Altisource Portfolio Solutions S.A.
Form 10-Q
July 21, 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 June 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 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 July 15, 2016, there were 18,349,451 outstanding shares of the registrant’s shares of beneficial interest (excluding 7,063,297 shares held as treasury stock).

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FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$120,486	$ 179,327
Available for sale securities	38,087	—
Accounts receivable, net	100,165	105,023
Prepaid expenses and other current assets	27,747	21,751
Total current assets	286,485	306,101
Premises and equipment, net	114,576	119,121
Goodwill	81,406	82,801
Intangible assets, net	173,406	197,003
Deferred tax assets, net	6,917	3,619
Other assets	12,686	13,153
Total assets	$675,476	$ 721,798
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$88,748	$ 91,871
Current portion of long-term debt	5,945	5,945
Deferred revenue	11,717	15,060
Other current liabilities	14,309	16,266
Total current liabilities	120,719	129,142
Long-term debt, less current portion	469,776	522,233
Other non-current liabilities	16,561	18,153
Commitments, contingencies and regulatory matters (Note 22)		
Equity:		
Common stock ($1.00 par value; 25,413 shares authorized and issued and 18,350 outstanding as of June 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	99,890	96,321
Retained earnings	403,460	369,270
Accumulated other comprehensive loss	(7,172)	—
Treasury stock, at cost (7,063 shares as of June 30, 2016 and 6,392 shares as of December 31, 2015)	(454,488)	(440,026)
Altisource equity	67,103	50,978

Non-controlling interests	1,317	1,292
Total equity	68,420	52,270
Total liabilities and equity	$675,476	$ 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	$255,799	$268,321	$505,931	$508,803
Cost of revenue	174,371	168,159	343,234	340,985
Gross profit	81,428	100,162	162,697	167,818
Selling, general and administrative expenses	54,207	51,566	107,823	103,972
Change in the fair value of Equator Earn Out	—	(7,591)	—	(7,591)
Income from operations	27,221	56,187	54,874	71,437
Other income (expense), net:				
Interest expense	(5,988)	(7,195)	(12,529)	(14,355)
Gain (loss) on HLSS equity securities and dividends received	—	1,431	—	(1,854)
Other income (expense), net	2,744	821	2,717	824
Total other income (expense), net	(3,244)	(4,943)	(9,812)	(15,385)
Income before income taxes and non-controlling interests	23,977	51,244	45,062	56,052
Income tax provision	(3,291)	(4,398)	(5,484)	(4,798)
Net income	20,686	46,846	39,578	51,254
Net income attributable to non-controlling interests	(692)	(896)	(1,090)	(1,606)
Net income attributable to Altisource	$19,994	$45,950	$38,488	$49,648
Earnings per share:				
Basic	$1.08	$2.35	$2.06	$2.50
Diluted	$1.02	$2.22	$1.94	$2.38
Weighted average shares outstanding:				
Basic	18,437	19,571	18,646	19,870
Diluted	19,604	20,669	19,822	20,830
Comprehensive income:				
Net income	$20,686	$46,846	$39,578	$51,254
Other comprehensive income (loss), net of tax:				
Unrealized loss on securities, net of income tax benefit of $3,249, $0, $2,960, $0	(7,871)	—	(7,172)	—
Comprehensive income, net of tax	12,815	46,846	32,406	51,254
Comprehensive income attributable to non-controlling interests	(692)	(896)	(1,090)	(1,606)
Comprehensive income attributable to Altisource	$12,123	$45,950	$31,316	$49,648

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	—	—	—	49,648	—	—	1,606	51,254
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,347)	(1,347)
Share-based compensation expense	—	—	1,315	—	—	—	—	1,315
Exercise of stock options	—	—	—	(1,701)	—	1,904	—	203
Repurchase of shares	—	—	—	—	—	(43,965)	—	(43,965)
Balance, June 30, 2015	25,413	$25,413	$ 92,824	$415,914	$ —	$(486,556)	$ 1,308	$48,903
Balance, December 31, 2015	25,413	$25,413	$ 96,321	$369,270	$ —	$(440,026)	$ 1,292	$52,270
Comprehensive income:								
Net income	—	—	—	38,488	—	—	1,090	39,578
Other comprehensive loss, net of tax	—	—	—	—	(7,172)	—	—	(7,172)
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,065)	(1,065)
Share-based compensation expense	—	—	3,569	—	—	—	—	3,569
Exercise of stock options	—	—	—	(4,298)	—	5,284	—	986
Repurchase of shares	—	—	—	—	—	(19,746)	—	(19,746)
Balance, June 30, 2016	25,413	$25,413	$ 99,890	$403,460	$ (7,172)	$(454,488)	$ 1,317	$68,420

