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

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 March 31, 2019
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 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. 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 o	Accelerated filer þ
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

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

As of 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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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

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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)

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.

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

	Altisource Equity							
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Non-controlling interests	Total
	Shares							
Balance, December 31, 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:		

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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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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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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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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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:

(in thousands)	March 31, 2019	December 31, 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 March 31, 2019	Gross carrying amount December 31, 2018	Accumulated amortization March 31, 2019	Accumulated amortization December 31, 2018	Net book value March 31, 2019	Net book value 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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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, 2019	December 31, 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

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