Altisource Portfolio Solutions S.A.
Form 10-Q
October 27, 2016

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 1-34354

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

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

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

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

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

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

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

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

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

As of October 21, 2016, there were 18,877,614 outstanding shares of the registrant's shares of beneficial interest (excluding 6,535,134 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)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,948	$ 179,327
Available for sale securities	45,174	—
Accounts receivable, net	101,580	105,023
Prepaid expenses and other current assets	31,927	21,751
Total current assets	313,629	306,101
Premises and equipment, net	109,785	119,121
Goodwill	89,905	82,801
Intangible assets, net	162,976	197,003
Deferred tax assets, net	4,847	3,619
Other assets	12,190	13,153
Total assets	$ 693,332	$ 721,798
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 101,361	$ 91,871
Current portion of long-term debt	5,945	5,945
Deferred revenue	10,927	15,060
Other current liabilities	13,846	16,266
Total current liabilities	132,079	129,142
Long-term debt, less current portion	468,689	522,233
Other non-current liabilities	13,790	18,153
Commitments, contingencies and regulatory matters (Note 22)		
Equity:		
Common stock ($1.00 par value; 25,413 shares authorized and issued and 18,878 outstanding as of September 30, 2016; 25,413 shares authorized and issued and 19,021 outstanding as of December 31, 2015)	25,413	25,413
Additional paid-in capital	101,013	96,321
Retained earnings	359,435	369,270
Accumulated other comprehensive loss	(2,156)	—
Treasury stock, at cost (6,535 shares as of September 30, 2016 and 6,392 shares as of December 31, 2015)	(406,559)	(440,026)
Altisource equity	77,146	50,978

Non-controlling interests	1,628	1,292
Total equity	78,774	52,270
Total liabilities and equity	$ 693,332	$ 721,798

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenue	$252,745	$272,776	$758,676	$781,579
Cost of revenue	174,002	173,850	517,236	514,835
Gross profit	78,743	98,926	241,440	266,744
Selling, general and administrative expenses	53,886	51,338	161,709	155,310
Change in the fair value of Equator Earn Out	—	—	—	(7,591)
Income from operations	24,857	47,588	79,731	119,025
Other income (expense), net:				
Interest expense	(5,952)	(7,041)	(18,481)	(21,396)
Loss on HLSS equity securities and dividends received, net	—	—	—	(1,854)
Other income (expense), net	(109)	653	2,608	1,477
Total other income (expense), net	(6,061)	(6,388)	(15,873)	(21,773)
Income before income taxes and non-controlling interests	18,796	41,200	63,858	97,252
Income tax provision	(7,324)	(3,303)	(12,808)	(8,101)
Net income	11,472	37,897	51,050	89,151
Net income attributable to non-controlling interests	(883)	(851)	(1,973)	(2,457)
Net income attributable to Altisource	$10,589	$37,046	$49,077	$86,694
Earnings per share:				
Basic	$0.57	$1.94	$2.63	$4.42
Diluted	$0.54	$1.82	$2.49	$4.19
Weighted average shares outstanding:				
Basic	18,715	19,091	18,669	19,608
Diluted	19,568	20,411	19,738	20,688
Comprehensive income:				
Net income	$11,472	$37,897	$51,050	$89,151
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of income tax benefit (provision) of $(2,070), $0, $889, $0	5,016	—	(2,156)	—
Comprehensive income, net of tax	16,488	37,897	48,894	89,151
Comprehensive income attributable to non-controlling interests	(883)	(851)	(1,973)	(2,457)
Comprehensive income attributable to Altisource	$15,605	$37,046	$46,921	$86,694

See accompanying notes to condensed consolidated financial statements.

