended September 30, 2017 and 1.3 million shares at an average price of $26.94 per share during the nine months ended September 30, 2016 (0.3 million shares at an average price of $23.48 per share for the third quarter of 2017 and 0.5 million shares at an average price of $28.68 per share for the third quarter of 2016). As of September 30, 2017, approximately 3.9 million shares of common stock remain available for repurchase under the program. Our senior secured term loan limits the amount we can spend on share repurchases, which was approximately $403 million as of September 30, 2017, and may prevent repurchases in certain circumstances.

Strategy and Growth Businesses

We are focused on becoming one of the premier providers of mortgage and real estate marketplaces and related services to a broad and diversified customer base while continuing to strengthen our compliance management system. Within the mortgage and real estate market segments, we facilitate transactions and provide products, solutions and services related to home sales, home purchases, home rentals, home maintenance, mortgage origination and mortgage servicing.

Each of our strategic businesses provides Altisource the potential to grow and diversify our customer and revenue base. We believe these businesses operate in very large markets and directly leverage our core competencies and distinct competitive advantages. A further description of our four strategic businesses follows.

Servicer Solutions:

Through this business, we provide a suite of services and technologies to meet the evolving and growing needs of loan servicers. We are focused on growing referrals from our existing customer base, expanding the service and proprietary technology offerings to our customer base, and attracting new customers to our offerings. We have a customer base that includes Ocwen, a government-sponsored enterprise ("GSE"), NRZ, several top ten bank servicers and non-bank servicers and asset managers. Even as loan delinquencies return to historical norms, we believe there is a very large addressable market for our offerings. We believe we are one of only a few providers with a broad suite of servicer solutions, nationwide coverage and demonstrated scalability. Further, we believe we are well positioned to gain market share as existing customers and prospects consolidate to larger, full-service providers and outsource services that have historically been performed in-house.

Origination Solutions:

Through this business, we provide a suite of services and technologies to meet the evolving and growing needs of loan originators and correspondents. We are focused on growing referrals from our existing customer base, expanding the service and proprietary technology offerings to our customer base, and attracting new customers to our offerings. We have a customer base that includes the Lenders One cooperative mortgage bankers, the Mortgage Builder loan origination system customers and mid-size and larger bank and non-bank loan originators. We believe our suite of services and technologies positions us to grow our relationships with our existing customer base by providing additional products, services and solutions to these customers. Further, we believe we are well positioned to attract new customers as prospects consolidate to larger, full-service providers and outsource services that have historically been performed in-house.

Consumer Real Estate Solutions:

Through this business, we provide a technology enabled real estate brokerage and related services that handle key aspects of buying and selling a home. We are focused on developing this business by capitalizing on our core competencies in realty services and online real estate marketing and offering consumers right-sized commission structures, smart digital tools and personalized service from local real estate agents.

Real Estate Investor Solutions:

Through this business, we provide a suite of services and technologies to support buyers and sellers of single-family investment homes. We are focused on growing referrals from our existing customer base, expanding the service and proprietary technology offerings to our customer base, and attracting new customers to our offerings. We have a customer base that includes Altisource Residential Corporation (“RESI”) and other institutional and smaller single-family rental investors. The single-family rental market is large, geographically distributed and has fragmented ownership. We believe our acquisition, renovation, property management, leasing and disposition platform provides a strong value proposition for institutional and retail investors and positions us well for growth.

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

Ocwen Related Matters

Revenue from Ocwen represented 58% of our revenue for the nine months ended September 30, 2017 (58% of our revenue for the third quarter of 2017). Additionally, 16% of our revenue for the nine months ended September 30, 2017 (15% of our revenue for the third quarter of 2017) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen or NRZ selected Altisource as the service provider.

