

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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

Commission File Number: 1-34354

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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  No

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

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.

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

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

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## PART I — FINANCIAL INFORMATION

## Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

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

See accompanying notes to condensed consolidated financial statements.

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)

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

See accompanying notes to condensed consolidated financial statements.

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

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



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

See accompanying notes to condensed consolidated financial statements.

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

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

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Supplemental cash flow information:

Interest paid	\$11,540	\$10,787
Income taxes paid, net	2,865	12,668

Non-cash investing and financing activities:

Increase (decrease) in payables for purchases of premises and equipment	\$398	\$(378 )
Increase in payables for purchases of treasury shares	—	3,042

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as “Altisource,” the “Company,” “we,” “us” or “our”), is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing markets we serve.

We are publicly traded on the NASDAQ Global Select Market under the symbol “ASPS.” We are organized under the laws of the Grand Duchy of Luxembourg.

Basis of Accounting and Presentation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X.

Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

Altisource consolidates Best Partners Mortgage Cooperative, Inc., which is managed by The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource. Best Partners Mortgage Cooperative, Inc. is a mortgage cooperative doing business as Lenders One® (“Lenders One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA’s option).

The management agreement between MPA and Lenders One, pursuant to which MPA is the management company, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact the cooperative’s economic performance and the right to receive benefits from the cooperative. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of June 30, 2018, Lenders One had total assets of \$4.8 million and total liabilities of \$3.1 million. As of December 31, 2017, Lenders One had total assets of \$4.6 million and total liabilities of \$3.1 million. These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 22, 2018.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 — Quoted prices in active markets for identical assets and liabilities

Level 2 — Observable inputs other than quoted prices included in Level 1

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities

Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair

value hierarchy.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

## Recently Adopted Accounting Pronouncements

## Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) and during 2016, the FASB issued additional guidance providing clarifications and corrections, including: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (collectively “Topic 606”). Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires that an entity recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer.

The Company adopted Topic 606 effective January 1, 2018 using the cumulative effect method. As a result of this adoption, the Company recognized an \$11.2 million increase in deferred revenue, a \$1.1 million increase in unbilled accounts receivable, a \$0.3 million increase in other current liabilities and a \$10.4 million decrease in retained earnings as of January 1, 2018. Because the Company adopted Topic 606 retrospectively with a cumulative effect as of January 1, 2018, the comparative results as of December 31, 2017 and for the three and six months ended June 30, 2017 have not been restated and continue to be reported under Accounting Standards Codification Topic 605, Revenue Recognition and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition. The details of the significant changes and quantitative impact of the adoption of Topic 606 are described below. Also see Note 14 for additional information on revenue, including disaggregation of revenue and contract balances.

As a result of the adoption of Topic 606, the Company’s accounting policy for revenue recognition is as follows:

We recognize revenue from the services we provide in accordance with the 5-step process outlined in Topic 606. We recognize revenue when we satisfy a performance obligation by transferring control of a product or service to a customer in an amount that reflects the consideration that we expect to receive. This revenue can be recognized at a point in time or over time. We invoice customers based on our contractual arrangements with each customer, which may not be consistent with the period that revenues are recognized. When there is a timing difference between when we invoice customers and when revenues are recognized, we record either a contract asset (unbilled accounts receivable) or a contract liability (deferred revenue or other current liabilities), as appropriate. A description of our principal revenue generating activities by reportable segment are as follows:

**Mortgage Market**

For the majority of the services we provide, we recognize transactional revenue when the service is provided.

For loan servicing technologies, we recognize revenue based on the number of loans on the system, on a per-transaction basis or over the estimated average number of months the loans and real estate owned (“REO”) are on the platform, as applicable. We generally recognize revenue for professional services relating to loan servicing technologies over the contract period. For our loan origination system, we generally recognize revenue over the contract term, beginning on the commencement date of each contract. For foreclosure trustee services, we recognize revenue over the period during which we perform the related services, with full recognition upon completion and/or recording the related foreclosure deed. For loan disbursement processing services, we recognize revenue over the period during which we perform the processing services with full recognition upon completion of the disbursements. We use judgment to determine the period over which we recognize revenue for certain of these services. For mortgage charge-off collections performed on behalf of our clients, we recognize revenue as a percentage of amounts collected following collection from the borrowers.

For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed

percentage or amount.

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

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## Real Estate Market

For the majority of the services we provide, we recognize transactional revenue when the service is provided.

For our renovation services, revenue is recognized over the period of the construction activity, based on the estimated percentage of completion of the projects. We use judgment to determine the period over which we recognize revenue for certain of these services. For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed percentage or amount. For the buy-reno-vate-lease-sell business, we recognize revenue associated with our sales of short-term investments in real estate on a gross basis as we assume the risks and rewards of ownership of the asset.

Reimbursable expenses revenue, primarily related to our real estate sales business, is included in revenue with an equal offsetting expense recognized in cost of revenue. These amounts are recognized on a gross basis, principally because generally we have control over selection of vendors and the vendor relationship is with us, rather than with our customers.

## Other Businesses, Corporate and Eliminations

For the majority of the services we provide, we recognize transactional revenue when the service is provided. We generally earn fees for our post-charge-off consumer debt collection services as a percentage of the amount we collect on delinquent consumer receivables and recognize revenue following collection from the borrowers. We provide customer relationship management services for which we typically earn and recognize revenue on a per-person, per-call or per-minute basis as the related services are performed.

For the information technology (“IT”) infrastructure services we provide to Ocwen Financial Corporation (“Ocwen”), Front Yard Residential Corporation (“RESI”) and Altisource Asset Management Corporation (“AAMC”), we recognize revenue primarily based on the number of users of the applicable systems, fixed fees and the number and type of licensed platforms. We recognize revenue associated with implementation services upon completion and maintenance services ratably over the related service period.

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

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



Total liabilities and equity	809,896	642	810,538
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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

**Financial Instruments**

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

of the Company's investment in RESI subsequent to January 1, 2018, as well as any equity investments acquired in the future, will be reflected as a component of net income in the Company's consolidated statements of operations and comprehensive income.

**Other Recently Adopted Accounting Pronouncements**

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

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

Future Adoption of New Accounting Pronouncements

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

implemented as of June 30, 2018, would result in approximately \$17.6 million right-of-use assets and lease liabilities on the Company's condensed consolidated balance sheet as of June 30, 2018. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations and financial position.

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

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

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

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

## NOTE 2 — CUSTOMER CONCENTRATION

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

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

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

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

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

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

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

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

Subject MSR were transferred. The transfers are subject to certain third party consents. Ocwen disclosed that under these agreements, Ocwen would subservice the transferred Subject MSR for an initial term of five years, and the agreements provided for the conversion of the existing arrangements into a more traditional subservicing arrangement. In January 2018, Ocwen disclosed that it and NRZ entered into new agreements to accelerate the implementation of certain parts of their July 2017 arrangement in order to achieve the intent of the July 2017 agreements sooner while Ocwen continues the process of obtaining the third party consents necessary to transfer the Subject MSR to NRZ. On August 28, 2017, Altisource, through its licensed subsidiaries, entered into a Cooperative Brokerage Agreement, as amended, and related letter agreement (collectively, the “Brokerage Agreement”) with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSR when Ocwen transfers such MSR to NRZ or when NRZ acquires both an additional economic interest in such Subject MSR and the right to designate the broker for REO properties in such portfolios. The Brokerage Agreement provides that Altisource is the exclusive provider of brokerage services for REO associated with the Subject MSR, irrespective of the sub-servicer. NRZ’s brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

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

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

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

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

**NOTE 3 — INVESTMENT IN EQUITY SECURITIES**

During 2016, we purchased 4.1 million shares of RESI common stock for \$48.2 million. This investment is reflected in the condensed consolidated balance sheets at a fair value of \$43.2 million as of June 30, 2018 and \$49.2 million as of December 31, 2017. During the three and six months ended June 30, 2018, we recognized an unrealized gain (loss) of \$1.5 million and \$(6.0) million, respectively, on our investment in RESI in other income (expense), net in the condensed consolidated statements of operations and comprehensive income as a result of a change in the market value of RESI common shares. During the three and six months ended June 30, 2017, an unrealized gain (loss) on our



investment in RESI of \$(7.0) million and \$5.7 million, respectively, net of income tax expense (benefit), was reflected in other comprehensive income in the condensed consolidated statements of operations and comprehensive income (see Note 1 for additional information on the adoption of the new accounting standard on investments in equity securities). During the six months ended June 30, 2018 and 2017, we earned dividends of \$1.2 million in each period related to this investment (\$0.6 million in both the second quarter of 2018 and 2017).