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

	Altisource Equity							
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock, at cost	Non-controlling interests	Total
	Shares							
Balance, December 31, 2014	25,413	$25,413	$91,509	$367,967	$ —	$(444,495)	$ 1,049	$41,443
Net income	—	—	—	86,694	—	—	2,457	89,151
Distributions to non-controlling interest holders	—	—	—	—	—	—	(2,144)	(2,144)
Share-based compensation expense	—	—	3,258	—	—	—	—	3,258
Exercise of stock options	—	—	—	(2,054)	—	2,386	—	332
Issuance of restricted shares for CastleLine acquisition	—	—	—	(21,612)	—	36,039	—	14,427
Repurchase of shares	—	—	—	—	—	(48,971)	—	(48,971)
Balance, September 30, 2015	25,413	$25,413	$94,767	$430,995	$ —	$(455,041)	$ 1,362	$97,496
Balance, December 31, 2015	25,413	$25,413	$96,321	$369,270	$ —	$(440,026)	$ 1,292	$52,270
Comprehensive income:								
Net income	—	—	—	49,077	—	—	1,973	51,050
Other comprehensive loss, net of tax	—	—	—	—	(2,156)	—	—	(2,156)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,637)	(1,637)
Share-based compensation expense	—	—	4,692	—	—	—	—	4,692
Exercise of stock options	—	—	—	(58,912)	—	67,788	—	8,876
Repurchase of shares	—	—	—	—	—	(34,321)	—	(34,321)
Balance, September 30, 2016	25,413	$25,413	$101,013	$359,435	$ (2,156)	$(406,559)	$ 1,628	$78,774

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$51,050	$89,151
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,521	27,637
Amortization of intangible assets	36,432	27,995
Loss on HLSS equity securities and dividends received, net	—	1,854
Change in the fair value of acquisition related contingent consideration	(1,174)	(7,302)
Share-based compensation expense	4,692	3,258
Bad debt expense	763	3,477
Gain on early extinguishment of debt	(5,464)	(1,986)
Amortization of debt discount	307	379
Amortization of debt issuance costs	850	1,045
Deferred income taxes	17	54
Loss on disposal of fixed assets	30	50
Changes in operating assets and liabilities:		
Accounts receivable	3,505	(19,681)
Prepaid expenses and other current assets	(10,167)	2,001
Other assets	496	2,085
Accounts payable and accrued expenses	7,005	(20,876)
Other current and non-current liabilities	(9,828)	10
Net cash provided by operating activities	106,035	109,151
Cash flows from investing activities:		
Additions to premises and equipment	(16,525)	(27,670)
Acquisition of businesses, net of cash acquired	(9,617)	(11,193)
Purchase of available for sale securities	(48,219)	(29,966)
Proceeds received from sale of and dividends from HLSS equity securities	—	28,112
Other investing activities	266	722
Net cash used in investing activities	(74,095)	(39,995)
Cash flows from financing activities:		
Repayment and repurchases of long-term debt	(49,237)	(29,087)
Proceeds from stock option exercises	8,876	332
Purchase of treasury stock	(34,321)	(48,971)
Distributions to non-controlling interests	(1,637)	(2,144)
Other financing activities	—	(500)
Net cash used in financing activities	(76,319)	(80,370)
Net decrease in cash and cash equivalents	(44,379)	(11,214)
Cash and cash equivalents at the beginning of the period	179,327	161,361
Cash and cash equivalents at the end of the period	$134,948	$150,147

Supplemental cash flow information:		
Interest paid	$17,244	$19,770
Income taxes paid, net	14,178	6,638
Non-cash investing and financing activities:		
Acquisition of businesses with restricted shares	$—	$14,427
Increase (decrease) in payables for purchases of premises and equipment	2,458	(5,326)

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements
NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business

Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as “Altisource,” the “Company,” “we,” “us” or “our”), is a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource’s proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.

We were formed under the laws of Luxembourg and are publicly traded on the NASDAQ Global Select Market under the symbol “ASPS.”

We conduct our operations through three reportable segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures and eliminations separately (see Note 23 for a description of our business segments).

Basis of Accounting and Presentation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Altisource consolidates two cooperative entities which are managed by The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource: Best Partners Mortgage Cooperative, Inc., a mortgage cooperative doing business as Lenders One® (“Lenders One”) and Best Partners Mortgage Brokers Cooperative, Inc., a mortgage cooperative doing business as Wholesale One® (“Wholesale One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA’s option) and to Wholesale One under a management agreement that ends on July 8, 2039 (with automatic renewals for three successive five-year periods).

The management agreements between MPA and Lenders One and between MPA and Wholesale One, pursuant to which MPA is the management company, represent variable interests in variable interest entities. MPA is the primary beneficiary of Lenders One and Wholesale One as it has the power to direct the activities that most significantly impact each of these cooperatives’ economic performance and the right to receive benefits from each of these cooperatives. As a result, Lenders One and Wholesale One are presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of September 30, 2016, Lenders One had total assets of $4.0 million and total liabilities of $1.9 million. As of December 31, 2015, Lenders One had total assets of $4.9 million and total liabilities of $3.7 million. As of September 30, 2016 and December 31, 2015, Wholesale One had less than $0.1 million in total assets and less than $0.1 million in total liabilities.

