

Altisource Portfolio Solutions S.A.
Form 10-Q
April 25, 2019

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 March 31, 2019

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 every Interactive Data File required to be submitted 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 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. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer 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 pursuant to 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 April 19, 2019, there were 16,278,696 outstanding shares of the registrant's shares of beneficial interest (excluding 9,134,052 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)

| | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$51,509 | \$ 58,294 |
| Investment in equity securities | 38,419 | 36,181 |
| Accounts receivable, net | 28,634 | 36,466 |
| Short-term investments in real estate | 40,274 | 39,873 |
| Assets held for sale (Note 3) | 26,557 | — |
| Prepaid expenses and other current assets | 29,292 | 30,720 |
| Total current assets | 214,685 | 201,534 |
| Premises and equipment, net (Notes 1 and 8) | 74,991 | 45,631 |
| Goodwill | 79,009 | 81,387 |
| Intangible assets, net | 72,160 | 91,653 |
| Deferred tax assets, net | 308,509 | 309,089 |
| Other assets | 10,194 | 12,406 |
| Total assets | \$759,548 | \$ 741,700 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$64,538 | \$ 87,240 |
| Current portion of long-term debt | 9,222 | — |
| Deferred revenue | 7,597 | 10,108 |
| Liabilities held for sale (Note 3) | 8,736 | — |
| Other current liabilities (Notes 1 and 11) | 20,743 | 7,030 |
| Total current liabilities | 110,836 | 104,378 |
| Long-term debt, less current portion | 322,577 | 331,476 |
| Other non-current liabilities (Notes 1 and 13) | 30,767 | 9,178 |
| Commitments, contingencies and regulatory matters (Note 22) | | |
| Equity: | | |
| Common stock (\$1.00 par value; 100,000 shares authorized, 25,413 issued and 16,309 outstanding as of March 31, 2019; 16,276 outstanding as of December 31, 2018) | 25,413 | 25,413 |
| Additional paid-in capital | 125,288 | 122,667 |
| Retained earnings | 584,759 | 590,655 |
| Treasury stock, at cost (9,104 shares as of March 31, 2019 and 9,137 shares as of December 31, 2018) | (441,149) | (443,304) |

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| | | |
|------------------------------|-----------|------------|
| Altisource equity | 294,311 | 295,431 |
| Non-controlling interests | 1,057 | 1,237 |
| Total equity | 295,368 | 296,668 |
| Total liabilities and equity | \$759,548 | \$ 741,700 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---------------------------------|------------|
| | 2019 | 2018 |
| Revenue | \$ 169,935 | \$ 197,438 |
| Cost of revenue | 124,104 | 147,194 |
| Gross profit | 45,831 | 50,244 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 41,240 | 43,124 |
| Restructuring charges (Note 21) | 4,420 | — |
| Income from operations | 171 | 7,120 |
| Other income (expense), net: | | |
| Interest expense | (6,749) | (5,863) |
| Unrealized gain (loss) on investment in equity securities (Note 4) | 2,238 | (7,501) |
| Other income (expense), net | 374 | 1,272 |
| Total other income (expense), net | (4,137) | (12,092) |
| Loss before income taxes and non-controlling interests | (3,966) | (4,972) |
| Income tax benefit | 1,222 | 1,365 |
| Net loss | (2,744) | (3,607) |
| Net income attributable to non-controlling interests | (440) | (525) |
| Net loss attributable to Altisource | \$(3,184) | \$(4,132) |
| Loss per share: | | |
| Basic | \$(0.20) | \$(0.24) |
| Diluted | \$(0.20) | \$(0.24) |
| Weighted average shares outstanding: | | |
| Basic | 16,292 | 17,378 |
| Diluted | 16,292 | 17,378 |
| Comprehensive loss: | | |
| Net loss | \$(2,744) | \$(3,607) |
| Other comprehensive 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 | — | (733) |
| Comprehensive loss, net of tax | (2,744) | (4,340) |
| Comprehensive income attributable to non-controlling interests | (440) | (525) |
| Comprehensive loss attributable to Altisource | \$(3,184) | \$(4,865) |

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 | Additional paid-in capital | Retained earnings | | | | | |
| | Shares | | | | | | | |
| Balance, December 31, 2017 | 25,413 | \$25,413 | \$112,475 | \$626,600 | \$ 733 | \$(426,609) | \$ 1,373 | \$339,985 |
| Net (loss) income | — | — | — | (4,132) | — | — | 525 | (3,607) |
| Distributions to non-controlling interest holders | — | — | — | — | — | — | (672) | (672) |
| Share-based compensation expense | — | — | 2,201 | — | — | — | — | 2,201 |
| Cumulative effect of accounting changes | — | — | — | (9,715) | (733) | — | — | (10,448) |
| Exercise of stock options and issuance of restricted shares | — | — | — | (12,500) | — | 15,117 | — | 2,617 |
| Repurchase of shares | — | — | — | — | — | (9,994) | — | (9,994) |
| Balance, March 31, 2018 | 25,413 | \$25,413 | \$114,676 | \$600,253 | \$ — | \$(421,486) | \$ 1,226 | \$320,082 |
| Balance, December 31, 2018 | 25,413 | \$25,413 | \$122,667 | \$590,655 | \$ — | \$(443,304) | \$ 1,237 | \$296,668 |
| Net (loss) income | — | — | — | (3,184) | — | — | 440 | (2,744) |
| Distributions to non-controlling interest holders | — | — | — | — | — | — | (620) | (620) |
| Share-based compensation expense | — | — | 2,621 | — | — | — | — | 2,621 |
| Exercise of stock options and issuance of restricted shares | — | — | — | (1,549) | — | 1,577 | — | 28 |
| Treasury shares withheld for the payment of tax on restricted share unit and restricted share issuances and stock option exercises | — | — | — | (1,163) | — | 578 | — | (585) |
| Balance, March 31, 2019 | 25,413 | \$25,413 | \$125,288 | \$584,759 | \$ — | \$(441,149) | \$ 1,057 | \$295,368 |

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)

| | Three months ended March 31, | |
|--|------------------------------------|------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net loss | \$(2,744) | \$(3,607) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 9,369 | 8,721 |
| Amortization of intangible assets | 8,647 | 7,147 |
| Unrealized (gain) loss on investment in equity securities | (2,238) | 7,501 |
| Share-based compensation expense | 2,621 | 2,201 |
| Bad debt expense | 155 | 724 |
| Amortization of debt discount | 153 | 89 |
| Amortization of debt issuance costs | 170 | 273 |
| Deferred income taxes | 582 | (1,972) |
| Loss on disposal of fixed assets | 331 | 489 |
| Changes in operating assets and liabilities (excludes assets and liabilities held for sale, see Note 3): | | |
| Accounts receivable | 1,091 | 2,289 |
| Short-term investments in real estate | (401) | (9,915) |
| Prepaid expenses and other current assets | (781) | 702 |
| Other assets | (92) | 481 |
| Accounts payable and accrued expenses | (16,318) | (18,189) |
| Other current and non-current liabilities | (7,200) | (5,503) |
| Net cash used in operating activities | (6,655) | (8,569) |
| Cash flows from investing activities: | | |
| Additions to premises and equipment | (790) | (1,258) |
| Net cash used in investing activities | (790) | (1,258) |
| Cash flows from financing activities: | | |
| Repayments and repurchases of long-term debt | — | (1,486) |
| Debt issuance costs | — | (496) |
| Proceeds from stock option exercises | 28 | 2,617 |
| Purchase of treasury shares | — | (9,994) |
| Distributions to non-controlling interests | (620) | (672) |
| Payments of tax withholding on issuance of restricted share units and restricted shares | (585) | — |
| Net cash used in financing activities | (1,177) | (10,031) |
| Net decrease in cash, cash equivalents and restricted cash | (8,622) | (19,858) |
| Cash, cash equivalents and restricted cash at the beginning of the period | 64,046 | 108,843 |
| Cash, cash equivalents and restricted cash at the end of the period | \$55,424 | \$88,985 |
| Supplemental cash flow information: | | |

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| | | |
|--|---------|---------|
| Interest paid | \$5,634 | \$5,269 |
| Income taxes paid, net | 2,410 | 946 |
| Non-cash investing and financing activities: | | |
| Increase in payables for purchases of premises and equipment | \$28 | \$264 |
| Acquisition of right-to-use assets with lease obligations | 209 | — |
| 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.

Effective January 1, 2019, the Company reorganized its internal reporting structure in connection with Project Catalyst, a project initiated in August 2018 to optimize our operations and reduce costs to better align our cost structure with our anticipated revenues and improve our operating margins (see Note 21). The internal reorganization included, among other changes, the replacement of segment presidents with a chief operating officer, who is responsible for products, services and operations for the Company’s Mortgage Market and Real Estate Market businesses, reporting to our Chief Executive Officer (our chief operating decision maker) who manages our businesses, regularly reviews operating results and profitability, allocates resources and evaluates performance on a consolidated basis. Prior to January 1, 2019, the Company reported our operations through two reportable segments: Mortgage Market and Real Estate Market. In addition, we reported Other Businesses, Corporate and Eliminations separately. The prior year presentation has 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 March 31, 2019, Lenders One had total assets of \$2.0 million and total liabilities of \$0.9 million. As of December 31, 2018, Lenders One had total assets of \$2.7 million and total liabilities of \$1.3 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, 2018, as filed with the SEC on February 26, 2019.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

Fair Value Measurements

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

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

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

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

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

Recently Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) and in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842): Targeted Improvements (collectively “Topic 842”). Topic 842 introduces a new lessee model that brings substantially all leases on the balance sheet. This standard requires lessees to recognize lease assets and lease liabilities on their balance sheets and disclose key information about leasing arrangements in their financial statements. The Company adopted Topic 842 effective January 1, 2019 using the modified retrospective transition approach. In addition, the Company elected the practical expedients permitted under the transition guidance within the new standard, including allowing the Company to carry forward its historical lease classification, using hindsight to determine the lease term for existing leases, combining fixed lease and non-lease components and excluding short-term leases. Adoption of this new standard resulted in the recognition of \$42.1 million of right-to-use assets in premises and equipment, net, \$45.5 million of lease obligation liabilities (\$16.7 million in other current liabilities and \$28.8 million in other non-current liabilities) and reduced accrued rent and lease incentives of \$3.4 million in accounts payable and accrued expenses and other non-current liabilities on the accompanying condensed consolidated balance sheets.