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 4 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2018	December 31, 2017
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Billed	\$39,313	\$ 40,787
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Unbilled	17,446	22,532
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Subtotal	56,759	63,319
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Less: Allowance for doubtful accounts	(11,333 )	(10,579 )
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Total	\$45,426	\$ 52,740
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Unbilled accounts receivable consist primarily of certain real estate asset management and sales services for which we generally recognize revenue when the service is provided but collect upon closing of the sale, and foreclosure trustee services, for which we generally recognize revenues over the service delivery period but bill following completion of the service. We also include amounts in unbilled accounts receivable that are earned during a month and billed in the following month.

## NOTE 5 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
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Short-term investments in real estate	\$35,289	\$ 29,405
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Maintenance agreements, current portion	4,961	8,014
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Income taxes receivable	11,396	9,227
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Prepaid expenses	7,501	7,898
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Other current assets	10,862	10,198
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Total	\$70,009	\$ 64,742
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## NOTE 6 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

(in thousands)	June 30, 2018	December 31, 2017
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Computer hardware and software	\$182,606	\$ 179,567
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Leasehold improvements	32,658	33,417
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Furniture and fixtures	13,695	14,092
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Office equipment and other	8,887	9,388
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	237,846	236,464
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Less: Accumulated depreciation and amortization	(179,026 )	(163,191 )
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Total	\$58,820	\$ 73,273
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Depreciation and amortization expense totaled \$17.0 million and \$18.9 million for the six months ended June 30, 2018 and 2017, respectively (\$8.3 million and \$8.9 million for the second quarter of 2018 and 2017, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations and comprehensive income.



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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 7 — 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 June 30, 2018 and December 31, 2017	\$ 73,259	\$ 10,056	\$ 2,968	\$ 86,283

## Intangible Assets, net

Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount		Accumulated amortization		Net book value	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Definite lived intangible assets:							
Customer related intangible assets	10	\$ 273,172	\$ 277,828	\$(196,315 )	\$(188,258 )	\$ 76,857	\$ 89,570
Operating agreement	20	35,000	35,000	(14,748 )	(13,865 )	20,252	21,135
Trademarks and trade names	14	12,554	15,354	(6,480 )	(8,881 )	6,074	6,473
Non-compete agreements	4	1,230	1,560	(872 )	(897 )	358	663
Intellectual property	10	300	300	(130 )	(115 )	170	185
Other intangible assets	5	3,745	3,745	(2,082 )	(1,706 )	1,663	2,039
Total		\$ 326,001	\$ 333,787	\$(220,627 )	\$(213,722 )	\$ 105,374	\$ 120,065

Amortization expense for definite lived intangible assets was \$14.7 million and \$18.5 million for the six months ended June 30, 2018 and 2017, respectively (\$7.5 million and \$9.4 million for the second quarter of 2018 and 2017, respectively). Anticipated annual definite lived intangible asset amortization is \$25.7 million in 2018, \$20.6 million in 2019, \$17.9 million in 2020, \$13.4 million in 2021 and \$7.3 million in 2022.

## NOTE 8 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
Security deposits	\$ 4,807	\$ 5,304
Restricted cash	5,783	3,837
Other	584	1,054
Total	\$ 11,174	\$ 10,195



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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 9 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, December 31,	
	2018	2017

Accounts payable	\$ 13,781	\$ 15,682
Accrued expenses - general	26,343	27,268
Accrued salaries and benefits	27,062	41,363
Income taxes payable	460	87

Total	\$ 67,646	\$ 84,400
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Other current liabilities consist of the following:

(in thousands)	June 30, December 31,	
	2018	2017

Unfunded cash account balances	\$ 3,147	\$ 5,900
Other	2,742	3,514

Total	\$ 5,889	\$ 9,414
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## NOTE 10 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	June 30, December 31,	
	2018	2017

Term loans	\$ 403,760	\$ 413,581
Less: Debt issuance costs, net	(4,317 )	(3,158 )
Less: Unamortized discount, net	(3,911 )	(1,142 )
Net long-term debt	395,532	409,281
Less: Current portion	(41,200 )	(5,945 )

Long-term debt, less current portion	\$ 354,332	\$ 403,336
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On April 3, 2018, Altisource Portfolio Solutions S.A. and its wholly-owned subsidiary, Altisource S.à r.l. entered into a credit agreement (the “Credit Agreement”) with Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, and certain lenders. Under the Credit Agreement, Altisource borrowed \$412.0 million in the form of Term B Loans and obtained a \$15.0 million revolving credit facility. The Term B Loans mature in April 2024 and the revolving credit facility matures in April 2023. Altisource Portfolio Solutions S.A. and certain subsidiaries are guarantors of the term loan and the revolving credit facility (collectively, the “Guarantors”).

Proceeds from the Term B Loans were used to repay the Company’s prior senior secured term loan, which had an outstanding balance of \$412.1 million as of April 3, 2018. In connection with the refinancing, we recognized a loss of \$4.4 million from the write-off of unamortized debt issuance costs and debt discount in the second quarter of 2018. This loss was included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

The Term B Loans must be repaid in consecutive quarterly principal installments with \$24.7 million due in 2018, \$41.2 million due in 2019, \$25.7 million due in 2020 and \$12.4 million due annually thereafter, with the balance due at maturity. During the three months ended June 30, 2018, the Company repaid \$8.2 million of the Term B Loans. All amounts outstanding under the Term B Loans will become due on the earlier of (i) April 3, 2024, 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 (as defined in the Credit Agreement; other capitalized terms, unless defined herein, are defined in the Credit Agreement) or as otherwise provided in the Credit Agreement upon the occurrence of any event of default.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

In addition to the scheduled principal payments, subject to certain exceptions, the Term B Loans are 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 Credit Agreement (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). Certain mandatory prepayments reduce future contractual amortization payments by an amount equal to the mandatory prepayment. No mandatory prepayments were owed for the three months ended June 30, 2018.

Altisource may incur incremental indebtedness under the Credit Agreement from one or more incremental lenders, which may include existing lenders, in an aggregate incremental principal amount not to exceed \$125.0 million, subject to certain conditions set forth in the Credit Agreement, including a sublimit of \$80.0 million with respect to incremental revolving credit commitments. The lenders have no obligation to provide any incremental indebtedness. The Term B Loans bear interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate term loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for a three month interest period and (y) 1.00% plus (ii) 4.00%. Base Rate term 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) 3.00%. The interest rate at June 30, 2018 was 6.33%.

Loans under the revolving credit facility bear interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate revolving loans bear interest at a rate per annum equal to the sum of (i) the Adjusted Eurodollar Rate for a three month interest period plus (ii) 4.00%. Base Rate revolving loans bear interest at a rate per annum equal to the sum of (i) the Base Rate plus (ii) 3.00%. The unused commitment fee is 0.50%. There were no borrowings outstanding under the revolving credit facility as of June 30, 2018.

The payment of all amounts owing by Altisource under the Credit Agreement is guaranteed by the Guarantors and is secured by a pledge of all equity interests of certain subsidiaries of Altisource, as well as a lien on substantially all of the assets of Altisource S.à r.l. and the Guarantors, subject to certain exceptions.

The Credit Agreement includes covenants that restrict or limit, among other things, our ability, subject to certain exceptions and baskets, to incur indebtedness; incur liens on our assets; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases, dividends and repayment of junior indebtedness; make investments; dispose of equity interests of any Material Subsidiaries; engage in a line of business substantially different than existing businesses and businesses reasonably related, complimentary or ancillary thereto; 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; and to the extent any Revolving Credit Loans are outstanding on the last day of a fiscal quarter, permit the Total Leverage Ratio to be greater than 3.50:1.00 as of the last day of such fiscal quarter, subject to a customary cure provision (the "Revolving Financial Covenant").