These interim condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 15, 2016.

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Fair Value Measurements
Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:
Level 1 — Quoted prices in active markets for identical assets and liabilities
Level 2 — Observable inputs other than quoted prices included in Level 1
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.
Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.
Recently Adopted Accounting Pronouncement
On January 1, 2016, Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, became effective. As a result of this accounting change, the Company now presents debt issuance costs, net as a direct deduction from the related debt (see Note 12). Prior to January 1, 2016, debt issuance costs, net were included in other assets. We adopted the standard retrospectively. Accordingly, prior period amounts were reclassified to conform to the current presentation.
Future Adoption of New Accounting Pronouncements
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of this standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard will require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The standard also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. It also amends certain financial statement presentation and disclosure requirements associated with the fair value of financial instruments. This standard will be effective for annual periods beginning after December 31, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard introduces a new lessee model that brings substantially all leases on the balance sheet. The standard will require companies to recognize lease assets and lease liabilities on their balance sheets and disclose key information about leasing arrangements in their financial statements. This standard will be effective for annual periods beginning after December 15, 2018, including

interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This standard clarifies guidance on principal versus agent considerations in connection with revenue recognition. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting

period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard will require companies to recognize all award-related excess tax benefits and tax deficiencies in their income statements, classify any excess tax benefits as an operating activity in their statements of cash flows, provide companies with the option of estimating forfeitures or recognizing forfeitures as they occur, modify the statutory tax withholding requirements and classify cash paid by employers when directly withholding shares for tax withholding purposes as an investing activity in their statements of cash flows. This standard will be effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This standard provides guidance on identifying performance obligations in a contract with a customer and clarifying several licensing considerations, including whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time) and guidance on sales-based and usage-based royalties. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This standard addresses collectability, sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.
In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its statement of cash flows.
In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard will require that companies recognize the income tax consequences of an intra-entity transfer of an asset (other than inventory) when the transfer occurs. Current guidance prohibits companies from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

NOTE 2 — CUSTOMER CONCENTRATION
Ocwen Financial Corporation together with its subsidiaries ("Ocwen") is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments

thereto (collectively, the “Service Agreements”) with terms extending through August 2025. Certain of the Service Agreements, among other things, contain a “most favored nation” provision and the parties to the Service Agreements have the right to renegotiate pricing. Certain of the Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource’s services with respect to the Homeward Residential, Inc. and Residential Capital, LLC servicing portfolios acquired by Ocwen in December 2012 and February 2013, respectively. In addition, Ocwen purchases certain origination services from Altisource under an agreement that extends through January 2017.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Mortgage Services	59 %	64 %	59 %	63 %
Financial Services	16 %	16 %	17 %	20 %
Technology Services	41 %	51 %	41 %	52 %
Consolidated revenue	56 %	60 %	56 %	59 %

For the nine months ended September 30, 2016 and 2015, we generated revenue from Ocwen of $422.2 million and $464.8 million, respectively ($141.6 million and $163.8 million for the third quarter of 2016 and 2015, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation services and insurance services. Services provided to Ocwen and reported in the Financial Services segment included mortgage charge-off collections. Services provided to Ocwen and reported in the Technology Services segment included information technology infrastructure management and software applications. As of September 30, 2016, accounts receivable from Ocwen totaled $32.6 million, $21.8 million of which was billed and $10.8 million of which was unbilled. As of December 31, 2015, accounts receivable from Ocwen totaled $38.2 million, $20.4 million of which was billed and $17.8 million of which was unbilled.

We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen selects Altisource as the service provider. For the nine months ended September 30, 2016 and 2015, we recognized revenue of $146.0 million and $164.7 million, respectively ($48.0 million and $56.7 million for the third quarter of 2016 and 2015, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

NOTE 3 — TRANSACTIONS WITH RELATED PARTIES

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen and Chairman of each of Home Loan Servicing Solutions, Ltd. (“HLSS”), Altisource Residential Corporation (“Residential”) and Altisource Asset Management Corporation (“AAMC”). Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, HLSS, Residential and AAMC and is no longer a member of the Board of Directors of any of these companies. Consequently, these companies are no longer related parties of Altisource, as defined by FASB ASC Topic 850, Related Party Disclosures. The disclosures in this note are limited to the periods that each of Ocwen, HLSS, Residential and AAMC were related parties of Altisource and are not necessarily reflective of current activities with these former related parties.