Future Adoption of New Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Current guidance requires that companies compute the implied fair value of goodwill under Step 2 by performing procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. This standard will require companies to perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period, and will be applied prospectively. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its condensed consolidated financial statements; however, adoption of this standard as of March 31, 2019 would not have had any impact on the Company’s condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. This standard modifies certain disclosure requirements such as the valuation processes for Level 3 fair value measurements. This standard also requires new disclosures such as the disclosure of certain assumptions used to develop significant unobservable inputs

for Level 3 fair value measurements. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption of either the entire standard or only the provisions that eliminate or modify requirements is permitted. The Company currently does not expect the adoption of this guidance to have an impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force). This standard aligns the requirements for capitalizing implementation costs in a hosting arrangement service contract with the existing guidance for capitalizing implementation costs incurred for an internal-use software license. This standard also requires capitalizing or expensing implementation costs based on the nature of the costs

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

and the project stage during which they are incurred and establishes additional disclosure requirements. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company currently plans to adopt the standard prospectively and is currently evaluating the impact this guidance may have on its condensed consolidated financial statements.

NOTE 2 — CUSTOMER CONCENTRATION

Ocwen

Ocwen Financial Corporation (“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. During the three months ended March 31, 2019, Ocwen was our largest customer, accounting for 58% of our total revenue. Ocwen purchases certain mortgage services and technology services from us under the terms of services agreements and amendments thereto (collectively, the “Ocwen Services Agreements”) with terms extending through August 2025. Certain of the Ocwen Services Agreements contain a “most favored nation” provision and also grant the parties the right to renegotiate pricing, among other things.

Revenue from Ocwen primarily consists of revenue earned from the loan portfolios serviced and subserviced by Ocwen when Ocwen engages us as the service provider, and revenue earned directly from Ocwen, pursuant to the Ocwen Services Agreements. For the three months ended March 31, 2019 and 2018, we recognized revenue from Ocwen of \$98.3 million and \$102.0 million, respectively. Revenue from Ocwen as a percentage of consolidated revenue was 58% and 52% for the three months ended March 31, 2019 and 2018, respectively.

We earn additional revenue related to the portfolios serviced and subserviced by Ocwen when a party other than Ocwen or the MSR owner selects Altisource as the service provider. For the three months ended March 31, 2019 and 2018, we recognized revenue of \$11.1 million and \$15.2 million, respectively, related to the 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 and revenue from Ocwen as a percentage of revenue above.

As of March 31, 2019, accounts receivable from Ocwen totaled \$13.3 million, \$9.9 million of which was billed and \$3.4 million of which was unbilled. As of December 31, 2018, accounts receivable from Ocwen totaled \$15.2 million, \$11.6 million of which was billed and \$3.6 million of which was unbilled.

As of February 22, 2019, Altisource and Ocwen entered into agreements that, among other things, facilitate Ocwen’s transition from REALServicing® and related technologies to another mortgage servicing software platform, establish a process for Ocwen to review and approve the assignment of one or more of our agreements to potential buyers of Altisource’s business lines, permit Ocwen to use service providers other than Altisource for up to 10% of referrals from certain portfolios (determined on a service-by-service basis), subject to certain restrictions, and affirms Altisource’s role as a strategic service provider to Ocwen through August 2025. We do not anticipate that a servicing technology transition would materially impact the other services we provide to Ocwen. For the three months ended March 31, 2019 and 2018, service revenue from REALServicing and related technologies was \$8.2 million and \$9.6 million, respectively.

NRZ

New Residential Investment Corp. (individually, together with one or more of its subsidiaries or one or more of its subsidiaries individually, “NRZ”) is a residential investment trust that invests in and manages residential mortgage related assets in the United States including MSRs and excess MSRs.

Ocwen has disclosed that NRZ is its largest client. As of December 31, 2018, NRZ owned MSRs or rights to MSRs relating to approximately 57% of loans serviced and subserviced by Ocwen (measured in unpaid principal balances (“UPB”)) (the “Subject MSRs”). In July 2017 and January 2018, Ocwen and NRZ entered into a series of agreements pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen’s legal title to the Subject MSRs and under which Ocwen will subservice mortgage loans underlying the Subject MSRs for an initial term of five years.

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 real estate owned (“REO”) associated with the Subject MSRs, irrespective of the subservicer, subject to certain limitations. NRZ’s brokerage subsidiary receives a cooperative brokerage commission on the sale of REO properties from these portfolios subject to certain exceptions.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

The Brokerage Agreement can, at Altisource's discretion, be terminated by Altisource if a services agreement is not signed by Altisource and NRZ. 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.

For the three months ended March 31, 2019 and 2018, we recognized revenue from NRZ of \$4.0 million and \$10.3 million, respectively, under the Brokerage Agreement. For the three months ended March 31, 2019 and 2018, we recognized additional revenue of \$17.7 million and \$16.1 million, respectively, relating to the Subject MSRs when a party other than NRZ selects Altisource as the service provider.

NOTE 3 — SALE OF BUSINESSES AND ASSETS AND LIABILITIES HELD FOR SALE

Rental Property Management Business

In August 2018, Altisource entered into an amendment to its agreements with Front Yard Residential Corporation ("RESI") to sell Altisource's rental property management business to RESI and permit RESI to internalize certain services that had been provided by Altisource. These services were historically provided under an agreement between RESI and Altisource, in which Altisource was the sole provider of rental property management services to RESI through December 2027, subject to certain exceptions. The proceeds from the transaction totaled \$18.0 million, payable in two installments. The first installment of \$15.0 million was received on the closing date of August 8, 2018. The second installment of \$3.0 million will be received on the earlier of a RESI change of control or on August 8, 2023. The second installment was recorded as a long-term receivable in other assets in the accompanying condensed consolidated balance sheets and has a discounted value of \$2.3 million and \$2.2 million as of March 31, 2019 and December 31, 2018, respectively.

Financial Services Business

On March 28, 2019, Altisource entered into a definitive agreement to sell its Financial Services business, consisting of its post-charge-off consumer debt collection services and customer relationship management services (the "Financial Services Business") to Transworld Systems Inc. ("TSI") for \$44.0 million, consisting of an up-front payment of \$40.0 million, subject to a working capital adjustment upon closing of the sale, and an additional \$4.0 million to be paid on the one year anniversary of the sale closing. In connection with the transaction, the parties will also enter into a transition services agreement that will provide for the management and transition of certain services and technologies to TSI after the sale closes.

Altisource currently estimates it will recognize a pretax gain of more than \$20.0 million from the sale, which is anticipated to close before the end of the third quarter 2019, and intends to use the \$40.0 million up-front payment, subject to a working capital adjustment, to repay a portion of its senior secured term loan. The sale is subject to closing conditions including the receipt of regulatory consents.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

As a result of entering into a definitive agreement to sell the Financial Services Business, as of March 31, 2019, the assets and liabilities of the Financial Services Business are reported as assets held for sale and liabilities held for sale in the accompanying condensed consolidated balance sheets, and consist of the following:

| (in thousands) | March 31, 2019 |
|---|-------------------|
| Accounts receivable, net | \$ 6,586 |
| Prepaid expenses and other current assets | 2,209 |
| Premises and equipment, net | 4,073 |
| Goodwill | 2,378 |
| Intangible assets, net | 10,846 |
| Other assets | 465 |
| Total assets held for sale | \$ 26,557 |
| Accounts payable and accrued expenses | \$ 4,680 |
| Other current liabilities | 1,661 |
| Other non-current liabilities | 2,395 |
| Total liabilities held for sale | \$ 8,736 |

NOTE 4 — INVESTMENT IN EQUITY SECURITIES

During 2016, we purchased 4.1 million shares of RESI common stock. This investment is reflected in the accompanying condensed consolidated balance sheets at fair value and changes in fair value are included in other income (expense), net in the accompanying condensed consolidated statements of operations and comprehensive loss. As of March 31, 2019 and December 31, 2018, the fair value of our investment was \$38.4 million and \$36.2 million, respectively. During the three months ended March 31, 2019 and 2018, we recognized an unrealized gain (loss) from the change in fair value of \$2.2 million and \$(7.5) million, respectively. During the three months ended March 31, 2019 and 2018, we earned dividends of \$0.6 million in each period related to this investment.