The Credit 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 Credit Agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of certain other covenants, subject to cure periods described in the Credit Agreement, (iv) a breach of the Revolving Financial Covenant, subject to a customary cure provision and not an Event of Default with respect to the Term Loans unless and until the Required Revolving Lenders accelerate the Revolving Credit Loans, (v) failure to pay principal or interest on any other debt that equals or exceeds \$40.0 million when due, (vi) 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, (vii) occurrence of a Change of Control, (viii) bankruptcy and insolvency events, (ix) 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, (x) 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 Credit Agreement or waived, all loans and other obligations could become due and immediately payable and the



facility could be terminated.

At June 30, 2018, debt issuance costs were \$4.3 million, net of \$0.2 million of accumulated amortization. At December 31, 2017, debt issuance costs related to the prior term loans were \$3.2 million, net of \$7.1 million of accumulated amortization.

In the second quarter of 2017, we repurchased portions of our prior senior secured term loan with an aggregate par value of \$26.0 million at a weighted average discount of 16.5%, recognizing a net gain of \$3.9 million on the early extinguishment of debt (no comparative amounts in 2018). The net gain was included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 11 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
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Income tax liabilities	\$ 5,605	\$ 5,955
Deferred revenue	41	2,101
Other non-current liabilities	3,761	4,226

Total	\$ 9,407	\$ 12,282
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## NOTE 12 — 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 June 30, 2018 and December 31, 2017. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

(in thousands)	June 30, 2018				December 31, 2017				
	Carrying amount	Fair value			Carrying amount	Fair value			
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
<b>Assets:</b>									
Cash and cash equivalents	\$84,569	\$84,569	\$ —	—	—\$ —	\$105,006	\$105,006	\$ —	—
Restricted cash	5,783	5,783	—	—	3,837	3,837	—	—	—
Investment in equity securities	43,185	43,185	—	—	49,153	49,153	—	—	—
<b>Liabilities:</b>									
Long-term debt	403,760	—	401,067	—	413,581	—	407,377	—	—

## 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.

Investment in equity securities is carried at fair value and consists of 4.1 million shares of RESI common stock. The investment in equity securities is measured using Level 1 inputs as this security has a quoted price in an active market. 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.

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 approximately 50% 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 larger customers, if known.

## NOTE 13 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

## Share Repurchase Program

On May 15, 2018, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 17, 2017, which replaced the previous share repurchase program. We are authorized to purchase up to 4.3 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. As of

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

June 30, 2018, approximately 4.2 million shares of common stock remain available for repurchase under the program. We purchased 0.8 million shares of common stock at an average price of \$27.39 per share during the six months ended June 30, 2018 and 0.8 million shares at an average price of \$22.15 per share during the six months ended June 30, 2017 (0.4 million shares at an average price of \$27.14 per share for the second quarter of 2018 and 0.4 million shares at an average price of \$19.17 per share for the second quarter of 2017). Luxembourg law limits share repurchases to the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings, less the value of shares repurchased. As of June 30, 2018, we can repurchase up to approximately \$142 million of our common stock under Luxembourg law. The Credit Agreement also limits the amount we can spend on share repurchases, which was approximately \$456 million as of June 30, 2018, and may prevent repurchases in certain circumstances.

**Share-Based Compensation**

We issue share-based awards in the form of stock options, restricted shares and restricted share units for certain employees, officers and directors. We recognized share-based compensation expense of \$4.1 million and \$1.9 million for the six months ended June 30, 2018 and 2017, respectively (\$1.9 million and \$1.2 million for the second quarter of 2018 and 2017, respectively). As of June 30, 2018, estimated unrecognized compensation costs related to share-based awards amounted to \$14.5 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.12 years.

In connection with the January 1, 2017 adoption of ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, 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 recognized net of estimated forfeiture rates ranging from 0% to 40%. 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.

**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 575 thousand service-based awards were outstanding as of June 30, 2018.

**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 684 thousand market-based awards were outstanding as of June 30, 2018.

**Performance-Based Options.** These option grants generally begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-fourth 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 2018 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 50% to 200% 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 282 thousand performance-based awards outstanding as of June 30, 2018.

The Company granted 272 thousand stock options (at a weighted average exercise price of \$25.06 per share) and 129 thousand stock options (at a weighted average exercise price of \$39.13 per share) during the six months ended June 30, 2018 and 2017, respectively.

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

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:

	Six months ended June 30, 2018		Six months ended June 30, 2017	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate (%)	2.66 – 2.98	1.64 – 2.83	2.06 – 2.29	0.77 – 2.38
Expected stock price volatility (%)	70.31 – 71.86	71.81 – 71.86	61.49 – 66.68	66.68
Expected dividend yield	—	—	—	—
Expected option life (in years)	6.00 – 6.25	2.56 – 4.32	6.00 – 7.50	3.53 – 3.85
Fair value	\$16.17 – \$19.06	\$14.67 – \$18.28	\$23.91 – \$24.80	\$23.54 – \$24.30

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 periods presented:

(in thousands, except per share amounts)	Six months ended June 30,	
	2018	2017
Weighted average grant date fair value of stock options granted per share	\$ 16.27	\$ 24.23
Intrinsic value of options exercised	4,393	875
Grant date fair value of stock options that vested	1,334	1,693

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, 2017	1,745,906	\$ 28.20	4.96	\$ 10,202
Granted	271,876	25.06		
Exercised	(295,752 )	9.48		
Forfeited	(180,578 )	33.91		
Outstanding at June 30, 2018	1,541,452	30.56	5.76	5,235
Exercisable at June 30, 2018	921,627	27.03	3.96	5,132

During the second quarter of 2018, the Company modified the performance thresholds that are required to be met in order for vesting to occur for 263 thousand stock options granted to 16 employees in the first quarter of 2018. The award modification did not change the inputs into the valuation model or the Company's assessment of the probability of vesting as of the effective date of the modifications. Consequently, no incremental compensation expense was required as a result of this modification.

**Other Share-Based Awards**

The Company's other share-based and similar types of awards are composed of restricted shares and, beginning in 2018, restricted share units. The restricted shares and restricted share units 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 vesting in equal annual installments, 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 475 thousand service-based awards were outstanding as of June 30, 2018.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 number of performance-based restricted shares that may vest will be based on the level of achievement, as 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 level achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. A total of two thousand performance-based awards were outstanding as of June 30, 2018.

The Company granted 305 thousand restricted shares and restricted share units (at a weighted average grant date fair value of \$25.23 per share) during the six months ended June 30, 2018.

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

	Number of restricted shares
Outstanding at December 31, 2017	356,509
Granted	305,282
Issued	(88,043 )
Forfeited/canceled	(96,853 )

Outstanding at June 30, 2018      476,895

## NOTE 14 — 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 that is a mortgage cooperative managed, but not owned, by Altisource. Lenders One 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:

(in thousands)	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Service revenue	\$208,861	\$238,107	\$397,627	\$467,946
Reimbursable expenses	9,008	11,891	17,155	21,920
Non-controlling interests	687	687	1,212	1,302
Total	\$218,556	\$250,685	\$415,994	\$491,168

As discussed in Note 1, the Company adopted Topic 606 effective January 1, 2018 using the cumulative effect method.



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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## Disaggregation of Revenue

Disaggregation of total revenues by segment and major source is as follows:

(in thousands)	Three months ended June 30, 2018			
	Revenue recognized when services are performed or assets are sold	Revenue related to technology platforms and professional services	Reimbursable expenses revenue	Total revenue
Mortgage Market:				
Servicer Solutions	\$ 139,084	\$ 18,525	\$ 8,460	\$ 166,069
Origination Solutions	10,243	2,292	58	12,593
Total Mortgage Market	149,327	20,817	8,518	178,662
Real Estate Market:				
Consumer Real Estate Solutions	2,312	—	—	2,312
Real Estate Investor Solutions	21,352	—	481	21,833
Total Real Estate Market	23,664	—	481	24,145
Other Businesses, Corporate and Eliminations	14,215	1,525	9	15,749
Total revenue	\$ 187,206	\$ 22,342	\$ 9,008	\$ 218,556
(in thousands)	Six months ended June 30, 2018			
	Revenue recognized when services are performed or assets are sold	Revenue related to technology platforms and professional services	Reimbursable expenses revenue	Total revenue
Mortgage Market:				
Servicer Solutions	\$ 268,620	\$ 36,798	\$ 16,062	\$ 321,480
Origination Solutions	19,428	4,978	114	24,520
Total Mortgage Market	288,048	41,776	16,176	346,000
Real Estate Market:				
Consumer Real Estate Solutions	3,717	—	2	3,719
Real Estate Investor Solutions	34,750	—	956	35,706
Total Real Estate Market	38,467	—	958	39,425
Other Businesses, Corporate and Eliminations	27,647	2,901	21	30,569
Total revenue	\$ 354,162	\$ 44,677	\$ 17,155	\$ 415,994
Contract Balances				

Our contract assets consist of unbilled accounts receivable (see Note 4). Our contract liabilities consist of current deferred revenue as reported on the condensed consolidated balance sheets and non-current deferred revenue (see Note 11). Revenue recognized that was included in the contract liability at the beginning of the period, including amounts added to the contract liability as part of the cumulative effect of the adopting Topic 606, was \$5.4 million and \$11.3 million for the three and six months ended June 30, 2018, respectively.