Ocwen

Revenue

For the period from January 1, 2015 through January 16, 2015, we estimated that we generated revenue from Ocwen of $22.9 million. Services provided to Ocwen during such period included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation, insurance services, charge-off mortgage collections, information technology infrastructure management and software applications.

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

Cost of Revenue and Selling, General and Administrative Expenses

At times, we have used Ocwen’s contractors and/or employees to support Altisource related services. Ocwen generally billed us for these contractors and/or employees based on their fully-allocated cost. Additionally, through March 31, 2015, we purchased certain data relating to Ocwen’s servicing portfolio in connection with a Data Access and Services Agreement. Based upon our previously provided notice, the Data Access and Services Agreement was terminated effective March 31, 2015. For the period from January 1, 2015 through January 16, 2015, we estimated that we incurred $1.9 million of expenses related to these items.

These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations and comprehensive income.
We provided certain other services to Ocwen and Ocwen provided certain other services to us in connection with Support Services Agreements. These services primarily included such areas as vendor management, corporate services and facilities related services. Billings for these services were generally based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service or estimates thereof. Of the January 2015 billings to Ocwen, we estimated that $0.1 million related to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimated that $0.3 million related to the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income.
HLSS
Prior to April 2015, HLSS was a publicly traded company whose primary objective was the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. We provided HLSS certain finance, human resources, tax and facilities services and sold information technology services to HLSS under a support services agreement. For the period from January 1, 2015 through January 16, 2015, our billings to HLSS were immaterial.
Residential and AAMC
Residential is focused on providing quality, affordable rental homes to families throughout the United States. AAMC is an asset management company that provides portfolio management and corporate governance services to investment vehicles that own real estate related assets. Its initial client is Residential.
We have agreements and amendments thereto, which extend through 2027, to provide Residential with renovation management, lease management, property management, real estate owned asset management, title insurance, settlement and valuation services. In addition, we have agreements with Residential and AAMC pursuant to which we may provide services such as finance, human resources, facilities, technology and insurance risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.
For the period from January 1, 2015 through January 16, 2015, we estimated that we generated revenue from Residential of $1.0 million. This amount is reflected in revenue in the condensed consolidated statements of operations and comprehensive income. This excludes revenue from services we provide to Residential’s loans serviced by Ocwen or other loan servicers where we were retained by Ocwen or Residential’s other loan servicers.
For the period from January 1, 2015 through January 16, 2015, our billings to AAMC were immaterial.
NOTE 4 — ACQUISITIONS
Granite Acquisition
On July 29, 2016, we acquired certain assets and assumed certain liabilities of Granite Loan Management of Delaware, LLC (“Granite”) for $9.6 million in cash at closing. Granite provides residential and commercial loan disbursement processing, risk mitigation and construction inspection services to lenders. The Granite acquisition is not material in relation to the Company’s results of operations or financial position.
The preliminary allocation of the purchase price is as follows:
(in thousands)

Accounts receivable, net	$1,103
Prepaid expenses	25
Other assets	25
Premises and equipment, net	299
Goodwill	8,449

	9,901
Accounts payable and accrued expenses	(111)
Other current liabilities	(173)
Purchase price	$9,617

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

RentRange, Investability and Onit Solutions Acquisitions

On October 9, 2015, we acquired GoldenGator, LLC (doing business as RentRange®) (“RentRange”), REIsmart, LLC (doing business as Investability™) (“Investability”) and Onit Solutions, LLC, a support company for RentRange and Investability (collectively “RentRange and Investability”) for $24.8 million. RentRange is a leading provider of rental home data and information to the financial services and real estate industries, delivering a wide assortment of address and geography level data, analytics and rent-based valuation solutions for single and multi-family properties. Investability is an online residential real estate search and acquisition platform that utilizes data and analytics to allow real estate investors to access the estimated cash flow, capitalization rate, net yield and market value of properties for sale in the United States. The purchase price was composed of $17.5 million in cash and 247 thousand shares of restricted common stock of the Company with a value of $7.3 million as of the closing date. Upon issuance, the restricted shares were subject to transfer restrictions and potential forfeiture provisions. These restrictions and forfeiture provisions will lapse over a four year period, subject to the recipients meeting certain continued employment conditions with the Company and the satisfaction of certain acquisition related escrow release conditions. During the third quarter of 2016, management adjusted the allocation of the purchase price based upon information that subsequently became available relating to acquisition date working capital and the purchase price allocation to intangible assets. The working capital adjustment resulted in an obligation of the sellers to pay the Company $0.2 million. RentRange and Investability are not material in relation to the Company’s results of operations or financial position.