Pursuant to the agreement between Altisource and RESI to sell the rental property management business to RESI (see Note 3 for additional information), Altisource is subject to a lock-up period with respect to the sale or transfer of the shares of common stock of RESI owned by Altisource (the “Shares”). During each quarter of 2019, Altisource is permitted to sell or transfer no more than 25% of the Shares, provided that any Shares not sold in the applicable quarter will increase the amount that may be sold in the subsequent quarters by 50% of the unsold permitted amount. Thereafter, all transfer restrictions will expire and any remaining Shares will be freely transferable. Notwithstanding these restrictions, Altisource retains the right to sell or transfer the Shares at any time: (i) where Altisource has a good faith belief that its or its affiliates’ liquidity should be increased and the sale is necessary to achieve such an increase; (ii) where the proceeds of sales will be used to finance a strategic acquisition transaction; (iii) in privately negotiated block transactions with unrelated third parties or a similar transaction; or (iv) where RESI is the subject of a tender offer that is reasonably likely to result in a change of control or where RESI undergoes a change of control. Altisource did not sell or transfer any of the Shares during the three months ended March 31, 2019.

NOTE 5 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|----------------|-------------------|----------------------|
| Billed | \$ 27,968 | \$ 35,590 |
| Unbilled | 10,780 | 11,759 |
| | 38,748 | 47,349 |

Less: Allowance for doubtful accounts (10,114) (10,883)

Total \$28,634 \$ 36,466

Unbilled accounts receivable consist primarily of certain real estate asset management, REO sales, title and closing services for which we generally recognize revenue when the service is provided but collect upon closing of the sale, and foreclosure trustee

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| Maintenance agreements, current portion | \$ 3,939 | \$ 5,600 |
| Income taxes receivable | 11,880 | 7,940 |
| Prepaid expenses | 6,903 | 7,484 |
| Other current assets | 6,570 | 9,696 |
| Total | \$ 29,292 | \$ 30,720 |

NOTE 7 — DISCONTINUATION OF THE BUY-RENOVATE-LEASE-SELL BUSINESS

On November 26, 2018, the Company announced its plans to sell its short-term investments in real estate (“BRS Inventory”) and discontinue the Company’s Buy-Renovate-Lease-Sell (“BRS”) business. Altisource’s BRS business focuses on buying, renovating, leasing and selling single-family homes to real estate investors. The BRS business is not material in relation to the Company’s results of operations or financial position. In anticipation of receiving the majority of the proceeds from the sale of the BRS Inventory in 2019, the Company repaid \$49.9 million of its debt in the fourth quarter of 2018.

NOTE 8 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| Computer hardware and software | \$177,868 | \$ 182,215 |
| Office equipment and other | 5,264 | 7,384 |
| Furniture and fixtures | 12,222 | 13,313 |
| Leasehold improvements | 26,925 | 29,781 |
| | 222,279 | 232,693 |
| Less: Accumulated depreciation and amortization | (182,882) | (187,062) |
| Net | 39,397 | 45,631 |
| | | |
| Right-to-use assets under operating leases | 39,046 | — |
| Less: Accumulated depreciation and amortization | (3,452) | — |
| Net right-to-use assets | 35,594 | — |
| | | |
| Total premises and equipment, net | \$74,991 | \$ 45,631 |

Depreciation and amortization expense totaled \$9.4 million and \$8.7 million for the three months ended March 31, 2019 and 2018, 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 loss.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

Premises and equipment, net consist of the following, by country:

| | March | December |
|----------------|-------|----------|
| (in thousands) | 31, | 31, |
| | 2019 | 2018 |

| | | |
|---------------|----------|----------|
| United States | \$34,817 | \$25,693 |
| India | 20,405 | 3,154 |
| Luxembourg | 15,874 | 14,975 |
| Philippines | 3,551 | 1,754 |
| Other | 344 | 55 |

Total \$74,991 \$45,631

NOTE 9 — GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The change in goodwill during the three months ended March 31, 2019 is as follows:

| (in thousands) | Total |
|---|----------|
| Balance as of December 31, 2018 | \$81,387 |
| Reclassification to net assets held for sale (Note 3) | (2,378) |
| Balance as of March 31, 2019 | \$79,009 |

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 | |
|------------------------------------|---|-----------------------|-------------------|--------------------------|-------------------|----------------|-------------------|
| | | March 31, 2019 | December 31, 2018 | March 31, 2019 | December 31, 2018 | March 31, 2019 | December 31, 2018 |
| Definite lived intangible assets: | | | | | | | |
| Customer related intangible assets | 8 | \$219,797 | \$273,172 | \$(172,892) | \$(207,639) | \$46,905 | \$65,533 |
| Operating agreement | 20 | 35,000 | 35,000 | (16,064) | (15,632) | 18,936 | 19,368 |
| Trademarks and trade names | 15 | 11,349 | 11,349 | (6,412) | (6,244) | 4,937 | 5,105 |
| Non-compete agreements | 4 | 1,230 | 1,230 | (1,103) | (1,026) | 127 | 204 |
| Intellectual property | 10 | 300 | 300 | (145) | (145) | 155 | 155 |
| Other intangible assets | 5 | 3,745 | 3,745 | (2,645) | (2,457) | 1,100 | 1,288 |
| Total | | \$271,421 | \$324,796 | \$(199,261) | \$(233,143) | \$72,160 | \$91,653 |

Amortization expense for definite lived intangible assets was \$8.6 million and \$7.1 million for three months ended March 31, 2019 and 2018, respectively. Expected annual definite lived intangible asset amortization expense for 2019 through 2023 is \$19.6 million, \$13.3 million, \$10.6 million, \$5.3 million and \$5.3 million, respectively.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 10 — OTHER ASSETS

Other assets consist of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|----------------|-------------------|----------------------|
|----------------|-------------------|----------------------|

| | | |
|-------------------|----------|----------|
| Security deposits | \$ 3,575 | \$ 3,972 |
| Restricted cash | 3,915 | 5,752 |
| Other | 2,704 | 2,682 |

| | | |
|-------|-----------|-----------|
| Total | \$ 10,194 | \$ 12,406 |
|-------|-----------|-----------|

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

Accounts payable and accrued expenses consist of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|----------------|-------------------|----------------------|
|----------------|-------------------|----------------------|

| | | |
|-------------------------------|-----------|-----------|
| Accounts payable | \$ 20,908 | \$ 27,853 |
| Accrued expenses - general | 24,442 | 27,866 |
| Accrued salaries and benefits | 19,156 | 31,356 |
| Income taxes payable | 32 | 165 |

| | | |
|-------|-----------|-----------|
| Total | \$ 64,538 | \$ 87,240 |
|-------|-----------|-----------|

Other current liabilities consist of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|----------------|-------------------|----------------------|
|----------------|-------------------|----------------------|

| | | |
|--------------------------------|----------|----------|
| Unfunded cash account balances | \$ 3,906 | \$ 4,932 |
| Lease obligation liabilities | 15,098 | — |
| Other | 1,739 | 2,098 |

| | | |
|-------|-----------|----------|
| Total | \$ 20,743 | \$ 7,030 |
|-------|-----------|----------|

NOTE 12 — LONG-TERM DEBT

Long-term debt consists of the following:

| (in thousands) | March 31, 2019 | December 31, 2018 |
|----------------|-------------------|----------------------|
|----------------|-------------------|----------------------|

| | | |
|---------------------------------|------------|------------|
| Senior secured term loans | \$ 338,822 | \$ 338,822 |
| Less: Debt issuance costs, net | (3,685) | (3,855) |
| Less: Unamortized discount, net | (3,338) | (3,491) |
| Net long-term debt | 331,799 | 331,476 |
| Less: Current portion | (9,222) | — |

| | | |
|--------------------------------------|------------|------------|
| Long-term debt, less current portion | \$ 322,577 | \$ 331,476 |
|--------------------------------------|------------|------------|

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”).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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. There are no mandatory repayments of the Term B Loans due until March 2020, when \$9.2 million is due to be repaid. Thereafter, the Term B Loans must be repaid in consecutive quarterly principal installments of \$3.1 million, with the balance due at maturity. 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.

In addition to the scheduled principal payments, subject to certain exceptions, the Term B Loans are subject to mandatory prepayment upon issuances of debt, certain 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 in direct order of maturity by an amount equal to the mandatory prepayment.

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 as of March 31, 2019 was 6.60%.

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 March 31, 2019.

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 (xi) 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.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

As of March 31, 2019, debt issuance costs were \$3.7 million, net of \$0.9 million of accumulated amortization. As of December 31, 2018, debt issuance costs were \$3.9 million, net of \$0.7 million of accumulated amortization.

NOTE 13 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

| (in thousands) | March 31, December 31, | |
|-------------------------------|------------------------|-----------------|
| | 2019 | 2018 |
| Lease obligation liabilities | \$ 23,202 | \$ — |
| Income tax liabilities | 7,109 | 7,069 |
| Deferred revenue | 52 | 19 |
| Other non-current liabilities | 404 | 2,090 |
| Total | \$ 30,767 | \$ 9,178 |

NOTE 14 — 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 March 31, 2019 and December 31, 2018. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

| (in thousands) | March 31, 2019 | | | | December 31, 2018 | | | |
|---------------------------------|--------------------|------------|---------|------------|--------------------|------------|---------|------------|
| | Carrying amount | Fair value | | | Carrying amount | Fair value | | |
| | | Level 1 | Level 2 | Level 3 | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | | | | |
| Cash and cash equivalents | \$51,509 | \$51,509 | \$ — | —\$ | —\$58,294 | \$58,294 | \$ — | — |
| Restricted cash | 3,915 | 3,915 | — | — | 5,752 | 5,752 | — | — |
| Investment in equity securities | 38,419 | 38,419 | — | — | 36,181 | 36,181 | — | — |
| Long-term receivable (Note 3) | 2,258 | — | — | 2,258 | 2,221 | — | — | 2,221 |
| Liabilities: | | | | | | | | |
| Senior secured term loan | 338,822 | — | 328,657 | — | 338,822 | — | 330,351 | — |

Liabilities:**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 consist of 4.1 million shares of RESI common stock. The investment in equity securities is measured using Level 1 inputs as these securities have quoted prices in active markets.