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 15 — 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:

(in thousands)	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Compensation and benefits	\$54,769	\$62,666	\$109,635	\$125,758
Outside fees and services	68,879	86,255	133,977	167,214
Cost of real estate sold	13,320	7,114	16,499	12,049
Technology and telecommunications	10,852	10,941	20,303	22,292
Reimbursable expenses	9,008	11,891	17,155	21,920
Depreciation and amortization	6,378	6,526	12,831	14,113
Total	\$163,206	\$185,393	\$310,400	\$363,346

## NOTE 16 — 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 professional fees, occupancy costs, marketing costs, depreciation and amortization of non-operating assets and other expenses. The components of selling, general and administrative expenses were as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Compensation and benefits	\$12,197	\$15,541	\$25,766	\$28,047
Occupancy related costs	7,189	9,538	15,623	19,811
Amortization of intangible assets	7,544	9,393	14,691	18,539
Marketing costs	3,978	3,697	7,585	7,966
Professional services	4,328	4,367	7,554	8,097
Depreciation and amortization	1,950	2,361	4,218	4,782
Other	5,738	7,573	10,611	12,929
Total	\$42,924	\$52,470	\$86,048	\$100,171

## NOTE 17 — OTHER INCOME (EXPENSE), NET

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

(in thousands)	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Loss on debt refinancing	\$(4,434)	\$—	\$(4,434)	\$—
Gain on early extinguishment of debt	—	3,937	—	3,937
Interest income	100	44	231	142

Other, net	473	822	1,614	1,439
Total	\$(3,861)	\$4,803	\$(2,589)	\$5,518

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

## NOTE 18 — EARNINGS PER SHARE

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

Basic and diluted EPS are calculated as follows:

(in thousands, except per share data)	Three months ended		Six months ended	
	June 30, 2018	2017	June 30, 2018	2017
Net income (loss) attributable to Altisource	\$1,568	\$9,035	\$(2,564)	\$15,580
Weighted average common shares outstanding, basic	17,142	18,335	17,260	18,497
Dilutive effect of stock options, restricted shares and restricted share units	411	501	—	572
Weighted average common shares outstanding, diluted	17,553	18,836	17,260	19,069

Earnings (loss) per share:

Basic	\$0.09	\$0.49	\$(0.15)	\$0.84
Diluted	\$0.09	\$0.48	\$(0.15)	\$0.82

For the six months ended June 30, 2018 and 2017, 0.3 million options and 0.4 million options, respectively (0.3 million options and 0.4 million options for the second quarter of 2018 and 2017, respectively), were excluded from the computation of diluted EPS because they were anti-dilutive since their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS for the six months ended June 30, 2018 and 2017 were 0.5 million options, restricted shares and restricted share units and 0.3 million options and restricted shares, respectively (0.5 million options, restricted shares and restricted share units and 0.3 million options and restricted shares for the second quarter of 2018 and 2017, 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. Furthermore, as a result of the net loss attributable to Altisource for the six months ended June 30, 2018, 0.5 million options, restricted shares and restricted share units were excluded from the computation of diluted EPS for the six months ended June 30, 2018, as their impact was anti-dilutive.

## NOTE 19 — 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 currently 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, the Company 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 was considering a potential enforcement action against Altisource relating to an alleged violation of federal law focused on the REALServicing® platform and certain other technology services provided to Ocwen, including claims related to the features, functioning and support of such technology. The NORA process provides the recipient an opportunity to present its positions to the CFPB before an enforcement action is

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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. By letter dated April 3, 2018, the CFPB informed the Company that the investigation of the Company has been completed and the staff of the CFPB's Office of Enforcement currently does not intend to recommend that the CFPB take enforcement action, and further that the Company is relieved of the document-retention obligations pursuant to the civil investigative process.

Ocwen Related Matters

As discussed in Note 2, during the three and six months ended June 30, 2018, Ocwen was our largest customer, accounting for 51% of our total revenue for the six months ended June 30, 2018 (50% of our revenue for the second quarter of 2018). Additionally, 6% of our revenue for the six months ended June 30, 2018 (5% of our revenue for the second quarter of 2018) was earned on the loan portfolios serviced by Ocwen, when a party other than Ocwen or the MSR owner selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, cease and desist orders, consent orders, inquiries, subpoenas, civil investigative demand, requests for information and other actions and is subject to pending legal proceedings, some of which include claims against Ocwen for substantial monetary damages. 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. The forgoing or other matters could result in, and in some cases, have resulted in, adverse regulatory or other actions against Ocwen.

Previous regulatory actions against Ocwen resulted in subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights.

In addition to the above, Ocwen may become subject to future federal and state regulatory investigations, cease and desist orders, consent orders, inquiries, subpoenas, civil investigative demands, requests for information, other matters or 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 IT 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 could 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 remaining 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

- 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

- Altisource otherwise fails to be retained as a service provider

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 loan portfolios serviced by Ocwen (such as a transfer of Ocwen's remaining 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 loan portfolios.



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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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. Additionally, Ocwen has notified us, disclosed in its filings and stated in connection with resolving several state administrative actions discussed above, that it plans to transition from REALServicing to another mortgage servicing software platform. Furthermore, Ocwen disclosed in its filings that its pending acquisition of PHH Corporation is expected to accelerate its transition to a new servicing platform. Altisource is supporting Ocwen through this transition. We do not anticipate that a servicing technology transition would materially impact the other services we provide to Ocwen. For the six months ended June 30, 2018 and 2017, service revenue from REALServicing was \$11.9 million and \$13.4 million, respectively (\$5.4 million and \$6.3 million for the second quarter of 2018 and 2017, respectively).

In addition to the above, as of March 31, 2018, NRZ owned the Subject MSR with underlying UPB of \$98.3 billion. As of March 31, 2018, Ocwen serviced and subserviced MSR with underlying UPB of \$173.4 billion. As previously disclosed, in July 2017, Ocwen and NRZ entered into agreements to convert NRZ's economic rights to the Subject MSR into fully-owned MSR in exchange for payments from NRZ to Ocwen when such Subject MSR were transferred. The transfers are subject to certain third party consents. Ocwen disclosed that under these agreements, Ocwen would subservice the transferred Subject MSR for an initial term of five years, and the agreements provided for the conversion of the existing arrangements into a more traditional subservicing arrangement.

In January 2018, Ocwen disclosed that it and NRZ entered into new agreements to accelerate the implementation of certain parts of their July 2017 arrangement in order to achieve the intent of the July 2017 agreements sooner while Ocwen continues the process of obtaining the third party consents necessary to transfer the Subject MSR to NRZ. On August 28, 2017, Altisource, through its licensed subsidiaries, entered into the Brokerage Agreement with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSR when Ocwen transfers such MSR to NRZ or when NRZ acquires both an additional economic interest in such Subject MSR and the right to designate the broker for REO properties in such portfolios. The Brokerage Agreement provides that Altisource is the exclusive provider of brokerage services for REO associated with the Subject MSR, irrespective of the sub-servicer. NRZ's brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

On August 28, 2017, Altisource and NRZ also entered into the Services LOI, setting forth the terms pursuant to which Altisource would remain the exclusive service provider of fee-based services for the Subject MSR through August 2025. The Services LOI was amended to continue through August 31, 2018.