Ocwen disclosed that, on July 23, 2017, it entered into a master agreement and a transfer agreement with NRZ to undertake certain actions to facilitate the transfer of Ocwen’s remaining interests in approximately $110 billion in unpaid principal balance (as of June 30, 2017) of its non-government-sponsored enterprise (“non-GSE”) mortgage servicing rights (the “Subject MSRs”) to NRZ. As of June 30, 2017, the Subject MSRs represented approximately 78% of Ocwen’s non-GSE MSRs. In the event the required third party consents are not obtained by July 23, 2018 or an earlier date agreed to by Ocwen and NRZ, the applicable Subject MSRs may (i) become subject to a new agreement to be negotiated between Ocwen and NRZ, (ii) be acquired by Ocwen, or, if Ocwen does not desire or is otherwise unable to purchase, sold to one or more third parties, or (iii) remain subject to their existing agreements. Ocwen also disclosed that it entered into a five year subservicing agreement with NRZ pursuant to which Ocwen will subservice the mortgage loans related to the Subject MSRs that are transferred to NRZ. In addition, Ocwen disclosed that during the five year subservicing agreement term, NRZ may terminate the subservicing agreement for convenience, subject to Ocwen’s right to receive a termination fee and proper notice.

As disclosed in our report on Form 8-K filed on August 28, 2017, REALHome Services and Solutions, Inc. and REALHome Services and Solutions - CT, Inc. (collectively, “RHSS”), two licensed real estate brokerage subsidiaries of the Company, entered into a Cooperative Brokerage Agreement (the “Brokerage Agreement”) with a licensed real estate brokerage subsidiary of NRZ pursuant to which RHSS will be the exclusive provider, irrespective of the subservicer, of real estate brokerage services for portfolios associated with Subject MSRs that are transferred to NRZ (the “Ocwen

Transferred Portfolio") and with respect to approximately $6 billion of non-Ocwen serviced non-GSE portfolios. NRZ's brokerage subsidiary will receive a cooperative brokerage commission on the sale of certain REO properties from these portfolios. In addition, Altisource and RHSS entered into a letter agreement with NRZ which provides for NRZ to directly appoint RHSS (or another real estate brokerage subsidiary designated by Altisource) to perform the real estate brokerage services with respect to REO properties in the Ocwen Portfolio, subject to certain specified exceptions, in the event that NRZ's brokerage subsidiary does not refer real estate listings from the Ocwen Portfolio to RHSS. In this case, the designated Altisource brokerage subsidiary would retain the full seller's brokerage commission. The Brokerage Agreement and the letter agreement are effective through August 31, 2025 unless earlier terminated in accordance with their respective terms. Contemporaneously with the execution of the Brokerage Agreement, Altisource Solutions S.à r.l. executed a non-binding letter of intent ("LOI") with NRZ to enter into a Services Agreement, setting forth the terms pursuant to which Altisource Solutions S.à r.l. would remain the exclusive service provider of fee-based services on the Ocwen Transferred Portfolio through August 2025, irrespective of the subservicer. The LOI provides for the parties to negotiate in good faith toward the execution of a Services Agreement within 30 days from the date of the LOI. This term was automatically extended by a further 30 days by the parties, pursuant to the terms of the LOI, as the parties continued to negotiate in good faith toward the completion and execution of a Services Agreement (such period, including as extended, the "Standstill Period"). Furthermore, as a result of continuing good faith negotiations on a Services Agreement, effective as of October 23, 2017, the parties amended the LOI to extend the term of the LOI and Standstill Period to November 30, 2017. This term will be automatically extended until January 12, 2018 if the parties are still negotiating the terms of the Services Agreement in good faith as of November 30, 2017. Pursuant to the LOI, the parties intend to negotiate all of the definitive and binding terms of the Services Agreement. RHSS has the right to terminate the Brokerage Agreement upon 90 days' notice (which period may be shortened by NRZ) if a services agreement is not signed between Altisource and NRZ during the Standstill Period. The Brokerage Agreement may otherwise only be terminated upon the occurrence of certain specified events. NRZ has agreed that, during such notice period and/or the Standstill Period, it will not replace or reduce the role of Altisource as a service provider with respect to the Ocwen Transferred Portfolio.