The fair value of our senior secured term loan is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs. In connection with the sale of the rental property management business in August 2018, Altisource will receive \$3.0 million on the earlier of a RESI change of control or on August 8, 2023 (see Note 3 for additional information). We measure long-term receivables without a stated interest rate based on the present value of the future payments. 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 over 50% of its revenues from Ocwen (see Note 2 for additional information on

Ocwen revenues and accounts receivable

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 15 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION**Share Repurchase Program**

On May 15, 2018, our shareholders approved the renewal and replacement of the share repurchase program previously approved by the shareholders on May 17, 2017. Under the 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 March 31, 2019, approximately 3.4 million shares of common stock remain available for repurchase under the program. There were no purchases of shares of common stock during the three months ended March 31, 2019. We purchased 0.4 million shares at an average price of \$27.67 per share during the three months ended March 31, 2018. 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 March 31, 2019, we can repurchase up to approximately \$107 million of our common stock under Luxembourg law. Our Credit Agreement also limits the amount we can spend on share repurchases, which was approximately \$459 million as of March 31, 2019, 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 \$2.6 million and \$2.2 million for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, estimated unrecognized compensation costs related to share-based awards amounted to \$17.3 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 1.87 years.

Stock Options

Stock option grants are composed of a combination of service-based, market-based and performance-based options. **Service-Based Options.** These options generally vest over three or four years with equal annual vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 497 thousand service-based awards were outstanding as of March 31, 2019.

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 638 thousand market-based awards were outstanding as of March 31, 2019.

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 vests 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 2019 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 506 thousand performance-based awards outstanding as of March 31, 2019.

There were no stock option grants during the three months ended March 31, 2019. Outstanding stock options increased by 228 thousand in February 2019 in connection with the determination of the level of achievement for certain performance-based options

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Notes to Condensed Consolidated Financial Statements (Continued)

granted in 2018. During the three months ended March 31, 2018, 261 thousand stock options (at a weighted average exercise price of \$24.95 per share) were granted.

The fair values of the service-based options and performance-based options are 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:

| | Three months ended March 31, 2018 | |
|-------------------------------------|--------------------------------------|-------------------|
| | Black-Scholes | Binomial |
| Risk-free interest rate (%) | 2.66 – 2.70 | 1.65 – 2.77 |
| Expected stock price volatility (%) | 70.31 – 71.81 | 71.81 |
| Expected dividend yield | — | — |
| Expected option life (in years) | 6.00 – 6.25 | 2.56 – 4.32 |
| Fair value | \$16.17 – \$17.15 | \$15.58 – \$18.28 |

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:

| | Three months ended March 31, 2018 |
|---|--|
| (in thousands, except per share amounts) | |
| Weighted average grant date fair value of stock options granted per share | \$ 16.20 |
| Intrinsic value of options exercised | 104,320 |
| Grant date fair value of stock options that vested | 2, 132 |

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 as of December 31, 2018 | 1,440,566 | \$ 30.78 | 5.04 | \$ 945 |
| Performance criteria achieved | 227,849 | 24.98 | | |
| Exercised | (1,500) | 18.79 | | |
| Forfeited | (25,583) | 61.40 | | |
| Outstanding as of March 31, 2019 | 1,641,332 | 29.51 | 5.14 | 1,339 |
| Exercisable as of March 31, 2019 | 1,007,222 | 27.10 | 3.41 | 1,270 |

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 (a) vesting in equal annual installments, (b) vesting of all of the restricted shares and restricted share units at the end of the vesting period or (c) vesting beginning after two years of service. A total of 631 thousand service-based awards were outstanding as of March 31, 2019.

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 vests on each anniversary of the grant date or cliff-vest on the third anniversary of the grant date. The number of performance-based restricted shares and restricted share units that may vest will be based on the level of achievement, as specified in the award agreements. If the performance

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Notes to Condensed Consolidated Financial Statements (Continued)

criteria achieved is above certain financial performance levels and Altisource's share performance is above certain established criteria, participants have the opportunity to vest in up to 225% of the restricted share unit award for certain awards, depending on performance achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. A total of 140 thousand performance-based awards were outstanding as of March 31, 2019. The Company granted 359 thousand restricted share units (at a weighted average grant date fair value of \$25.02 per share) during three months ended March 31, 2019.

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

| | Number of restricted shares and restricted share units |
|-------------------------------------|---|
| Outstanding as of December 31, 2018 | 485,806 |
| Granted | 358,978 |
| Issued | (31,025) |
| Forfeited/canceled | (43,231) |

Outstanding as of March 31, 2019 770,528

NOTE 16 — REVENUE

We classify revenue in three categories: service revenue, revenue from 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). Our services are primarily provided to customers located in the United States. The components of revenue were as follows for the three months ended March 31:

| (in thousands) | 2019 | 2018 |
|---------------------------|------------|------------|
| Service revenue | \$ 164,999 | \$ 188,766 |
| Reimbursable expenses | 4,496 | 8,147 |
| Non-controlling interests | 440 | 525 |

Total \$ 169,935 \$ 197,438

Disaggregation of Revenue

Disaggregation of total revenues by major source is as follows:

| (in thousands) | Revenue recognized when services are performed or assets | Revenue related to technology platforms and professional | Reimbursable expenses revenue | Total revenue |
|----------------|---|---|-------------------------------------|------------------|
|----------------|---|---|-------------------------------------|------------------|

are sold services

| | | | | |
|-----------------------------------|------------|-----------|----------|------------|
| Three months ended March 31, 2019 | \$ 147,755 | \$ 17,684 | \$ 4,496 | \$ 169,935 |
| Three months ended March 31, 2018 | 166,956 | 22,335 | 8,147 | 197,438 |

Contract Balances

Our contract assets consist of unbilled accounts receivable (see Note 5). Our contract liabilities consist of current deferred revenue as reported on the accompanying condensed consolidated balance sheets and non-current deferred revenue (see Note 13). 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 adopting Topic 606, was \$4.9 million and \$5.9 million for the three months ended March 31, 2019 and 2018, respectively.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 17 — COST OF REVENUE

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, 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 for the three months ended March 31:

| (in thousands) | 2019 | 2018 |
|-----------------------------------|-----------|-----------|
| Compensation and benefits | \$41,368 | \$54,866 |
| Outside fees and services | 62,581 | 65,098 |
| Cost of real estate sold | 2,094 | 3,179 |
| Technology and telecommunications | 8,509 | 9,451 |
| Reimbursable expenses | 4,496 | 8,147 |
| Depreciation and amortization | 5,056 | 6,453 |
| Total | \$124,104 | \$147,194 |

NOTE 18 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES AND OTHER OPERATING 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 services 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 for three months ended March 31:

| (in thousands) | 2019 | 2018 |
|-----------------------------------|----------|----------|
| Compensation and benefits | \$11,353 | \$13,569 |
| Amortization of intangible assets | 8,647 | 7,147 |
| Occupancy related costs | 3,908 | 8,434 |
| Marketing costs | 2,932 | 3,607 |
| Professional services | 5,476 | 3,226 |
| Depreciation and amortization | 4,313 | 2,268 |
| Other | 4,611 | 4,873 |
| Total | \$41,240 | \$43,124 |

NOTE 19 — OTHER INCOME (EXPENSE), NET

Other income (expense), net consists of the following for the three months ended March 31:

(in thousands) 2019 2018

| | | |
|-----------------|-------|-------|
| Interest income | \$151 | \$131 |
| Other, net | 223 | 1,141 |

Total \$374 \$1,272

NOTE 20 — 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.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

Basic and diluted EPS are calculated as follows for the three months ended March 31:

| (in thousands, except per share data) | 2019 | 2018 |
|---|-----------|-----------|
| Net loss attributable to Altisource | \$(3,184) | \$(4,132) |
| Weighted average common shares outstanding, basic | 16,292 | 17,378 |
| Weighted average common shares outstanding, diluted | 16,292 | 17,378 |

Loss per share:

| | | |
|---------|-----------|-----------|
| Basic | \$(0.20) | \$(0.24) |
| Diluted | \$(0.20) | \$(0.24) |

For the three months ended March 31, 2019 and 2018, 0.3 million options in each period were anti-dilutive and have been excluded from the computation of diluted EPS because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS are 0.8 million options, restricted share units and restricted shares for the three months ended March 31, 2019 and 0.6 million options for the three months ended March 31, 2018, 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 three months ended March 31, 2019 and 2018, 0.3 million and 0.5 million, respectively, of total options, restricted share units and restricted shares were excluded from the computation of diluted EPS, as their impact was anti-dilutive.

NOTE 21 — RESTRUCTURING CHARGES

In August 2018, Altisource initiated Project Catalyst, a project intended to optimize our operations and reduce costs to better align our cost structure with our anticipated revenues and improve our operating margins. During the three months ended March 31, 2019, we incurred \$4.4 million of severance costs and professional services fees related to the reorganization plan (no comparative amount for the three months ended March 31, 2018). We expect to incur additional severance and related costs through 2019 in connection with this internal reorganization and will expense those costs as incurred. Based on our analysis, we currently anticipate the future costs relating to the internal reorganization plan to be in the range of approximately \$13 million to \$17 million.