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

We anticipate that revenue from NRZ will increase over time and revenue from Ocwen will decrease. As Subject MSR continue to transfer from Ocwen to NRZ and following the anticipated execution of the Services Agreement, we expect that NRZ will become our largest customer. Had all of the Subject MSR been transferred to NRZ and the Brokerage Agreement and the Services Agreement with NRZ been in place as of January 1, 2018, we estimate that

approximately 48% of our revenue for the six months ended June 30, 2018 would have been related to NRZ. There can be no assurance that the parties will reach an agreement with respect to the terms of the Services Agreement or that a Services Agreement will be entered into on a timely basis or at all.

#### 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 asset recovery management business's collections. These amounts are held in escrow and trust

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

accounts for limited periods of time and are not included in the condensed consolidated balance sheets. Amounts held in escrow and trust accounts were \$20.8 million and \$35.1 million at June 30, 2018 and December 31, 2017, respectively.

## NOTE 20 — SEGMENT REPORTING

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

We report our operations through two reportable segments: Mortgage Market and Real Estate Market. In addition, we report Other Businesses, Corporate and Eliminations separately. The Mortgage Market segment provides loan servicers and originators with marketplaces, services and technologies that span the mortgage lifecycle. The Real Estate Market segment provides real estate consumers and rental property investors with marketplaces and services that span the real estate lifecycle. In addition, the Other Businesses, Corporate and Eliminations segment includes businesses that provide post-charge-off consumer debt 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:

(in thousands)	Three months ended June 30, 2018			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue	\$ 178,662	\$ 24,145	\$ 15,749	\$ 218,556
Cost of revenue	115,329	28,191	19,686	163,206
Gross profit (loss)	63,333	(4,046 )	(3,937 )	55,350
Selling, general and administrative expenses	20,604	5,180	17,140	42,924
Income (loss) from operations	42,729	(9,226 )	(21,077 )	12,426
Total other income (expense), net	(4 )	12	(9,363 )	(9,355 )
Income (loss) before income taxes and non-controlling interests	\$ 42,725	\$ (9,214 )	\$ (30,440 )	\$ 3,071
(in thousands)	Three months ended June 30, 2017			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue	\$ 210,195	\$ 25,130	\$ 15,360	\$ 250,685
Cost of revenue	144,326	26,844	14,223	185,393
Gross profit (loss)	65,869	(1,714 )	1,137	65,292
Selling, general and administrative expenses	29,805	5,551	17,114	52,470
Income (loss) from operations	36,064	(7,265 )	(15,977 )	12,822

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Total other income (expense), net	102	—	(764	) (662	)
Income (loss) before income taxes and non-controlling interests	\$36,166	\$(7,265)	\$(16,741	) \$12,160	

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## ALTISOURCE PORTFOLIO SOLUTIONS S.A.

## Notes to Condensed Consolidated Financial Statements (Continued)

(in thousands)	Six months ended June 30, 2018			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue	\$346,000	\$39,425	\$ 30,569	\$ 415,994
Cost of revenue	226,402	46,745	37,253	310,400
Gross profit (loss)	119,598	(7,320 )	(6,684 )	105,594
Selling, general and administrative expenses	43,978	9,298	32,772	86,048
Income (loss) from operations	75,620	(16,618 )	(39,456 )	19,546
Total other income (expense), net	12	14	(21,473 )	(21,447 )

Income (loss) before income taxes and non-controlling interests	\$75,632	\$(16,604)	\$ (60,929 )	\$ (1,901 )
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(in thousands)	Six months ended June 30, 2017			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue	\$414,918	\$45,193	\$ 31,057	\$ 491,168
Cost of revenue	284,476	48,987	29,883	363,346
Gross profit (loss)	130,442	(3,794 )	1,174	127,822
Selling, general and administrative expenses	58,487	9,876	31,808	100,171
Income (loss) from operations	71,955	(13,670 )	(30,634 )	27,651
Total other income (expense), net	112	—	(5,857 )	(5,745 )

Income (loss) before income taxes and non-controlling interests	\$72,067	\$(13,670)	\$ (36,491 )	\$ 21,906
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(in thousands)	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
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## Total assets:

June 30, 2018	\$265,463	\$85,080	\$ 459,353	\$ 809,896
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December 31, 2017	304,346	64,624	496,194	865,164
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Our services are primarily provided to customers located in the United States. Premises and equipment, net consist of the following, by country:

(in thousands)	June 30, 2018	December 31, 2017
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United States	\$34,597	\$ 46,268
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Luxembourg	16,708	16,688
India	5,575	8,136
Philippines	1,848	2,038
Uruguay	92	143
Total	\$58,820	\$ 73,273

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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, 2017 filed with the Securities and Exchange Commission (“SEC”) on February 22, 2018.

**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 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 “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, 2017 and include the following:

- our ability to retain Ocwen Financial Corporation (“Ocwen”) as a customer or our ability to receive the anticipated volume of referrals from Ocwen;
- our ability 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 the possibility of termination of the Cooperative Brokerage Agreement, as amended, and related letter agreement (collectively, the “Brokerage Agreement”);
- the contractual provisions in certain of our agreements or contracts that we may enter into in the future may cause a termination event or event of default if a change in control was deemed to have occurred if, among other things, a shareholder group is formed;
- our ability to execute on our strategic businesses;
- 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 the reader 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 Luxembourg 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 markets we serve.

Our reportable segments are as follows:

**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, valuation data, broker and non-broker valuation services
- Foreclosure trustee services
- Residential and commercial loan servicing technologies
- Vendor management, marketplace transaction management and payment management technologies
- Document management platform
- Default services (real estate owned (“REO”), foreclosure, bankruptcy, eviction) technologies
- Mortgage charge-off collections
- Residential and commercial construction inspection and risk mitigation services

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

- Title insurance (agent and related services) and settlement services
- Appraisal management services, valuation data, broker and non-broker valuation services
- Fulfillment services
- Loan origination system
- Document management platform
- Certified loan insurance, certification services and mortgage fraud insurance
- Vendor management oversight platform
- Mortgage banker cooperative management
- 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 residence.

- Real estate brokerage doing business as Owners.con®
- Title insurance (agent and related services) and settlement services
- Mortgage brokerage
- Homeowners insurance

**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-lease-sell
- Renovation services
- Property management services
- Appraisal management services, valuation data, broker and non-broker valuation services

**Other Businesses, Corporate and Eliminations:** Includes certain ancillary businesses, interest expense and unallocated 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



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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 Best Partners Mortgage Cooperative, Inc., doing business as Lenders One® ("Lenders One"). Lenders One is a mortgage cooperative managed, but not owned, by Altisource. Lenders One is included in revenue and reduced from net income to arrive at net income attributable to Altisource.

### 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. 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 originations 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 large bank and non-bank servicers and asset managers. 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 lenders, mortgage purchasers and securitizers. 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 position 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 real estate buyers and sellers with a technology enabled real estate brokerage and integrated services to support them in buying and selling a home. Our offerings include local real estate agent services and loan brokerage as well as closing and title services. We are focused on continuing to develop this business by capitalizing on Altisource's experience in online real estate marketing and loan origination services as well as on more recently developed agile execution competencies.

#### 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, including our purchase, renovation, leasing and sale of short-term investments in real estate. 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 Front Yard 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.

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

Share Repurchase Program

On May 15, 2018, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 17, 2017, which replaced the previous share repurchase program. We are authorized to purchase up to 4.3 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. As of June 30, 2018, approximately 4.2 million shares of common stock remain available for repurchase under the program. We purchased 0.8 million shares of common stock at an average price of \$27.39 per share during the six months ended June 30, 2018 and 0.8 million shares at an average price of \$22.15 per share during the six months ended June 30, 2017 (0.4 million shares at an average price of \$27.14 per share for the second quarter of 2018 and 0.4 million shares at an average price of \$19.17 per share for the second quarter of 2017). Luxembourg law limits share repurchases to the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings, less the value of shares repurchased. As of June 30, 2018, we can repurchase up to approximately \$142 million of our common stock under Luxembourg law. The credit agreement (“Credit Agreement”) with Morgan Stanley Senior Funding, Inc. limits the amount we can spend on share repurchases, which was approximately \$456 million as of June 30, 2018, and may prevent repurchases in certain circumstances.

Ocwen Related Matters

During the three and six months ended June 30, 2018, Ocwen was our largest customer, accounting for 51% of our total revenue for the six months ended June 30, 2018 (50% of our revenue for the second quarter of 2018).