Following the execution of the Services Agreement and the transfer of the Subject MSRs from Ocwen to NRZ, we anticipate that revenue from NRZ would increase and revenue from Ocwen would decrease. As mortgage servicing rights ("MSRs") continue to transfer from Ocwen to NRZ, we anticipate that NRZ will become our largest customer. Had NRZ acquired all of the Subject MSRs and our agreements with NRZ were in place as of the beginning of the year, we estimate that approximately 50% of our revenue would have been related to NRZ. There can be no assurance that the parties will reach an agreement with respect to the terms of the Services Agreement or that a Services Agreement will be entered into on a timely basis or at all.

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. For example, on May 15, 2017, Ocwen disclosed that on April 20, 2017, the Consumer Financial Protection Bureau ("CFPB") and the State of Florida filed separate complaints in the United States District Court for the Southern District of Florida against Ocwen alleging violations of Federal consumer financial law and, in the case of Florida, Florida statutes. As another example, on May 15, 2017, Ocwen also disclosed that on April 28, 2017, the Commonwealth of Massachusetts filed a lawsuit against Ocwen in the Superior Court for the Commonwealth of Massachusetts alleging violations of state consumer financial laws relating to Ocwen's servicing business, including lender-placed insurance and property preservation fees. Ocwen disclosed that the complaints seek to obtain permanent injunctive relief, consumer redress, refunds, restitution, disgorgement, damages, civil penalties, costs and fees and other relief. In addition, Ocwen disclosed that a number of states publicly announced or otherwise undertook various administrative actions against Ocwen related to alleged violations of applicable laws and regulations related to servicing residential mortgages. Certain of the allegations in the complaints and certain of the state administrative actions assert that Ocwen's use of certain Altisource services was a contributing factor to Ocwen's purported violations. Ocwen disclosed that the state administrative actions announced or undertaken purportedly seek sanctions and various injunctive reliefs which may include restrictions on Ocwen obtaining additional mortgage servicing rights, continuing mortgage servicing or debt collection activities, originating or funding loans, initiating foreclosures or other limitations or restrictions on Ocwen's business operations or licenses in certain of these states. Ocwen announced in several Form 8-K filings that it reached settlements with mortgage and banking regulatory agencies from certain of the states, the District of Columbia and state attorneys general that took regulatory actions against it on April 20, 2017 or shortly thereafter. Ocwen disclosed that, as part of these settlements, Ocwen will not acquire any new residential mortgage servicing rights until April 30, 2018 and will develop a plan of action and milestones regarding its transition from the servicing system it currently uses, REALServicing®, to an alternative servicing system and will not board any new loans onto the REALServicing system, as well as other key provisions. All of the forgoing matters could result in adverse regulatory or other actions against Ocwen. While not all inclusive, other 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. In addition, in August 2017, Ocwen disclosed in its second quarter 2017 SEC Form 10-Q that it received a letter from Ginnie Mae that the state regulators' cease and desist orders discussed above create a material change in Ocwen's business status under Ginnie Mae's MBS Guide and that Ginnie Mae has accordingly declared an event of default under guaranty agreements between Ginnie Mae and Ocwen. Ocwen further disclosed that in the letter it received, Ginnie Mae notified Ocwen that it will refrain from immediately exercising any rights relating to this matter for a period of 90 days from the date of the letter. In addition, Ocwen has disclosed that during this period, Ginnie Mae has asked Ocwen to provide certain information regarding the cease and desist orders and certain information regarding Ocwen's business plan, financial results and operations and Ocwen also stated that it continues to

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operate as a Ginnie Mae issuer in all respects and continues to participate in Ginnie Mae issuing of mortgage-backed securities and home equity conversion loan pools in the ordinary course. Ocwen also disclosed that adverse actions by Ginnie Mae could materially and adversely impact Ocwen's business, including if Ginnie Mae were to terminate Ocwen as an issuer or servicer of Ginnie Mae securities.

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.

The foregoing may have significant adverse effects on Ocwen's business and/or our continuing relationship 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 its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing or origination 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 could 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, sells or transfers 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

Additionally, Ocwen has stated, including in connection with resolving several state administrative actions discussed above, that it plans to transition from REALServicing to another mortgage servicing software platform. We anticipate that such a transition could be a multi-year project and Altisource would support Ocwen through such a transition. We do not anticipate that a servicing technology transition would impact the other services we provide to Ocwen. For the nine months ended September 30, 2017 and 2016, service revenue from REALServicing was $20.1 million and $25.7 million, respectively ($6.7 million and $8.2 million for the third quarter of 2017 and 2016, respectively). We estimate, with respect to income before income tax, that the REALServicing business currently operates at break-even.