NOTE 22 — 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.

Sales Taxes

On June 21, 2018, the United States Supreme Court rendered a 5-4 majority decision in *South Dakota v. Wayfair, Inc.*, holding that a state may require a remote seller with no physical presence in the state to collect and remit sales tax on goods and services provided to purchasers in the state, overturning certain existing court precedent. During the three

months ended March 31, 2019, the Company completed the analysis of its services for potential exposure to sales tax in various jurisdictions in the United States. The Company recognized a \$2.1 million loss for the three months ended March 31, 2019 (no comparative amount for the three

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

months ended March 31, 2018) in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations and comprehensive loss, in addition to the \$6.2 million loss recorded in 2018. The Company began invoicing, collecting and remitting sales tax in applicable jurisdictions in 2019. The Company is also in the process of seeking reimbursement for sales tax payments from clients; however, there can be no assurance that the Company will be successful in collecting some or all of such reimbursements. Future changes in our estimated sales tax exposure could result in a material adjustment to our condensed consolidated financial statements which would impact our financial condition and results of operations.

Ocwen Related Matters

As discussed in Note 2, during the three months ended March 31, 2019, Ocwen was our largest customer, accounting for 58% of our total revenue. Additionally, 7% of our revenue for the three months ended March 31, 2019 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 demands, 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 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. 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 foregoing 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.

Ocwen has disclosed that NRZ is its largest client. As of December 31, 2018, NRZ owned MSRs or rights to MSRs relating to approximately 57% of loans serviced and subserviced by Ocwen (measured in UPB). In July 2017 and January 2018, Ocwen and NRZ entered into a series of agreements pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the Subject MSRs and under which Ocwen will subservice mortgage loans underlying the Subject MSRs for an initial term of five years. NRZ can terminate its sub-servicing agreement with Ocwen in exchange for the payment of a termination fee. 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-government-sponsored enterprise ("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 whether any of these events will occur or the amount of any impact they may have on Altisource. However, in the event one or more of these events materially negatively impact Altisource, we believe the variable nature of our

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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.

We are focused on diversifying and growing our revenue and customer base and we have a sales and marketing strategy to support our 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.

Leases

We lease certain premises and equipment, primarily consisting of office space and information technology equipment. Effective January 1, 2019, we adopted the provisions of Topic 842, resulting in recognition of \$42.1 million of right-to-use assets in premises and equipment, net and \$45.5 million of lease obligation liabilities (see Note 1). Certain of our leases include options to renew at our discretion or terminate leases early, and these options are considered in our determination of the expected lease term. Certain of our lease agreements include rental payments adjusted periodically for inflation. Our lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. We sublease certain office space to third parties. Sublease income was \$0.4 million and \$0.5 million for the three months ended March 31, 2019 and 2018, respectively. The depreciable life of right-to-use assets are generally limited by the expected lease term. Our leases generally have expected lease terms at adoption of one to six years.

Information about our lease terms and our discount rate assumption is as follows:

| | |
|--|-------------------------------|
| | As of March 31, 2019 |
| Weighted average remaining lease term (in years) | 3.36 |
| Weighted average discount rate | 7.25 % |

Our lease activity during the period is as follows:

| | |
|--|--|
| (in thousands) | Three months ended March 31, 2019 |
| Operating lease costs: | |
| Selling, general and administrative expense | \$ 2,880 |
| Cost of revenue | 858 |
| Cash used in operating activities for amounts included in the measurement of lease liabilities | 4,737 |
| Short-term (less than one year) lease costs | 1,157 |

Maturities of our lease liabilities as of March 31, 2019 are as follows:

| | |
|----------------|-----------------------------------|
| (in thousands) | Operating lease liabilities |
|----------------|-----------------------------------|

| | |
|------------------------------------|-----------|
| 2019 | \$ 13,130 |
| 2020 | 14,583 |
| 2021 | 9,593 |
| 2022 | 5,694 |
| 2023 | 3,465 |
| Thereafter | 1,330 |
| Total lease payments | 47,795 |
| Less interest | (5,596) |
| Present value of lease liabilities | \$ 42,199 |

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

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 accounts for limited periods of time and are not included in the accompanying condensed consolidated balance sheets. Amounts held in escrow and trust accounts were \$25.0 million and \$23.6 million as of March 31, 2019 and December 31, 2018, respectively.

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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, 2018 filed with the Securities and Exchange Commission (“SEC”) on February 26, 2019.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may relate to, among other things, future events or our future performance or financial condition. Words such as “anticipate,” “intend,” “expect,” “may,” “could,” “should,” “would,” “plan,” “estimate,” “believe,” “predict,” “potential” or “continue” or the negative of these terms and other comparable terminology are intended to identify such forward-looking statements. Such statements are based on expectations as to the future and are not statements of historical fact. Furthermore, 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 and anticipated expense reductions as a result of Project Catalyst;
- 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 Part II, Item 1A, Risk Factors of this Form 10-Q and the Risk Factors section of our Form 10-K for the year ended December 31, 2018 and including, but not limited to, 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 retain New Residential Investment Corp. (individually, together with one or more of its subsidiaries, or one or more of its subsidiaries individually, “NRZ”) as a customer or our ability to receive the anticipated volume of referrals from NRZ;
- our ability to close the Financial Services business disposition transaction with Transworld Systems Inc. (“TSI”), including the timing and satisfaction of closing conditions and delays in obtaining regulatory consents in connection with the transaction;
- our ability to comply with material agreements if a change of control is deemed to have occurred including, among other things, through the formation of a shareholder group, this may cause a termination event or event of default under certain of our agreements;
- 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 tax regulations and interpretations in the countries, states and local jurisdictions in which we operate.

We caution the reader not to place undue reliance on these forward-looking statements as they reflect our view only as of the date

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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.

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.

Effective January 1, 2019, the Company reorganized its internal reporting structure in connection with Project Catalyst, a project initiated in August 2018 to optimize our operations and reduce costs to better align our cost structure with our anticipated revenues and improve our operating margins. The internal reorganization included, among other changes, the replacement of segment presidents with a chief operating officer, who is responsible for products, services and operations for the Company’s Mortgage Market and Real Estate Market businesses, reporting to our Chief Executive Officer (our chief operating decision maker) who manages our businesses, regularly reviews operating results and profitability, allocates resources and evaluates performance on a consolidated basis. Prior to January 1, 2019, the Company reported our operations through two reportable segments: Mortgage Market and Real Estate Market. In addition, we reported Other Businesses, Corporate and Eliminations separately. The prior year presentation has been reclassified to conform to the current year presentation.

We provide loan servicers and originators with marketplaces, services and technologies that span the mortgage lifecycle. We provide real estate consumers with marketplaces and services that span the real estate lifecycle. Our offerings include:

Field Services

- Property preservation and inspection services, including vendor management, marketplace transaction management, payment management technologies and a vendor management oversight software-as-a-service (“SaaS”) platform

Marketplace

- Hubzu® online real estate auction, real estate brokerage and asset management

- Equator®, a SaaS based technology to manage real estate owned (“REO”), short sales, foreclosure, bankruptcy and eviction processes

Professional Services

- Mortgage origination loan fulfillment, certification and certification insurance services and technologies

- Title insurance (as an agent), settlement and valuation services

- Residential and commercial construction inspection and risk mitigation services

- Management of Best Partners Mortgage Cooperative, Inc., doing business as Lenders One® (“Lenders One”) mortgage banking cooperative

- Foreclosure trustee services

Earlier Stage Businesses

- Owners.com® technology-enabled real estate brokerage and provider of related mortgage brokerage and title services

- Pointillist® customer journey analytics platform

We classify revenue in three categories: service revenue, revenue from reimbursable expenses and non-controlling interests. In evaluating our performance, we focus on service revenue. Service revenue consists of amounts attributable to our fee-based services and sales of short-term investments in real estate. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services that we pass directly on to our customers without a markup. Non-controlling interests represent the earnings of Lenders One. Lenders One is 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. Through our suite of offerings described above, we facilitate transactions and provide products,

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solutions and services related to home sales, home purchases, home maintenance, mortgage originations and mortgage servicing. Our suite of offerings provide Altisource the potential to grow and diversify our customer and revenue base. We believe we operate in very large markets and directly leverage our core competencies and distinct competitive advantages.

Through our offerings that support residential loan servicers, we provide a suite of services and technologies intended to meet their growing and evolving needs. We are focused on growing referrals from our existing 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 delinquency rates rise and as existing customers and prospects consolidate to larger, full-service providers and outsource services that have historically been performed in-house.

We also provide services to loan originators (or other similar mortgage market participants) in originating, buying and selling residential mortgages. 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 attempting to grow referrals from our existing customer base and attract new customers to our offerings. We have a customer base that includes the Lenders One cooperative mortgage bankers and mid-size and larger bank and non-bank loan originators. We believe our suite of services and technologies positions us to grow our relationships with our existing customer base by providing additional products, services and solutions to these customers. Further, we believe we are well positioned to attract new customers as prospects consolidate to larger, full-service providers and outsource services that have historically been performed in-house.

We are also continuing to develop our earlier stage businesses, including Owners.com and Pointillist. Through our Owners.com brokerage, we provide real estate buyers and sellers with a technology-enabled real estate brokerage and the integrated services to support them in buying and selling a home. Our offerings include local real estate agent services, loan brokerage, and closing and title services. Pointillist, which was developed by Altisource through our consumer analytics capabilities, is a potentially disruptive SaaS-based platform that provides unique customer journey analytics at scale and enables customers to engage through our intelligent platform. We are focused on continuing to develop these businesses by capitalizing on Altisource’s experience in online real estate marketing, loan origination services and analytics.