Additionally, 6% of our revenue for the six months ended June 30, 2018 (5% of our revenue for the second quarter of 2018) was earned on the loan portfolios serviced by Ocwen, when a party other than Ocwen or the mortgage servicing rights (“MSRs”) owner selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, cease and desist orders, consent orders, inquiries, subpoenas, civil investigative demand, requests for information and other actions and is subject to pending legal proceedings, some of which include claims against Ocwen for substantial monetary damages. 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. The forgoing or other matters could result in, and in some cases, have resulted in, adverse regulatory or other actions against Ocwen. Previous regulatory actions against Ocwen resulted in subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights.

In addition to the above, Ocwen may become subject to future federal and state regulatory investigations, cease and desist orders, consent orders, inquiries, subpoenas, civil investigative demands, requests for information, other matters or 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 IT 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 could 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 remaining non-GSE servicing rights or subservicing arrangements and Altisource fails to be retained as a service provider

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• Ocwen loses state servicing licenses in states with a significant number of loans in Ocwen’s servicing portfolio  
 • 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  
 • Altisource otherwise fails to be retained as a service provider

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 loan portfolios serviced by Ocwen (such as a transfer of Ocwen’s remaining 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 loan portfolios.

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. Additionally, Ocwen has notified us, disclosed in its filings and stated in connection with resolving several state administrative actions discussed above, that it plans to transition from REALServicing to another mortgage servicing software platform. Furthermore, Ocwen disclosed in its filings that its pending acquisition of PHH Corporation is expected to accelerate its transition to a new servicing platform. Altisource is supporting Ocwen through this transition. We do not anticipate that a servicing technology transition would materially impact the other services we provide to Ocwen. For the six months ended June 30, 2018 and 2017, service revenue from REALServicing was \$11.9 million and \$13.4 million, respectively (\$5.4 million and \$6.3 million for the second quarter of 2018 and 2017, respectively).

In addition to the above, as of March 31, 2018, NRZ owned Ocwen-serviced MSR and rights to MSR (the “Subject MSR”) with underlying unpaid principal balances (“UPB”) of \$98.3 billion. As of March 31, 2018, Ocwen serviced and subserviced MSR with underlying UPB of \$173.4 billion. As previously disclosed, in July 2017, Ocwen and NRZ entered into agreements to convert NRZ’s economic rights to the Subject MSR into fully-owned MSR in exchange for payments from NRZ to Ocwen when such Subject MSR were transferred. The transfers are subject to certain third party consents. Ocwen disclosed that under these agreements, Ocwen would subservice the transferred Subject MSR for an initial term of five years, and the agreements provided for the conversion of the existing arrangements into a more traditional subservicing arrangement.

In January 2018, Ocwen disclosed that it and NRZ entered into new agreements to accelerate the implementation of certain parts of their July 2017 arrangement in order to achieve the intent of the July 2017 agreements sooner while Ocwen continues the process of obtaining the third party consents necessary to transfer the Subject MSR to NRZ. On August 28, 2017, Altisource, through its licensed subsidiaries, entered into the Brokerage Agreement with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSR when Ocwen transfers such MSR to NRZ or when NRZ acquires both an additional economic interest in such Subject MSR and the right to designate the broker for REO properties in such portfolios. The Brokerage Agreement provides that Altisource is the exclusive provider of brokerage services for REO associated with the Subject MSR, irrespective of the sub-servicer. NRZ’s brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

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

The Brokerage Agreement can be terminated by Altisource if the Services Agreement is not signed by Altisource and NRZ during the term of the Services LOI, as extended. The Brokerage Agreement may otherwise only be terminated

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



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

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 MSR's owned by NRZ and subserviced by Ocwen) was approximately 1.1 million for the six months ended June 30, 2018 compared to 1.3 million for the six months ended June 30, 2017, a decrease of 13% (1.1 million for the second quarter of 2018 and 1.3 million for the second quarter of 2017, a decrease of 13%). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing was approximately 162 thousand for the six months ended June 30, 2018 compared to 184 thousand for the six months ended June 30, 2017, a decrease of 12% (153 thousand for the second quarter of 2018 and 177 thousand for the second quarter of 2017, a decrease of 14%).

On April 3, 2018, Altisource and its wholly-owned subsidiary, Altisource S.à r.l., entered into the Credit Agreement, pursuant to which, among other things, Altisource borrowed \$412.0 million in the form of Term B Loans. Proceeds from the Term B Loans were used to repay the Company's prior senior secured term loan. The interest rate of the Term B Loans during the second quarter of 2018 was 6.31%. The comparative interest rates under the Credit agreement and the prior credit agreement were 5.71% and 4.51% for the six months ended June 30, 2018 and 2017, respectively (4.51% for the second quarter of 2017). In connection with the refinancing, we recognized a loss of \$4.4 million from the write-off of the unamortized debt issuance costs and debt discount in the second quarter of 2018 (no comparative amounts in 2017).

Effective January 1, 2018, the Company adopted Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires certain equity investments to be measured at fair value with changes in fair value recognized in net income. Previously, changes in the fair value of the Company's available for sale securities were included in comprehensive income. For the six months ended June 30, 2018, we recognized an unrealized loss from our investment in RESI common shares of \$6.0 million (unrealized gain of \$1.5 million for the second quarter of 2018). During the six months ended June 30, 2017, comprehensive income included an unrealized gain from our investment in RESI common shares of \$5.7 million, net of a \$2.1 million income tax provision (unrealized loss of \$7.0 million, net of a \$2.6 million income tax benefit for the second quarter of 2017). See Note 1 to the condensed consolidated financial statements for additional information on the adoption of the new accounting standard on investments in equity securities.

In the second quarter of 2017, we repurchased portions of our senior secured term loan with an aggregate par value of \$26.0 million at a weighted average discount of 16.5%, recognizing a net gain of \$3.9 million on the early extinguishment of debt (no comparative amounts in 2018).

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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:

(in thousands, except per share data)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Service revenue						
Mortgage Market	\$ 169,457	\$ 198,414	(15 )	\$ 328,612	\$ 393,387	(16 )
Real Estate Market	23,664	24,347	(3 )	38,467	43,536	(12 )
Other Businesses, Corporate and Eliminations	15,740	15,346	3	30,548	31,023	(2 )
Total service revenue	208,861	238,107	(12 )	397,627	467,946	(15 )
Reimbursable expenses	9,008	11,891	(24 )	17,155	21,920	(22 )
Non-controlling interests	687	687	—	1,212	1,302	(7 )
Total revenue	218,556	250,685	(13 )	415,994	491,168	(15 )
Cost of revenue	163,206	185,393	(12 )	310,400	363,346	(15 )
Gross profit	55,350	65,292	(15 )	105,594	127,822	(17 )
Selling, general and administrative expenses	42,924	52,470	(18 )	86,048	100,171	(14 )
Income from operations	12,426	12,822	(3 )	19,546	27,651	(29 )
Other income (expense), net:						
Interest expense	(7,027 )	(5,465 )	29	(12,890 )	(11,263 )	14
Unrealized gain (loss) on investments in equity securities	1,533	—	N/M	(5,968 )	—	N/M
Other income (expense), net	(3,861 )	4,803	(180 )	(2,589 )	5,518	(147 )
Total other income (expense), net	(9,355 )	(662 )	N/M	(21,447 )	(5,745 )	273
Income (loss) before income taxes and non-controlling interests	3,071	12,160	(75 )	(1,901 )	21,906	(109 )
Income tax (provision) benefit	(816 )	(2,438 )	(67 )	549	(5,024 )	(111 )
Net income (loss)	2,255	9,722	(77 )	(1,352 )	16,882	(108 )
Net income attributable to non-controlling interests	(687 )	(687 )	—	(1,212 )	(1,302 )	(7 )
Net income (loss) attributable to Altisource	\$ 1,568	\$ 9,035	(83 )	\$ (2,564 )	\$ 15,580	(116 )
Margins:						
Gross profit/service revenue	27	% 27	%	27	% 27	%
Income from operations/service revenue	6	% 5	%	5	% 6	%
Earnings (loss) per share:						
Basic	\$0.09	\$0.49	(82 )	\$(0.15 )	\$0.84	(118 )
Diluted	\$0.09	\$0.48	(81 )	\$(0.15 )	\$0.82	(118 )
N/M — not meaningful.						
Revenue						

We recognized service revenue of \$397.6 million for the six months ended June 30, 2018, a 15% decrease compared to the six months ended June 30, 2017 (\$208.9 million for the second quarter of 2018, a 12% decrease compared to the second quarter of 2017). The decreases in service revenue in the Mortgage Market segment were primarily a result of the reduction in the size of Ocwen's portfolio and number of delinquent loans in its portfolio resulting from loan repayments, loan modifications, short sales, REO sales and other forms of resolution, partially offset by service revenue growth in the non-Ocwen property preservation and inspection business. The decreases in service revenue in the Real Estate Market segment were primarily driven by RESI's smaller

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portfolio of non-performing loans and REO, partially offset by growth in the number of homes sold in the buy-renovate-lease-sell business, particularly in the second quarter of 2018 compared to the second quarter of 2017, as well as growth in the renovation management and Consumer Real Estate Solutions businesses.