Management cannot predict the outcome of these matters or the amount of any impact they may have on Altisource. However, in the event these matters materially negatively impact Altisource, we believe the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue. Furthermore, in the event of a significant reduction in the volume of services purchased or loans serviced by Ocwen (such as a transfer of Ocwen's servicing rights to a successor servicer), we believe the impact to Altisource could occur over an extended period of time. During this period, we believe that we will continue to generate revenue from all or a portion of Ocwen's portfolio.

Additionally, our Servicer Solutions, Origination Solutions, Consumer Real Estate Solutions and Real Estate Investor Solutions businesses are focused on diversifying and growing our revenue and customer base and we have a sales and marketing strategy to support these businesses.

Management believes our plans, together with current liquidity and cash flows from operations would be sufficient to meet our 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.

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Factors Affecting Comparability

The following items may impact the comparability of our results:

- The average number of loans serviced by Ocwen on REALServicing (including those MSRs owned by NRZ and subserviced by Ocwen) was 1.3 million for the nine months ended September 30, 2017 compared to 1.5 million for the nine months ended September 30, 2016, a decrease of 13% (1.2 million for the third quarter of 2017 and 1.4 million for the third quarter of 2016, a decrease of 12%). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing was 182 thousand for the nine months ended September 30, 2017 compared to 224 thousand for the nine months ended September 30, 2016, a decrease of 19% (178 thousand for the third quarter of 2017 and 211 thousand for the third quarter of 2016, a decrease of 16%). The number of loans transferred by Ocwen to NRZ and serviced by NRZ was 0.1 million for the nine months ended September 30, 2017 and the third quarter of 2017.
- During the nine months ended September 30, 2017, we repurchased portions of our senior secured term loan with an aggregate par value of $50.1 million at a weighted average discount of 12.2%, recognizing a net gain of $5.4 million on the early extinguishment of debt (repurchased aggregate par value of $24.1 million at a weighted average discount of 7.5%, recognizing a net gain of $1.5 million on the early extinguishment of debt for the third quarter of 2017). During the nine months ended September 30, 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 (no repurchases in the third quarter of 2016).
- During the nine months ended September 30, 2016, we purchased 4.1 million shares of RESI common stock for $48.2 million (no comparative amounts in 2017). During the nine months ended September 30, 2017 and 2016, we earned dividends of $1.9 million and $1.0 million, respectively ($0.6 million for the third quarter of 2017 and no comparative amount for the third quarter of 2016), related to this investment. In addition, during the nine months ended September 30, 2016, we incurred expenses of $3.4 million related to this investment (no comparative amounts in 2017 and the third quarter of 2016).
- On July 29, 2016, we acquired certain assets and assumed certain liabilities of Granite Loan Management of Delaware, LLC (“Granite”) for $9.5 million.
- The effective income tax rate increased to 23.6% for the nine months ended September 30, 2017 from 20.1% for the nine months ended September 30, 2016 (decreased to 25.0% for the third quarter of 2017 from 39.0% for the third quarter of 2016). The effective income tax rate increase for the nine months ended September 30, 2017 was primarily due to changes in the expected mix of taxable income across the jurisdictions in which we operate. The lower effective income tax rate for the third quarter of 2017 was primarily the result of adjustments made in the third quarter of 2016 to true-up the tax provision from prior quarters. This was partially offset by higher pretax income in the third quarter of 2016, which, as discussed above, changed the mix of taxable income across the jurisdictions in which we operate.