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

(in thousands)	Initial purchase price allocation	Adjustments	Final purchase price allocation
Cash	$ 3	$ —	$ 3
Accounts receivable, net	245	(76)	169
Premises and equipment, net	2,471	(1,067)	1,404
Other assets	199	(196)	3
Trademarks and trade names	1,205	—	1,205
Databases/other	910	1,035	1,945
Non-compete agreements	330	—	330
Customer relationships	255	—	255
Goodwill	19,565	50	19,615
	25,183	(254)	24,929
Accounts payable and accrued expenses	(391)	46	(345)
Purchase price	$ 24,792	$ (208)	$ 24,584

CastleLine Acquisition

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

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

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

(in thousands)	Initial purchase price allocation	Adjustments	Final purchase price allocation
Cash	$ 1,088	$ —	$ 1,088
Accounts receivable, net	510	(410)	100
Prepaid expenses	66	(46)	20
Restricted cash	2,501	—	2,501
Non-compete agreements	1,105	25	1,130
Databases/other	465	1,335	1,800
Customer relationships	395	—	395
Trademarks and trade names	150	10	160
Deferred taxes	—	356	356
Goodwill	28,125	(1,395)	26,730
	34,405	(125)	34,280
Accounts payable and accrued expenses	(875)	38	(837)
Deferred revenue	(87)	87	—
Purchase price	$ 33,443	$ —	$ 33,443

NOTE 5 — AVAILABLE FOR SALE SECURITIES

During the nine months ended September 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million (no comparative amount in the third quarter of 2016). This investment is classified as available for sale and reflected in the condensed consolidated balance sheets at fair value at the balance sheet date ($45.2 million as of September 30, 2016) (no comparative amount as of December 31, 2015). Unrealized gains and losses on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we would record a charge to earnings and a new cost basis in the investment would be established. During the nine months ended September 30, 2016, we incurred expenses of $3.4 million and earned dividends of $1.0 million related to this investment (no comparative amounts in 2015).

NOTE 6 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	September 30, 2016	December 31, 2015
Billed	$ 63,066	$ 67,021
Unbilled	48,288	56,458
	111,354	123,479
Less: allowance for doubtful accounts	(9,774)	(18,456)
Total	$ 101,580	$ 105,023

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

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	September 30, 2016	December 31, 2015
Maintenance agreements, current portion	$ 7,213	$ 7,000
Short-term investments in real estate	8,695	—
Income taxes receivable	3,132	633
Prepaid expenses	6,166	7,873
Other current assets	6,721	6,245
Total	$ 31,927	$ 21,751

NOTE 8 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

(in thousands)	September 30, 2016	December 31, 2015
Computer hardware and software	$ 163,140	$ 177,010
Office equipment and other	19,586	21,720
Furniture and fixtures	13,792	14,443
Leasehold improvements	35,726	35,503
	232,244	248,676
Less: accumulated depreciation and amortization	(122,459)	(129,555)
Total	$ 109,785	$ 119,121

Depreciation and amortization expense amounted to $27.5 million and $27.6 million for the nine months ended September 30, 2016 and 2015, respectively ($9.2 million and $9.2 million for the third quarter of 2016 and 2015, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations and comprehensive income.

NOTE 9 — GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Total
Balance as of December 31, 2015	$80,423	$ 2,378	$82,801
Acquisition of CastleLine [1]	(1,395)	—	(1,395)
Acquisitions of RentRange and Investability [2]	50	—	50
Acquisition of Granite	8,449	—	8,449
Balance as of September 30, 2016	$87,527	$ 2,378	$89,905

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

(2)

During the third quarter of 2016, goodwill was revised to reflect a purchase accounting measurement period adjustment related to the RentRange and Investability acquisition. See Note 4.

Intangible assets, net

Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount September 30, 2016	December 31, 2015	Accumulated amortization	Net book value