Share Repurchase Program

On May 15, 2018, our shareholders approved the renewal and replacement of the share repurchase program previously approved by the shareholders on May 17, 2017. Under the 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 March 31, 2019, approximately 3.4 million shares of common stock remain available for repurchase under the program. There were no purchases of shares of common stock during the three months ended March 31, 2019. We purchased 0.4 million shares at an average price of \$27.67 per share during the three months ended March 31, 2018. 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 March 31, 2019, we can repurchase up to approximately \$107 million of our common stock under Luxembourg law. Our Credit Agreement also limits the amount we can spend on share repurchases, which was approximately \$459 million as of March 31, 2019, and may prevent repurchases in certain circumstances.

Ocwen Related Matters

During the three months ended March 31, 2019, Ocwen was our largest customer, accounting for 58% of our total revenue. Additionally, 7% of our revenue for the three months ended March 31, 2019 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 demands, 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 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. 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 foregoing 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.

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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.

Ocwen has disclosed that NRZ is its largest client. As of December 31, 2018, NRZ owned MSR or rights to MSR relating to approximately 57% of loans serviced and subserviced by Ocwen (measured in unpaid principal balances) (the “Subject MSRs”). In July 2017 and January 2018, Ocwen and NRZ entered into a series of agreements pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen’s legal title to the Subject MSRs and under which Ocwen will subservice mortgage loans underlying the Subject MSRs for an initial term of five years. NRZ can terminate its sub-servicing agreement with Ocwen in exchange for the payment of a termination fee.

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 whether any of these events will occur or the amount of any impact they may have on Altisource. However, in the event one or more of these events 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.

We are focused on diversifying and growing our revenue and customer base and we have a sales and marketing strategy to support our 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.

Factors Affecting Comparability

The following items may impact the comparability of our results:

• On March 28, 2019, the Company entered into a definitive agreement to sell its Financial Services business to TSI for \$44.0 million, consisting of an up-front payment of \$40.0 million, subject to a working capital adjustment upon closing of the sale, and an additional \$4.0 million to be paid on the one year anniversary of the sale closing. The sale is subject to closing conditions, including the receipt of regulatory consents. As a result of this pending sale, assets and liabilities subject to the sale have been reported as assets and liabilities held for sale on the accompanying condensed consolidated balance sheets. The Company currently estimates it will recognize a pretax gain of more than \$20.0 million from the sale, which is anticipated to close before the end of the third quarter 2019, and intends to use

the \$40.0 million up-front payment, subject to a working capital adjustment, to repay a portion of its senior secured term loan.

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Effective January 1, 2019, the Company implemented a new accounting standard on leases, which required the recognition of operating leases by companies as lease obligation liabilities on their balance sheets and also required the recognition of right-of-use assets, resulting in higher depreciation and amortization expense and interest expense and lower occupancy related costs (see Notes 1 and 22 to the condensed consolidated financial statements for additional information regarding this accounting change). Adoption of this new standard resulted in the recognition of \$42.1 million of right-to-use assets in premises and equipment, net, \$45.5 million of lease obligation liabilities (\$16.7 million in other current liabilities and \$28.8 million in other non-current liabilities) and reduced accrued rent and lease incentives of \$3.4 million in accounts payable and accrued liabilities and other non-current liabilities on the accompanying condensed consolidated balance sheets. Consequently, occupancy related costs were lower by \$4.3 million for the three months ended March 31, 2019 and depreciation and amortization expense and interest expense increased by \$3.7 million and \$0.8 million, respectively.

In August 2018, Altisource initiated Project Catalyst, a project intended to optimize its operations and reduce costs to better align its cost structure with its anticipated revenues and improve its operating margins. During the three months ended March 31, 2019, Altisource incurred \$4.4 million of severance costs and professional services fees related to the reorganization plan (no comparative amount for the three months ended March 31, 2018). Altisource expects to incur additional severance and related costs through 2019 in connection with this internal reorganization and will expense those costs as incurred. Based on the Company's analysis, it currently anticipates the future costs relating to the internal reorganization plan to be in the range of approximately \$13 million to \$17 million.

During the three months ended March 31, 2019 and 2018, the Company recognized an unrealized gain of \$2.2 million and an unrealized loss of \$(7.5) million, respectively, on its investment in Front Yard Residential Corporation ("RESI") common shares in other income (expense), net in the accompanying condensed consolidated statements of operations and comprehensive loss from a change in the market value of RESI common shares.

On June 21, 2018, the United States Supreme Court rendered a 5-4 majority decision in *South Dakota v. Wayfair, Inc.*, holding that a state may require a remote seller with no physical presence in the state to collect and remit sales tax on goods and services provided to purchasers in the state, overturning certain existing court precedent. During the three months ended March 31, 2019, the Company completed the analysis of its services for potential exposure to sales tax in various jurisdictions in the United States. The Company recognized a \$2.1 million loss for the three months ended March 31, 2019 (no comparative amount for the three months ended March 31, 2018) in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations and comprehensive loss, in addition to the \$6.2 million loss recorded in 2018. The Company began invoicing, collecting and remitting sales tax in applicable jurisdictions in 2019. The Company is also in the process of seeking reimbursement for sales tax payments from clients; however, there can be no assurance that the Company will be successful in collecting some or all of such reimbursements. Future changes in our estimated sales tax exposure could result in a material adjustment to our condensed consolidated financial statements which would impact our financial condition and results of operations.

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 comparative average interest rates under the Credit Agreement for the Term B Loans and the prior credit agreement were 6.8% and 5.1% for the three months ended March 31, 2019 and 2018, respectively. The increase in interest expense from the higher average interest rate was partially offset by a lower average outstanding principal debt balance for the three months ended March 31, 2019 as a result of debt principal repayments of \$74.8 million during 2018.

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RESULTS OF OPERATIONS

Summary Results

The following is a discussion of our results of operations for the periods indicated.

The following table sets forth information regarding our consolidated results of operations for the three months ended March 31:

| (in thousands, except per share data) | 2019 | 2018 | % Increase (decrease) |
|---|------------|------------|--------------------------|
| Service revenue | \$ 164,999 | \$ 188,766 | (13) |
| Reimbursable expenses | 4,496 | 8,147 | (45) |
| Non-controlling interests | 440 | 525 | (16) |
| Total revenue | 169,935 | 197,438 | (14) |
| Cost of revenue | 124,104 | 147,194 | (16) |
| Gross profit | 45,831 | 50,244 | (9) |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 41,240 | 43,124 | (4) |
| Restructuring charges | 4,420 | — | N/M |
| Income from operations | 171 | 7,120 | (98) |
| Other income (expense), net | | | |
| Interest expense | (6,749) | (5,863) | 15 |
| Unrealized gain (loss) on investment in equity securities | 2,238 | (7,501) | 130 |
| Other income (expense), net | 374 | 1,272 | (71) |
| Total other income (expense), net | (4,137) | (12,092) | (66) |
| Loss before income taxes and non-controlling interests | (3,966) | (4,972) | (20) |
| Income tax benefit | 1,222 | 1,365 | (10) |
| Net loss | (2,744) | (3,607) | (24) |
| Net income attributable to non-controlling interests | (440) | (525) | (16) |
| Net loss attributable to Altisource | \$(3,184) | \$(4,132) | (23) |
| Margins: | | | |
| Gross profit/service revenue | 28 | % 27 | % |
| Income from operations/service revenue | — | % 4 | % |
| Loss per share: | | | |
| Basic | \$(0.20) | \$(0.24) | (17) |
| Diluted | \$(0.20) | \$(0.24) | (17) |
| Weighted average shares outstanding: | | | |
| Basic | 16,292 | 17,378 | (6) |
| Diluted | 16,292 | 17,378 | (6) |
| N/M — not meaningful. | | | |

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Revenue

Revenue by line of business was as follows for the three months ended March 31:

| (in thousands) | 2019 | 2018 | % Increase (decrease) |
|-----------------------------|-----------|-----------|--------------------------|
| Service revenue: | | | |
| Field Services | \$70,094 | \$67,246 | 4 |
| Marketplace | 36,967 | 50,251 | (26) |
| Professional Services | 26,413 | 31,930 | (17) |
| Earlier Stage Businesses | 1,867 | 1,478 | 26 |
| Other | 29,658 | 37,861 | (22) |
| Total service revenue | 164,999 | 188,766 | (13) |
| Reimbursable expenses: | | | |
| Field Services | 2,596 | 5,677 | (54) |
| Marketplace | 691 | 1,146 | (40) |
| Professional Services | 1,036 | 1,310 | (21) |
| Other | 173 | 14 | N/M |
| Total reimbursable expenses | 4,496 | 8,147 | (45) |
| Non-controlling interests: | | | |
| Professional Services | 440 | 525 | (16) |
| Total revenue | \$169,935 | \$197,438 | (14) |

N/M — not meaningful.