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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:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| (in thousands, except per share data) | 2017 | 2016 | % Increase (decrease) | 2017 | 2016 | % Increase (decrease) |
| Service revenue | | | | | | |
| Mortgage Market | $189,615 | $199,176 | (5) | $583,002 | $584,740 | — |
| Real Estate Market | 21,113 | 21,231 | (1) | 64,649 | 68,805 | (6) |
| Other Businesses, Corporate and Eliminations | 13,580 | 19,375 | (30) | 44,603 | 61,841 | (28) |
| Total service revenue | 224,308 | 239,782 | (6) | 692,254 | 715,386 | (3) |
| Reimbursable expenses | 9,866 | 12,080 | (18) | 31,786 | 41,317 | (23) |
| Non-controlling interests | 805 | 883 | (9) | 2,107 | 1,973 | 7 |
| Total revenue | 234,979 | 252,745 | (7) | 726,147 | 758,676 | (4) |
| Cost of revenue | 174,898 | 174,002 | 1 | 538,244 | 517,236 | 4 |
| Gross profit | 60,081 | 78,743 | (24) | 187,903 | 241,440 | (22) |
| Selling, general and administrative expenses | 46,622 | 53,886 | (13) | 146,793 | 161,709 | (9) |
| Income from operations | 13,459 | 24,857 | (46) | 41,110 | 79,731 | (48) |
| Other income (expense), net: | | | | | | |
| Interest expense | (5,599) | (5,952) | (6) | (16,862) | (18,481) | (9) |
| Other income (expense), net | 2,497 | (109) | N/M | 8,015 | 2,608 | 207 |
| Total other income (expense), net | (3,102) | (6,061) | (49) | (8,847) | (15,873) | (44) |
| Income before income taxes and non-controlling interests | 10,357 | 18,796 | (45) | 32,263 | 63,858 | (49) |
| Income tax provision | (2,591) | (7,324) | (65) | (7,615) | (12,808) | (41) |
| Net income | 7,766 | 11,472 | (32) | 24,648 | 51,050 | (52) |
| Net income attributable to non-controlling interests | (805) | (883) | (9) | (2,107) | (1,973) | 7 |
| Net income attributable to Altisource | $6,961 | $10,589 | (34) | $22,541 | $49,077 | (54) |
| Margins: | | | | | | |
| Gross profit/service revenue | 27 % | 33 % | | 27 % | 34 % | |
| Income from operations/service revenue | 6 % | 10 % | | 6 % | 11 % | |
| Earnings per share: | | | | | | |
| Basic | $0.39 | $0.57 | (32) | $1.23 | $2.63 | (53) |
| Diluted | $0.38 | $0.54 | (30) | $1.20 | $2.49 | (52) |

N/M — not meaningful.

Revenue

We recognized service revenue of $692.3 million for the nine months ended September 30, 2017, a 3% decrease compared to the nine months ended September 30, 2016 ($224.3 million for the third quarter of 2017, a 6% decrease compared to the third quarter of 2016). The decreases in service revenue for the nine months ended September 30, 2017 and the third quarter of 2017 were primarily from lower service revenue in our customer relationship management and IT infrastructure services businesses in the Other Businesses, Corporate and Eliminations segment, the normal runoff of Ocwen's portfolio in the Mortgage Market and RESI's smaller portfolio of non-performing loans and REO in the Real Estate Market. Customer relationship management revenue declined primarily because during 2016 we severed relationships with certain clients that were not profitable to us and we experienced a

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reduction in volume from the transition of services from one customer to another. IT infrastructure services revenue declined from the transition of resources supporting Ocwen's technology infrastructure to Ocwen. These decreases were largely offset by growth in referrals of certain higher fee property preservation services and growth in home sales revenue in the buy-renovate-sell business, which began operations in the second half of 2016. Reimbursable expenses revenue declined from a 2015 change in the pricing and billing model for preservation services on new Ocwen REO referrals that resulted in certain services that were historically reimbursable expenses revenue becoming service revenue.

Certain of our revenues are impacted by seasonality. More specifically, revenues from property sales, loan originations and certain property preservation services tend to be at their lowest level during the fall and winter months and at their highest level during the spring and summer months. In addition, 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 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 and the cost of real estate sold, reimbursable expenses, technology and telecommunications costs, and depreciation and amortization of operating assets.