We recognized reimbursable expense revenue of \$17.2 million for the six months ended June 30, 2018, a 22% decrease compared to the six months ended June 30, 2017 (\$9.0 million for the second quarter of 2018, a 24% decrease compared to the second quarter of 2017). The decreases in reimbursable expense revenue in the Mortgage Market segment were primarily a result of the reduction in the size of Ocwen's portfolio and number of delinquent loans in its portfolio resulting from loan repayments, loan modifications, short sales, REO sales and other forms of resolution. The decrease in reimbursable expense revenue in the Real Estate Market segment was primarily from RESI's smaller portfolio of non-performing loans and REO businesses.

Certain of our revenues are impacted by seasonality. More specifically, revenues from property sales, loan originations and certain property preservation services typically 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, revenue in the asset recovery management business tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year.

**Cost of Revenue and Gross Profit**

Cost of revenue 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, and depreciation and amortization of operating assets.

Cost of revenue consisted of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Compensation and benefits	\$54,769	\$62,666	(13 )	\$109,635	\$125,758	(13 )
Outside fees and services	68,879	86,255	(20 )	133,977	167,214	(20 )
Cost of real estate sold	13,320	7,114	87	16,499	12,049	37
Technology and telecommunications	10,852	10,941	(1 )	20,303	22,292	(9 )
Reimbursable expenses	9,008	11,891	(24 )	17,155	21,920	(22 )
Depreciation and amortization	6,378	6,526	(2 )	12,831	14,113	(9 )

Cost of revenue \$163,206 \$185,393 (12 ) \$310,400 \$363,346 (15 )

Cost of revenue for the six months ended June 30, 2018 of \$310.4 million decreased 15% compared to the six months ended June 30, 2017 (\$163.2 million for the second quarter of 2018, a 12% decrease compared to the second quarter of 2017). The decreases in cost of revenue were primarily driven by lower outside fees and services, consistent with the decrease in Mortgage Market and Real Estate Market service revenue discussed in the revenue section above.

Compensation and benefits declined in certain of our businesses as we reduced headcount in anticipation of the revenue decline from the Ocwen and RESI portfolios and from the implementation of efficiency initiatives. The decrease in reimbursable expenses was consistent with the decrease in reimbursable expenses revenue discussed in the revenue section above. These decreases were partially offset by an increase in cost of real estate sold in the Real Estate Market segment due to higher transaction volumes, particularly in the second quarter of 2018 compared to the second quarter of 2017, as discussed in the revenue section above.

Gross profit decreased to \$105.6 million, representing 27% of service revenue, for the six months ended June 30, 2018 compared to \$127.8 million, representing 27% of service revenue, for the six months ended June 30, 2017 (decreased to \$55.4 million, representing 27% of service revenue, for the second quarter of 2018 compared to \$65.3 million, representing 27% of service revenue, for the second quarter of 2017). Gross profit as a percentage of service revenue for the three and six months ended June 30, 2018 was largely flat compared to the three and six months ended June 30, 2017, as the revenue declines were generally offset by lower cost of revenue, as discussed above.

**Selling, General and Administrative Expenses**

Selling, general and administration 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 professional fees, occupancy costs, marketing costs, depreciation and amortization of non-operating assets and other expenses.

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SG&A expenses consisted of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Compensation and benefits	\$12,197	\$15,541	(22 )	\$25,766	\$28,047	(8 )
Occupancy related costs	7,189	9,538	(25 )	15,623	19,811	(21 )
Amortization of intangible assets	7,544	9,393	(20 )	14,691	18,539	(21 )
Marketing costs	3,978	3,697	8	7,585	7,966	(5 )
Professional services	4,328	4,367	(1 )	7,554	8,097	(7 )
Depreciation and amortization	1,950	2,361	(17 )	4,218	4,782	(12 )
Other	5,738	7,573	(24 )	10,611	12,929	(18 )

Selling, general and administrative expenses \$42,924 \$52,470 (18 ) \$86,048 \$100,171 (14 )

SG&A for the six months ended June 30, 2018 of \$86.0 million decreased 14% compared to the six months ended June 30, 2017 (\$42.9 million for the second quarter of 2018, an 18% decrease compared to the second quarter of 2017). The decreases in SG&A were primarily due to lower compensation and benefits in certain of our businesses as we reduced headcount from the implementation of efficiency initiatives. In addition, decreases in SG&A were due to lower occupancy costs, driven by the subleasing of certain office facilities, and lower amortization of intangible assets, driven by lower revenue generated by the Homeward Residential, Inc. (“Homeward”) and Residential Capital, LLC (“ResCap”) portfolios (revenue-based amortization) in the Mortgage Market segment, consistent with the reduction in the size of Ocwen’s portfolio discussed in the revenue section above. The decreases in SG&A were also due to the decrease in other from unfavorable loss accrual adjustments of \$2.7 million recorded in the second quarter of 2017 (no comparative amounts in 2018).

**Income from Operations**

Income from operations decreased to \$19.5 million, representing 5% of service revenue, for the six months ended June 30, 2018 compared to \$27.7 million, representing 6% of service revenue, for the six months ended June 30, 2017 (decreased to \$12.4 million, representing 6% of service revenue, for the second quarter of 2018 compared to \$12.8 million, representing 5% of service revenue, for the second quarter of 2017). Operating income as a percentage of service revenue for the three and six months ended June 30, 2018 was largely flat compared to the three and six months ended June 30, 2017, as the revenue declines were generally offset by lower cost of revenue and SG&A.

**Other Income (Expense), net**

Other income (expense), net principally includes interest expense and other non-operating gains and losses. Effective January 1, 2018, other income (expense), net includes unrealized gains and (losses) on our investment in RESI (see Factors Affecting Comparability above).

Other income (expense), net for the six months ended June 30, 2018 of \$(21.4) million compares to \$(5.7) million for the six months ended June 30, 2017 (\$9.4) million for the second quarter of 2018 and \$(0.7) million for the second quarter of 2017). The increase in other expenses, net for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to an unrealized loss of \$6.0 million on our investment in RESI in 2018, the \$4.4 million loss on debt refinancing during the second quarter of 2018 and higher interest expense for the second quarter of 2018 from a higher interest rate on the Credit Agreement compared to the prior senior secured term loan. In addition, we recorded a net gain of \$3.9 million on the early extinguishment of debt in the second quarter of 2017. The increase in other expenses, net for the second quarter of 2018 was primarily due to the loss on debt refinancing, higher interest expense and the net gain on the early extinguishment of debt, as discussed above, partially offset by an unrealized gain of \$1.5 million on our investment in RESI for the second quarter of 2018.

**Income Tax Benefit (Provision)**

We recognized an income tax benefit of \$0.5 million for the six months ended June 30, 2018 compared to an income tax provision of \$5.0 million for the six months ended June 30, 2017 (income tax provision of \$0.8 million and \$2.4 million for the second quarter of 2018 and 2017, respectively). Our effective tax rate was 28.9% and 22.9% for the six

months ended June 30, 2018 and 2017, respectively (26.6% and 20.0% for the second quarter of 2018 and 2017, respectively). Our effective tax rates differ from the Luxembourg statutory tax rate of 26.0% and 27.1% in 2018 and 2017, respectively, primarily due to the mix of income and losses with varying tax rates in multiple taxing jurisdictions and, for the three and six months ended June 30, 2017, the effect of certain deductions in Luxembourg. Our effective income tax rate can vary due to changes in the mix of taxable income across the jurisdictions in which we operate.

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## SEGMENT RESULTS OF OPERATIONS

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.