We recognized service revenue of \$165.0 million for the three months ended March 31, 2019, a 13% decrease compared to the three months ended March 31, 2018. Field Services, Marketplace and Professional Services were negatively impacted by the reduction in the size of Ocwen's portfolio and number of delinquent loans, RESI's smaller portfolio of non-performing loans and REO, as RESI continued to sell off its portfolio and focus on directly acquiring, renovating and managing rental homes, and higher brokerage commission earned from the NRZ portfolio during the three months ended March 31, 2018 related to REO properties that transferred to NRZ from Ocwen that were already listed on Hubzu. This transitional service revenue ended in 2018. These decreases in service revenue were partially offset by service revenue growth in Field Services driven by growth in referrals of certain higher fee property preservation services. In addition, service revenue growth from Earlier Stage Businesses was driven by increases in transaction volumes at Owners.com and customer wins at Pointillist. Service revenue in Other decreased from lower rental property management service revenue from the sale of this business to RESI in August 2018, lower construction management transactions with RESI and lower revenue in the buy-renovate-lease-sell business from fewer home sales, partially offset by service revenue growth from our Financial Services businesses.

We recognized reimbursable expense revenue of \$4.5 million for the three months ended March 31, 2019, a 45% decrease compared to the three months ended March 31, 2018. The decrease in reimbursable expense revenue was primarily a result of a 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, as discussed in service revenue above.

Certain of our revenues are impacted by seasonality. More specifically, revenues from property sales, loan originations and certain Field 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 typically 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.

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Cost of revenue consisted of the following for the three months ended March 31:

| (in thousands) | 2019 | 2018 | % Increase (decrease) |
|-----------------------------------|----------|----------|--------------------------|
| Compensation and benefits | \$41,368 | \$54,866 | (25) |
| Outside fees and services | 62,581 | 65,098 | (4) |
| Cost of real estate sold | 2,094 | 3,179 | (34) |
| Technology and telecommunications | 8,509 | 9,451 | (10) |
| Reimbursable expenses | 4,496 | 8,147 | (45) |
| Depreciation and amortization | 5,056 | 6,453 | (22) |

Cost of revenue \$124,104 \$147,194 (16)

We recognized cost of revenue of \$124.1 million for the three months ended March 31, 2019, a 16% decrease compared to the three months ended March 31, 2018. The decrease was primarily driven by cost reduction initiatives and benefits of Project Catalyst and lower outside fees and services as a result of a reduction in the size of Ocwen's portfolio, as discussed in the revenue section above. The decline in compensation and benefits in certain of our businesses also resulted from lowering headcount consistent with the revenue decline from the Ocwen and RESI portfolios. The decrease in reimbursable expenses was consistent with the decrease in reimbursable expense revenue discussed in the revenue section above.

Gross profit decreased to \$45.8 million, representing 28% of service revenue, for the three months ended March 31, 2019 compared to \$50.2 million, representing 27% of service revenue, for the three months ended March 31, 2018.

Gross profit as a percentage of service revenue for the three months ended March 31, 2019 increased compared to the three months ended March 31, 2018, as a result of our Project Catalyst cost reduction initiatives. The increase in gross margin as a percentage of service revenue was partially offset by revenue mix changes with a higher percentage of service revenue from our lower margin Field Services business.

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 services fees, occupancy costs, marketing costs, depreciation and amortization of non-operating assets and other expenses.

SG&A expenses consisted of the following for the three months ended March 31:

| (in thousands) | 2019 | 2018 | % Increase (decrease) |
|-----------------------------------|----------|----------|--------------------------|
| Compensation and benefits | \$11,353 | \$13,569 | (16) |
| Amortization of intangible assets | 8,647 | 7,147 | 21 |
| Occupancy related costs | 3,908 | 8,434 | (54) |
| Marketing costs | 2,932 | 3,607 | (19) |
| Professional services | 5,476 | 3,226 | 70 |
| Depreciation and amortization | 4,313 | 2,268 | 90 |
| Other | 4,611 | 4,873 | (5) |

Selling, general and administrative expenses \$41,240 \$43,124 (4)

SG&A for the three months ended March 31, 2019 of \$41.2 million decreased by 4% compared to the three months ended March 31, 2018. The decrease was primarily driven by lower compensation and benefits as we reduced headcount as a result of our Project Catalyst cost reduction initiatives. Occupancy related costs were lower primarily as a result of the January 1, 2019 implementation of a new accounting standard on operating leases. The new standard required the recognition of operating leases by companies as lease obligation liabilities on their balance sheet and also required the recognition of right-of-use assets, resulting in higher depreciation and amortization expense and interest

expense and lower occupancy related costs. Consequently, depreciation and amortization expense related to the right-to-use assets increased for the three months ended March 31, 2019 (see Notes 1 and 22 to the condensed consolidated financial statements for additional information regarding this accounting change). These decreases were partially offset by an increase in professional services, from increased legal and professional services costs in connection with certain legal and regulatory matters and an increase in amortization of intangible assets based on changes in the estimated remaining lives of certain intangible assets.

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Other Operating Expenses - Restructuring Charges

In August 2018, Altisource initiated Project Catalyst, a project intended to optimize our operations and reduce costs to better align our cost structure with our anticipated revenues and improve our operating margins. During the three months ended March 31, 2019, we incurred \$4.4 million of severance costs and professional services fees related to the reorganization plan. We expect to incur additional severance and related costs through 2019 in connection with this internal reorganization and will expense those costs as incurred. Based on our analysis, we currently anticipate the future costs relating to the internal reorganization plan to be in the range of approximately \$13 million to \$17 million.

Income from Operations

Income from operations decreased to \$0.2 million, representing less than 1% of service revenue, for the three months ended March 31, 2019, compared to \$7.1 million, representing 4% of service revenue, for the three months ended March 31, 2018. Income from operations as a percentage of service revenue decreased in 2019 compared to 2018, as SG&A and other operating expenses did not decrease at the same rate as service revenue and from the restructuring costs incurred during 2019, as discussed above.

Other Income (Expense), net

Other income (expense), net principally includes interest expense, unrealized gain (loss) on our investment in RESI common shares and other non-operating gains and losses.

Other expense, net for the three months ended March 31, 2019 of \$(4.1) million decreased by 66% compared to \$(12.1) million for the three months ended March 31, 2018. The decrease in other expense in 2019 was primarily driven by a \$2.2 million unrealized gain on our investment in RESI common shares compared to a \$(7.5) million loss in 2018. The decrease was partially offset by an increase in interest expense due to higher average interest rates on the Credit Agreement and from imputed interest expense on leases related to the implementation of a new accounting standard effective January 1, 2019, as discussed in SG&A above. The comparative average interest rates under the Credit Agreement for the Term B Loans and the prior credit agreement were 6.8% and 5.1% for the three months ended March 31, 2019 and 2018, respectively. The increase in interest expense from the higher average interest rate was partially offset by a lower average outstanding principal debt balance for the three months ended March 31, 2019 as a result of debt principal repayments of \$74.8 million during 2018.

Income Tax Provision

We recognized an income tax benefit of \$1.2 million and \$1.4 million for the years ended March 31, 2019 and 2018, respectively, and our effective income tax rates for the three months ended March 31, 2019 and 2018 were 30.8% and 27.5%, respectively. The Company's effective income tax rates differ from the Luxembourg statutory income tax rate of 26.0% due to the mix of income and losses with varying tax rates in multiple taxing jurisdictions in which we operate.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our primary source of liquidity is cash flow from operations and cash on hand. We seek to deploy cash generated in a disciplined manner. Principally, we intend to use cash to develop and grow complementary services and businesses that we believe will generate attractive margins in line with our core capabilities and strategy. We use cash for repayments of our long-term debt, capital investments and seek to use cash from time to time to repurchase shares of our common stock and reduce our debt. In addition, we consider and evaluate business acquisitions and dispositions from time to time that are aligned with our strategy.

Credit Agreement

On April 3, 2018, Altisource entered into the Credit Agreement pursuant to which 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.

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. As of March 31, 2019, \$338.8 million of the Term B Loans were outstanding. There were no borrowings outstanding under the revolving credit facility as of March 31, 2019. There are no mandatory repayments of the Term B Loans due until March 2020, when \$9.2 million is due to be repaid. Thereafter, the Term B Loans must be repaid in consecutive quarterly principal installments of \$3.1 million,

with the balance due at maturity. 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

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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. In addition to the scheduled principal payments, subject to certain exceptions, the Term B Loans are subject to mandatory prepayment upon issuances of debt, certain 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.

The interest rate on the Term B Loans as of March 31, 2019 was 6.6%.

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 Credit Agreement includes covenants that restrict or limit, among other things, our ability, subject to certain exceptions and baskets, to incur additional debt, pay dividends and repurchase shares of our common stock. In the event we require additional liquidity, our ability to obtain it may be limited by the Credit Agreement.