Cost of revenue consisted of the following:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | % Increase (decrease) | 2017 | 2016 | % Increase (decrease) |
| Compensation and benefits | $60,332 | $66,357 | (9) | $186,090 | $201,193 | (8) |
| Outside fees and services | 83,670 | 77,445 | 8 | 250,883 | 222,574 | 13 |
| Cost of real estate sold | 4,411 | — | N/M | 16,461 | — | N/M |
| Reimbursable expenses | 9,866 | 12,080 | (18) | 31,786 | 41,317 | (23) |
| Technology and telecommunications | 10,389 | 11,502 | (10) | 32,681 | 32,145 | 2 |
| Depreciation and amortization | 6,230 | 6,618 | (6) | 20,343 | 20,007 | 2 |
| Cost of revenue | $174,898 | $174,002 | 1 | $538,244 | $517,236 | 4 |

N/M — not meaningful.

Cost of revenue for the nine months ended September 30, 2017 of $538.2 million increased 4% compared to the nine months ended September 30, 2016 ($174.9 million for the third quarter of 2017, a 1% increase compared to the third quarter of 2016). The increases in cost of revenue were primarily driven by higher outside fees and services and cost of real estate sold, partially offset by decreases in compensation and benefits and reimbursable expenses. Outside fees and services increased in the Mortgage Market due to growth in referrals of certain higher cost property preservation services in the Servicer Solutions business, partially offset by lower costs related to RESI's smaller portfolio of non-performing loans and REO in the Real Estate Investor Solutions business. The increases in cost of real estate sold were the result of properties sold in connection with our buy-renovate-sell program, which began operations in the second half of 2016.

Compensation and benefits declined in the Mortgage Market in the Servicer Solutions business as we reduced headcount levels in certain businesses, consistent with the decline in service revenue discussed in the revenue section above and benefited from efficiency initiatives. In the Other Businesses, Corporate and Eliminations segment, compensation and benefits decreased in connection with the transition of resources supporting Ocwen's technology infrastructure to Ocwen and lower headcount levels in our customer relationship management business from a decrease in client relationships, as discussed in the revenue section above. In the Real Estate Market, compensation and benefits increased in the Consumer Real Estate Solutions business to support growth of this business, partially offset by lower headcount levels in the Real Estate Investor Solutions business driven by lower customer volumes in

certain business units.
Reimbursable expenses declined in the Mortgage Market's Servicer Solutions business primarily as a result of the change in the pricing and billing model discussed in the revenue section above.
Gross profit decreased to $187.9 million, representing 27% of service revenue, for the nine months ended September 30, 2017 compared to $241.4 million, representing 34% of service revenue, for the nine months ended September 30, 2016 (decreased to $60.1 million, representing 27% of service revenue, for the third quarter of 2017 compared to $78.7 million, representing 33% of service revenue, for the third quarter of 2016). Gross profit as a percentage of service revenue decreased primarily due to revenue

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mix and investments in our growth businesses. Revenue mix changed from growth in the lower margin property preservation and buy-renovate-sell businesses and declines in other higher margin businesses.

Selling, General and Administrative Expenses

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

SG&A expense consisted of the following:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| (in thousands) | 2017 | 2016 | % Increase (decrease) | 2017 | 2016 | % Increase (decrease) |
| Compensation and benefits | $15,068 | $14,145 | 7 | $43,115 | $42,460 | 2 |
| Occupancy related costs | 8,536 | 8,903 | (4) | 28,347 | 26,785 | 6 |
| Amortization of intangible assets | 8,604 | 11,465 | (25) | 27,143 | 36,432 | (25) |
| Professional services | 3,886 | 4,097 | (5) | 11,983 | 17,533 | (32) |
| Marketing costs | 3,992 | 9,275 | (57) | 11,958 | 21,438 | (44) |
| Depreciation and amortization | 2,286 | 2,557 | (11) | 7,068 | 7,514 | (6) |
| Other | 4,250 | 3,444 | 23 | 17,179 | 9,547 | 80 |
| Selling, general and administrative expenses | $46,622 | $53,886 | (13) | $146,793 | $161,709 | (9) |