Financial information for our segments was as follows:

(in thousands)	Three months ended June 30, 2018			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue				
Service revenue	\$ 169,457	\$ 23,664	\$ 15,740	\$ 208,861
Reimbursable expenses	8,518	481	9	9,008
Non-controlling interests	687	—	—	687
	178,662	24,145	15,749	218,556
Cost of revenue	115,329	28,191	19,686	163,206
Gross profit (loss)	63,333	(4,046 )	(3,937 )	55,350
Selling, general and administrative expenses	20,604	5,180	17,140	42,924
Income (loss) from operations	42,729	(9,226 )	(21,077 )	12,426
Total other income (expense), net	(4 )	12	(9,363 )	(9,355 )
Income (loss) before income taxes and non-controlling interests	\$ 42,725	\$ (9,214 )	\$ (30,440 )	\$ 3,071
Margins:				
Gross profit (loss)/service revenue	37	% (17 )	% (25 )	% 27
Income (loss) from operations/service revenue	25	% (39 )	% (134 )	% 6

(in thousands)	Three months ended June 30, 2017			
	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
Revenue				
Service revenue	\$ 198,414	\$ 24,347	\$ 15,346	\$ 238,107
Reimbursable expenses	11,094	783	14	11,891
Non-controlling interests	687	—	—	687
	210,195	25,130	15,360	250,685
Cost of revenue	144,326	26,844	14,223	185,393
Gross profit (loss)	65,869	(1,714 )	1,137	65,292
Selling, general and administrative expenses	29,805	5,551	17,114	52,470
Income (loss) from operations	36,064	(7,265 )	(15,977 )	12,822
Total other income (expense), net	102	—	(764 )	(662 )
	\$ 36,166	\$ (7,265 )	\$ (16,741 )	\$ 12,160



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

Margins:

Gross profit (loss)/service revenue	33	% (7	)% 7	% 27	%
Income (loss) from operations/service revenue	18	% (30	)% (104	)% 5	%

Six months ended June 30, 2018

(in thousands)	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
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Revenue

Service revenue	\$328,612	\$38,467	\$30,548	\$397,627
Reimbursable expenses	16,176	958	21	17,155
Non-controlling interests	1,212	—	—	1,212
	346,000	39,425	30,569	415,994
Cost of revenue	226,402	46,745	37,253	310,400
Gross profit (loss)	119,598	(7,320 )	(6,684 )	105,594
Selling, general and administrative expenses	43,978	9,298	32,772	86,048
Income (loss) from operations	75,620	(16,618 )	(39,456 )	19,546
Total other income (expense), net	12	14	(21,473 )	(21,447 )

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

	\$75,632	\$(16,604)	\$(60,929 )	\$(1,901 )
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Margins:

Gross profit (loss)/service revenue	36	% (19	)% (22	)% 27	%
Income (loss) from operations/service revenue	23	% (43	)% (129	)% 5	%

Six months ended June 30, 2017

(in thousands)	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Consolidated Altisource
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Revenue

Service revenue	\$393,387	\$43,536	\$31,023	\$467,946
Reimbursable expenses	20,229	1,657	34	21,920
Non-controlling interests	1,302	—	—	1,302
	414,918	45,193	31,057	491,168
Cost of revenue	284,476	48,987	29,883	363,346
Gross profit (loss)	130,442	(3,794 )	1,174	127,822
Selling, general and administrative expenses	58,487	9,876	31,808	100,171
Income (loss) from operations	71,955	(13,670 )	(30,634 )	27,651
Total other income (expense), net	112	—	(5,857 )	(5,745 )

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

	\$72,067	\$(13,670)	\$(36,491 )	\$21,906
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Margins:

Gross profit (loss)/service revenue	33	% (9	)% 4	% 27	%
Income (loss) from operations/service revenue	18	% (31	)% (99	)% 6	%

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## Mortgage Market

## Revenue

Revenue by business unit was as follows:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Service revenue:						
Servicer Solutions	\$157,609	\$185,756	(15 )	\$305,418	\$369,189	(17 )
Origination Solutions	11,848	12,658	(6 )	23,194	24,198	(4 )
Total service revenue	169,457	198,414	(15 )	328,612	393,387	(16 )
Reimbursable expenses:						
Servicer Solutions	8,460	11,015	(23 )	16,062	20,051	(20 )
Origination Solutions	58	79	(27 )	114	178	(36 )
Total reimbursable expenses	8,518	11,094	(23 )	16,176	20,229	(20 )
Non-controlling interests	687	687	—	1,212	1,302	(7 )
Total revenue	\$178,662	\$210,195	(15 )	\$346,000	\$414,918	(17 )

We recognized service revenue of \$328.6 million for the six months ended June 30, 2018, a 16% decrease compared to the six months ended June 30, 2017 (\$169.5 million for the second quarter of 2018, a 15% decrease compared to the second quarter of 2017). We also recognized reimbursable expense revenue of \$16.2 million for the six months ended June 30, 2018, a 20% decrease compared to the six months ended June 30, 2017 (\$8.5 million for the second quarter of 2018, a 23% decrease compared to the second quarter of 2017). The decreases in service revenue and reimbursable expense revenue were primarily a result of the reduction in the size of Ocwen's portfolio and number of delinquent loans in its portfolio resulting from loan repayments, loan modifications, short sales, REO sales and other forms of resolution in the Servicer Solutions business. These decreases were partially offset by growth in the non-Ocwen property preservation and inspection business.

Certain of our Mortgage Market businesses are impacted by seasonality. Revenues from property sales, loan originations and certain property preservation services are generally lowest during the fall and winter months and highest during the spring and summer months.

## Cost of Revenue and Gross Profit

Cost of revenue consisted of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Compensation and benefits	\$33,659	\$41,923	(20 )	\$68,625	\$84,678	(19 )
Outside fees and services	62,232	78,710	(21 )	119,793	154,080	(22 )
Reimbursable expenses	8,518	11,094	(23 )	16,176	20,229	(20 )
Technology and telecommunications	6,344	7,709	(18 )	12,690	15,881	(20 )
Depreciation and amortization	4,576	4,890	(6 )	9,118	9,608	(5 )
Cost of revenue	\$115,329	\$144,326	(20 )	\$226,402	\$284,476	(20 )

Cost of revenue for the six months ended June 30, 2018 of \$226.4 million decreased by 20% compared to the six months ended June 30, 2017 (\$115.3 million for the second quarter of 2018, a 20% decrease compared to the second quarter of 2017). The decreases in cost of revenue were primarily driven by lower service revenue and cost reduction initiatives. Additionally, the decrease in compensation and benefits and the decrease in technology and

telecommunications costs were driven by the redeployment of certain technology resources to our Other Businesses, Corporate and Eliminations for the development of enterprise-wide technology initiatives. The decrease in reimbursable expenses was consistent with the decrease in reimbursable expenses revenue discussed in the revenue section above.

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Gross profit decreased to \$119.6 million, representing 36% of service revenue, for the six months ended June 30, 2018 compared to \$130.4 million, representing 33% of service revenue, for the six months ended June 30, 2017 (decreased to \$63.3 million, representing 37% of service revenue for the second quarter of 2018, compared to \$65.9 million, representing 33% of service revenue for the second quarter of 2017). Gross profit as a percentage of service revenue increased primarily due to service revenue mix from fewer lower margin property preservation referrals related to the reduction in the size of Ocwen's portfolio, as discussed above. Our margins can vary substantially depending upon service revenue mix.

## Selling, General and Administrative Expenses

SG&A expenses consisted of the following:

(in thousands)	Three months ended June 30,			Six months ended June 30,		
	2018	2017	% Increase (decrease)	2018	2017	% Increase (decrease)
Compensation and benefits	\$3,112	\$5,947	(48 )	\$7,969	\$11,101	(28 )
Occupancy related costs	3,924	6,823	(42 )	9,178	12,039	(24 )
Amortization of intangible assets	6,618	8,709	(24 )	13,137	17,144	(23 )
Professional services	1,825	2,469	(26 )	3,271	4,699	(30 )
Marketing costs	1,603	1,763	(9 )	3,331	4,235	(21 )
Depreciation and amortization	678	1,006	(33 )	1,574	1,869	(16 )
Other	2,844	3,088	(8 )	5,518	7,400	(25 )

Selling, general and administrative expenses \$20,604