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$39,578	$51,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,346	18,432
Amortization of intangible assets	24,967	17,877
Loss on HLSS equity securities and dividends received, net	—	1,854
Change in the fair value of acquisition related contingent consideration	193	(7,346)
Share-based compensation expense	3,569	1,315
Bad debt expense	1,041	2,143
Gain on early extinguishment of debt	(5,464)	(1,114)
Amortization of debt discount	201	255
Amortization of debt issuance costs	557	585
Deferred income taxes	18	5
Loss on disposal of fixed assets	9	20
Changes in operating assets and liabilities:		
Accounts receivable	3,407	(6,726)
Prepaid expenses and other current assets	(6,012)	4,480
Other assets	447	1,338
Accounts payable and accrued expenses	(4,454)	(28,557)
Other current and non-current liabilities	(6,998)	(1,008)
Net cash provided by operating activities	69,405	54,807
Cash flows from investing activities:		
Additions to premises and equipment	(12,441)	(21,421)
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	(10)	(4)
Net cash used in investing activities	(60,670)	(23,279)
Cash flows from financing activities:		
Repayment and repurchases of long-term debt	(47,751)	(17,701)
Proceeds from stock option exercises	986	203
Purchase of treasury stock	(19,746)	(43,965)
Distributions to non-controlling interests	(1,065)	(1,347)
Net cash used in financing activities	(67,576)	(62,810)
Net decrease in cash and cash equivalents	(58,841)	(31,282)
Cash and cash equivalents at the beginning of the period	179,327	161,361
Cash and cash equivalents at the end of the period	$120,486	$130,079

Supplemental cash flow information:

Interest paid	$11,694	$13,345
Income taxes paid, net	5,618	3,490
Non-cash investing and financing activities:		
Increase (decrease) in payables for purchases of premises and equipment	$1,369	$(4,091)

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 are incorporated 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., doing business as the Lenders One® mortgage cooperative ("Lenders One") and Best Partners Mortgage Brokers Cooperative, Inc., doing business as the Wholesale One® mortgage cooperative ("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 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 with the interests of the members reflected as non-controlling interests. As of June 30, 2016, Lenders One had total assets of $2.8 million and total liabilities of $1.3 million. As of December 31, 2015, Lenders One had total assets of $4.9 million and total liabilities of $3.7 million. As of June 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.

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, 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, 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, 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, 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, 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, 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, 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.

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 to master services agreements (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 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 portfolios. In addition, Ocwen purchases certain origination services from Altisource under an agreement that extends through January 2017.

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Mortgage Services	59 %	62 %	59 %	63 %
Financial Services	19 %	19 %	17 %	22 %
Technology Services	38 %	57 %	41 %	52 %
Consolidated revenue	55 %	59 %	55 %	59 %

For the six months ended June 30, 2016 and 2015, we generated revenue from Ocwen of $280.7 million and $301.0 million, respectively ($140.5 million and $159.6 million for the second 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 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 June 30, 2016, accounts receivable from Ocwen totaled $30.9 million, $19.4 million of which was billed and $11.5 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 six months ended June 30, 2016 and 2015, we recognized revenue of $98.0 million and $108.0 million, respectively ($51.3 million and $54.5 million for the second 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 for 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 periods 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.

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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 acquiring, owning and managing single family rental properties throughout the United States. AAMC's primary business is to provide asset management and certain corporate governance services to institutional investors. Currently, AAMC's primary client is Residential.

We have agreements, 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

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 stock is 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. RentRange and Investability are not material in relation to the Company's results of operations or financial position.

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

The preliminary allocation of the purchase price is as follows:

(in thousands)	
Cash	$ 3
Accounts receivable, net	245
Premises and equipment, net	1,206
Other assets	199
Software	1,265
Trademarks and trade names	1,205
Databases/other	910
Non-compete agreements	330
Customer relationships	255
Goodwill	19,565
	25,183
Accounts payable and accrued expenses	(391)
Purchase price	$ 24,792

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 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. After the acquisition date, 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. This adjustment was recorded during the second quarter of 2016. The CastleLine acquisition is 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	$ 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 six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million. This investment is classified as available for sale and reflected in the condensed consolidated balance sheets at fair value at the balance sheet date ($38.1 million as of June 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. In the second quarter of 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)	June 30, 2016	December 31, 2015
Billed	$61,211	$ 67,021
Unbilled	50,548	56,458
	111,759	123,479
Less: allowance for doubtful accounts	(11,594)	(18,456)
Total	$100,165	$ 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 in unbilled receivables amounts that are earned during a month and billed in the following month.