Cash Flows

The following table presents our cash flows for the three months ended March 31:

| (in thousands) | 2019 | 2018 | % Increase (decrease) |
|---|-----------|-----------|--------------------------|
| Net loss adjusted for non-cash items | \$ 17,046 | \$ 21,566 | (21) |
| Changes in operating assets and liabilities | (23,701) | (30,135) | 21 |
| Net cash used in operating activities | (6,655) | (8,569) | (22) |
| Net cash used in investing activities | (790) | (1,258) | 37 |
| Net cash used in financing activities | (1,177) | (10,031) | 88 |
| Net decrease in cash, cash equivalents and restricted cash | (8,622) | (19,858) | 57 |
| Cash, cash equivalents and restricted cash at the beginning of the period | 64,046 | 108,843 | (41) |
| Cash, cash equivalents and restricted cash at the end of the | \$ 55,424 | \$ 88,985 | (38) |

period

Cash Flows from Operating Activities

Cash flows from operating activities generally consist of the cash effects of transactions and events that enter into the determination of net income. For the three months ended March 31, 2019, cash flows used in operating activities were \$(6.7) million, or approximately \$(0.04) for every dollar of service revenue, compared to cash flows used in operating activities of \$(8.6) million, or approximately \$(0.05) for every dollar of service revenue, for the three months ended March 31, 2018. During the three months ended March 31, 2019, the decrease in cash used in operations compared to the three months ended March 31, 2018 was due to cash used for changes in operating assets and liabilities of \$6.4 million, partially offset by a \$4.5 million unfavorable change in net loss, adjusted for non-cash items. The decrease in cash used for changes in operating assets and liabilities was driven by lower use of cash for short-term investments in real estate, partially offset by \$6.9 million of payments of sales tax accruals during the three months ended March 31, 2019 (no comparative amount during the three months ended March 31, 2018). The decrease in net loss, adjusted for non-cash items, was primarily driven by lower gross profit during the three months ended March 31, 2019 from lower service revenue and the Project Catalyst restructuring charges, partially offset by decreases in expenses as a result of the Project Catalyst cost reduction initiatives. Operating cash flows can be negatively impacted because of the nature of some of our services and the mix of services provided. Certain services are performed immediately following or shortly after the referral, but the collection of the receivable does not occur until a specific event occurs (e.g., the foreclosure is complete, the REO asset is sold, etc.). Furthermore, lower margin services generate lower income and cash flows from operations. Consequently, our cash flows from operations may be negatively impacted when comparing one period to another.

Cash Flows from Investing Activities

Cash flows from investing activities for the three months ended March 31, 2019 and 2018 consisted of additions to premises and equipment. Cash flows used in investing activities were \$(0.8) million and \$(1.3) million for the three months ended March 31,

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2019 and 2018, respectively, for additions to premises and equipment primarily related to investments in the development of certain software applications, IT infrastructure and facility improvements.

Cash Flows from Financing Activities

Cash flows from financing activities for the three months ended March 31, 2019 and 2018 included activities associated with repayments of long-term debt, proceeds from stock option exercises, the purchase of treasury shares, distributions to non-controlling interests and payments of tax withholdings on issuance of restricted share units and restricted shares. Cash flows from financing activities were \$(1.2) million and \$(10.0) million for the three months ended March 31, 2019 and 2018, respectively. During the three months ended March 31, 2019 and 2018, we distributed \$0.6 million and \$0.7 million to non-controlling interests, respectively. In addition, during the three months ended March 31, 2019, we made payments of \$0.6 million to satisfy employee tax withholding obligations on the issuance of restricted share units and restricted shares (no comparative amount during the three months ended March 31, 2018). These payments were made to tax authorities, at the employees' direction, to satisfy the employees' tax obligations rather than issuing a portion of vested restricted share units and restricted shares to employees. In addition, during the three months ended March 31, 2018, we used \$10.0 million to repurchase shares of our common stock (no comparative amount during the three months ended March 31, 2019), received proceeds from stock option exercises of \$2.6 million (compared to less than \$0.1 million during the three months ended March 31, 2019), made repayments of long-term debt of \$1.5 million (no comparative amount during the three months ended March 31, 2019) and incurred debt issuance costs of \$0.5 million (no comparative amount during the three months ended March 31, 2019).

Liquidity Requirements after March 31, 2019

Our primary future liquidity obligations primarily pertain to long-term debt repayments and interest expense under the Credit Agreement (see Liquidity section above), lease payments and distributions to Lenders One members. During the next 12 months, we expect to pay \$22.4 million of interest expense (assuming the current interest rate) under the Credit Agreement, make lease payments of \$17.2 million and distribute approximately \$2.5 million to the Lenders One members representing non-controlling interests.

We believe that our existing cash and cash equivalents balances, our anticipated cash flows from operations and availability under our revolving credit facility will be sufficient to meet our liquidity needs, including to fund required interest payments and additions to premises and equipment, for the next 12 months.

Contractual Obligations, Commitments and Contingencies

For the three months ended March 31, 2019, there were no significant changes to our contractual obligations from those identified in our Form 10-K for the fiscal year ended December 31, 2018 and this Form 10-Q, other than those that occur in the normal course of business. See Note 22 to the condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND RECENT ACCOUNTING PRONOUNCEMENT

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

Our critical accounting policies are described in the MD&A section of our Form 10-K for the year ended December 31, 2018 filed with the SEC on February 26, 2019. There have been no material changes to our critical accounting policies during the three months ended March 31, 2019.

Recently Adopted and Future Adoption of New Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements for a discussion of recently issued accounting pronouncements, including pronouncements that were adopted in the current period.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

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

Interest Rate Risk

As of March 31, 2019, the interest rate charged on the Term B Loan was 6.6%. The interest rate is calculated based on the Adjusted Eurodollar Rate (as defined in the senior secured term loan agreement) with a minimum floor of 1.00% plus 4.00%.

Based on the principal amount outstanding as of March 31, 2019, a one percentage point increase in the Eurodollar rate would increase our annual interest expense by approximately \$3.4 million, based on the March 31, 2019 Adjusted Eurodollar Rate. There would be a \$3.4 million decrease in our annual interest expense if there was a one percentage point decrease in the Eurodollar Rate.

Currency Exchange Risk

We are exposed to currency risk from potential changes in currency values of our non-United States dollar denominated expenses, assets, liabilities and cash flows. Our most significant currency exposure relates to the Indian rupee. Based on expenses incurred in Indian rupees during the three months ended March 31, 2019, a one percentage point increase or decrease in value of the Indian rupee in relation to the United States dollar would increase or decrease our annual expenses by approximately \$0.7 million.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2019, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on this evaluation, such officers have concluded that our disclosure controls and procedures were effective as of March 31, 2019.

b) Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Form 10-K for the year ended December 31, 2018 filed with the SEC on February 26, 2019, except as follows:

We may not be able to close the Financial Services business disposition transaction with Transworld Systems Inc. (“TSI”), during 2019 or at all because, among other things, we or TSI may not be able to satisfy the closing conditions or there could be a delay in obtaining regulatory and other third party consents in connection with the transaction. On March 28, 2019, Altisource entered into a definitive agreement to sell its Financial Services business to TSI for \$44.0 million, consisting of an up-front payment of \$40.0 million, subject to a working capital adjustment upon closing of the sale, and an additional \$4.0 million to be paid on the one year anniversary of the sale closing. The sale is subject to closing conditions including the receipt of regulatory consents. We may be unable to satisfy the closing conditions, or the closing may be delayed due to difficulties in obtaining regulatory and other third party consents in connection with the transaction. In addition, we may incur unanticipated expenditures relating to or liabilities arising from delays in closing the transaction or ultimately not being able to close the transaction. An inability to close the transaction in a timely manner or at all could have a material adverse impact on our financial condition and results of operations.

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

There were no purchases of shares of common stock during the three months ended March 31, 2019. On May 15, 2018, our shareholders approved the renewal and replacement of the share repurchase program originally approved by the shareholders on May 17, 2017, which replaced the previous share repurchase program and authorizes us to purchase up to 4.3 million shares of our common stock in the open market, subject to certain parameters, for a period of five years from the date of approval. The maximum number of shares that may be purchased under the repurchase program is 3.4 million shares of the Company’s common stock. In addition to the share repurchase program, during the three months ended March 31, 2019, 23,969 common shares were withheld from employees to satisfy tax withholding obligations that arose from the vesting of restricted shares.

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Item 6. Exhibits

| Exhibit Number | Exhibit Description |
|----------------|--|
| 10.1 * ** | <u>Binding Term Sheet dated as of February 22, 2019 between Altisource S.à r.l., Ocwen Financial Corporation and Ocwen Mortgage Servicing, Inc.</u> |
| 10.2 * † | <u>Amended and Restated Employment Contract of Indefinite Duration dated as of March 22, 2019 between Altisource S.à r.l. and Marcello Mastioni</u> |
| 10.3 * ** † | <u>Separation Agreement and Release dated as of March 22, 2019 between Indroneel Chatterjee and Altisource Solutions, Inc.</u> |
| 10.4 * ** † | <u>Side Letter to Separation Agreement and Release by and between Indroneel Chatterjee and Altisource Solutions, Inc. dated as of March 22, 2019</u> |
| 10.5 * † | <u>Form of Restricted Stock Unit Award Agreement Pursuant to Altisource’s 2009 Equity Incentive Plan and 2019 Long Term Equity Incentive Program</u> |
| 10.6 * † | <u>Form of Restricted Stock Unit Award Agreement Pursuant to Altisource’s 2009 Equity Incentive Plan and 2018 Annual Incentive Plan</u> |
| 31.1 * | <u>Section 302 Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)</u> |
| 31.2 * | <u>Section 302 Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)</u> |
| 32.1 * | <u>Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101 * | Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2019 is formatted in XBRL interactive data files: (i) Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018; (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2019 and 2018; (iii) Condensed Consolidated Statements of Equity for the three months ended March 31, 2019 and 2018; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018; and (v) Notes to Condensed Consolidated Financial Statements. |

* Filed herewith.
 Portions of this exhibit have been redacted because (a) it is (i) not material and (ii) would be competitively harmful if publicly disclosed or (b) it is personally identifiable information, the disclosure of which would be an unwarranted invasion of personal privacy.

** Denotes a management contract or compensatory arrangement.

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SIGNATURES

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

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Registrant)

Date: April 25,
2019

By: /s/ Michelle D. Esterman

Michelle D. Esterman
Chief Financial Officer

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