SG&A for the nine months ended September 30, 2017 of $146.8 million decreased 9% compared to the nine months ended September 30, 2016 ($46.6 million for the third quarter of 2017, a 13% decrease compared to the third quarter of 2016). The decreases in SG&A were primarily due to lower marketing costs, driven by initial non-recurring Owners.com market launch costs incurred during the nine months ended September 30, 2016, the reduction in Owners.com recurring marketing spending as the business unit focuses on improving the lead to closing conversion rate and lower amortization of intangible assets driven by an increase in total projected revenue to be generated by the Homeward Residential, Inc. ("Homeward") and Residential Capital, LLC ("ResCap") portfolios over the lives of these portfolios (revenue-based amortization). In addition, professional services legal costs were lower for the nine months ended September 30, 2017 in connection with the resolution of, and reduction in activities related to, several litigation and regulatory matters. The decrease in SG&A for the nine months ended September 30, 2017 was partially offset by unfavorable loss accrual adjustments of $2.7 million relating to facility closures and litigation related costs in other SG&A in the second quarter of 2017 (no comparative amount for the nine months ended September 30, 2016). In addition, the decreases in SG&A for the nine month ended September 30, 2017 were partially offset by a $3.0 million favorable loss accrual adjustment in other SG&A in the nine months ended September 30, 2016 (no comparative amounts for the nine months ended September 30, 2017 and the third quarter of 2017 and 2016).

Income from Operations

Income from operations decreased to $41.1 million, representing 6% of service revenue, for the nine months ended September 30, 2017 compared to $79.7 million, representing 11% of service revenue, for the nine months ended September 30, 2016 (decreased to $13.5 million, representing 6% of service revenue, for the third quarter of 2017 compared to $24.9 million, representing 10% of service revenue, for the third quarter of 2016). The decrease in operating income as a percentage of service revenue was the result of the decrease in gross profit margin, partially offset by lower SG&A expenses, 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 $16.9 million for the nine months ended September 30, 2017, a decrease of $1.6 million compared to the nine months ended September 30, 2016 ($5.6 million for the third quarter of 2017, a decrease of $0.4 million compared to the third quarter of 2016), primarily due to the 2017 and 2016 repurchases of portions of our senior secured term loan with an aggregate par value of $101.1 million, partially offset by an increase in the senior secured term loan interest rate from 4.50% as of December 31, 2016 and 4.72% as of June 30, 2017 to 4.74% as of September 30, 2017. Other non-operating gains and losses primarily represent gains on the early extinguishment of debt and income and expenses related to our investment in RESI common stock.

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During the nine months ended September 30, 2017, we repurchased portions of our senior secured term loan with an aggregate par value of $50.1 million at a weighted average discount of 12.2%, recognizing a net gain of $5.4 million on the early extinguishment of debt (repurchased aggregate par value of $24.1 million at a weighted average discount of 7.5%, recognizing a net gain of $1.5 million on the early extinguishment of debt for the third quarter of 2017). During the nine months ended September 30, 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 (no repurchases in the third quarter of 2016).

During the nine months ended September 30, 2017 and 2016, we earned dividends of $1.9 million and $1.0 million, respectively ($0.6 million for the third quarter of 2017 and no comparative amount for the third quarter of 2016) related to our investment in RESI. In addition, during the nine months ended September 30, 2016, we incurred expenses of $3.4 million related to this investment (no comparative amounts in 2017 and the third quarter of 2016).

Income Tax Provision

We recognized an income tax provision of $7.6 million for the nine months ended September 30, 2017 compared to $12.8 million for the nine months ended September 30, 2016 ($2.6 million and $7.3 million for the third quarter of 2017 and 2016, respectively). Our effective tax rate was 23.6% and 20.1% for the nine months ended September 30, 2017 and September 30, 2016, respectively (25.0% and 39.0% for the third quarter of 2017 and 2016, respectively). Our effective tax rates differ from the Luxembourg statutory tax rate of 27.1% and 29.2% in 2017 and 2016, respectively, 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 rate for the nine months ended September 30, 2017 was primarily the result of lower pretax income, which changed the mix of taxable income across the jurisdictions in which we operate. The lower effective income tax rate for the third quarter of 2017 was primarily the result of adjustments made in the third quarter of 2016 to true-up the tax provision from prior quarters. This was partially offset by higher pretax income in the third quarter of 2016, which, as discussed above, changed the mix of taxable income across the jurisdictions in which we operate.

SEGMENT RESULTS OF OPERATIONS

Effective January 1, 2017, our reportable segments changed as a result of changes in our internal organization, which changed the way our Chief Executive Officer (our chief operating decision maker) manages our businesses, allocates resources and evaluates performance. We now report our operations through two new reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. Prior to the January 1, 2017 change in reportable segments, our reportable segments were Mortgage Services, Financial Services and Technology Services. The former Mortgage Services segment was separated into the Mortgage Market and Real Estate Market segments (see Overview - Our Business). Furthermore, certain of the software services business units that were formerly in the Technology Services segment and the mortgage charge-off collections business that was formerly in the Financial Services segment are now included in the Mortgage Market. Other Businesses, Corporate and Eliminations includes the asset recovery management services and customer relationship management services that were formerly in the Financial Services segment as well as IT infrastructure management services formerly in the Technology Services segment (see Overview - Our Business). Prior year comparable period segment disclosures have been restated to conform to the current year presentation.

The following section provides a discussion of pretax 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 and eliminated in consolidation.

Financial information for our segments was as follows:

| | Three months ended September 30, 2017 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |

| | | | | |
|---|---|---|---|---|
| Revenue | | | | |
| Service revenue | $189,615 | $21,113 | $13,580 | $224,308 |
| Reimbursable expenses | 8,842 | 1,008 | 16 | 9,866 |
| Non-controlling interests | 805 | — | — | 805 |
| | 199,262 | 22,121 | 13,596 | 234,979 |
| Cost of revenue | 137,466 | 23,497 | 13,935 | 174,898 |
| Gross profit (loss) | 61,796 | (1,376) | (339) | 60,081 |
| Selling, general and administrative expenses | 28,006 | 4,208 | 14,408 | 46,622 |
| Income (loss) from operations | 33,790 | (5,584) | (14,747) | 13,459 |
| Total other income (expense), net | 26 | — | (3,128) | (3,102) |
| Income (loss) before income taxes and non-controlling interests | $33,816 | $(5,584) | $(17,875) | $10,357 |
| Margins: | | | | |
| Gross profit (loss)/service revenue | 33% | (7)% | (2)% | 27% |
| Income (loss) from operations/service revenue | 18% | (26)% | (109)% | 6% |

| | Three months ended September 30, 2016 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | | | | |
| Service revenue | $199,176 | $21,231 | $19,375 | $239,782 |
| Reimbursable expenses | 11,762 | 285 | 33 | 12,080 |
| Non-controlling interests | 883 | — | — | 883 |
| | 211,821 | 21,516 | 19,408 | 252,745 |
| Cost of revenue | 138,646 | 16,634 | 18,722 | 174,002 |
| Gross profit | 73,175 | 4,882 | 686 | 78,743 |
| Selling, general and administrative expenses | 29,903 | 6,961 | 17,022 | 53,886 |
| Income (loss) from operations | 43,272 | (2,079) | (16,336) | 24,857 |
| Total other income (expense), net | 10 | — | (6,071) | (6,061) |
| Income (loss) before income taxes and non-controlling interests | $43,282 | $(2,079) | $(22,407) | $18,796 |
| Margins: | | | | |
| Gross profit/service revenue | 37% | 23% | 4% | 33% |
| Income (loss) from operations/service revenue | 22% | (10)% | (84)% | 10% |

| | Nine months ended September 30, 2017 | | | |
|---|---|---|---|---|
| (in thousands) | Mortgage Market | Real Estate Market | Other Businesses, Corporate and Eliminations | Consolidated Altisource |
| Revenue | | | | |

| | | | | |
|---|---|---|---|---|
| Service revenue | $583,002 | $64,649 | $ 44,603 | $ 692,254 |
| Reimbursable expenses | 29,071 | 2,665 | 50 | 31,786 |
| Non-controlling interests | 2,107 | — | — | 2,107 |