NOTE 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Maintenance agreements, current portion	$8,131	$ 7,000
Income taxes receivable	988	633
Prepaid expenses	7,975	7,873
Other current assets	10,653	6,245
Total	$27,747	$ 21,751

NOTE 8 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Computer hardware and software	$183,490	$ 177,010
Office equipment and other	25,934	21,720
Furniture and fixtures	15,338	14,443
Leasehold improvements	36,807	35,503
	261,569	248,676
Less: accumulated depreciation and amortization	(146,993)	(129,555)
Total	$114,576	$ 119,121

Depreciation and amortization expense amounted to $18.3 million and $18.4 million for the six months ended June 30, 2016 and 2015, respectively ($9.1 million and $9.6 million for the second 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.

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 9 — GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill
The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance as of December 31, 2015	$80,423	$ 2,378	$ —	$82,801
Acquisition of CastleLine [(1)]	(1,395)	—	—	(1,395)
Balance as of June 30, 2016	$79,028	$ 2,378	$ —	$81,406

(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.

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

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount June 30, 2016	Gross carrying amount December 31, 2015	Accumulated amortization June 30, 2016	Accumulated amortization December 31, 2015	Net book value June 30, 2016	Net book value December 31, 2015
Definite lived intangible assets:							
Trademarks and trade names	13	$15,254	$ 15,244	$(7,121)	$(6,491)	$8,133	$ 8,753
Customer related intangible assets	10	274,428	274,428	(136,440)	(113,725)	137,988	160,703
Operating agreement	20	35,000	35,000	(11,229)	(10,354)	23,771	24,646
Non-compete agreements	4	1,460	1,435	(314)	(115)	1,146	1,320
Intellectual property	10	300	300	(70)	(55)	230	245
Other intangible assets	5	2,710	1,375	(572)	(39)	2,138	1,336
Total		$329,152	$ 327,782	$(155,746)	$(130,779)	$173,406	$ 197,003

Amortization expense for definite lived intangible assets was $25.0 million and $17.9 million for the six months ended June 30, 2016 and 2015, respectively ($12.8 million and $9.0 million for the second quarter of 2016 and 2015, respectively). Expected annual definite lived intangible asset amortization for 2016 through 2020 is $39.9 million, $27.0 million, $23.9 million, $21.7 million and $19.6 million, respectively.

NOTE 10 — OTHER ASSETS
Other assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Security deposits	$5,365	$ 5,341
Maintenance agreements, non-current portion	1,334	1,570

Restricted cash	4,781	4,801
Other	1,206	1,441
Total	$12,686	$ 13,153

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Notes to Condensed Consolidated Financial Statements (Continued)

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

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Accounts payable	$15,114	$ 11,644
Accrued expenses - general	29,906	30,347
Accrued salaries and benefits	38,320	46,564
Income taxes payable	5,408	3,316
Total	$88,748	$ 91,871

Other current liabilities consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Unfunded cash account balances	$3,660	$ 6,395
Other	10,649	9,871
Total	$14,309	$ 16,266

NOTE 12 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Senior secured term loan	$482,626	$ 536,598
Less: debt issuance costs, net	(5,071)	(6,184)
Less: unamortized discount, net	(1,834)	(2,236)
Net long-term debt	475,721	528,178
Less: current portion	(5,945)	(5,945)
Long-term debt, less current portion	$469,776	$ 522,233

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain wholly-owned subsidiaries are guarantors of the term loan (collectively, the “Guarantors”). We subsequently amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders or as otherwise provided in the loan agreement upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, subject to certain exceptions, the term loan is subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00, as calculated in accordance with the provisions of the senior secured term loan (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were owed for the six months ended June 30, 2016.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9.0% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt. The net gains were included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

The term loan bears interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.00% plus (ii) a 3.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) a 2.50% margin. The interest rate at June 30, 2016 was 4.50%.

Term loan payments are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l. and the Guarantors, subject to certain exceptions.

The senior secured term loan agreement includes covenants that restrict or limit, among other things, our ability to: create liens and encumbrances; incur additional indebtedness; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases, dividends and repayment of junior indebtedness; change lines of business; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to our fiscal year and engage in mergers and consolidations.

The senior secured term loan agreement contains certain events of default, including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the senior secured term loan agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of covenants, (iv) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due, (v) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vi) occurrence of a Change of Control, (vii) bankruptcy and insolvency events, (viii) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (ix) the occurrence of certain ERISA events and (x) the failure of certain Loan Documents to be in full force and effect. If any event of default occurs and is not cured within applicable grace periods set forth in the senior secured term loan agreement or waived, all loans and other obligations could become due and immediately payable and the facility could be terminated.

As of June 30, 2016, debt issuance costs were $5.1 million, net of $5.2 million of accumulated amortization. As of December 31, 2015, debt issuance costs were $6.2 million, net of $4.1 million of accumulated amortization.

Interest expense on the term loans totaled $12.5 million and $14.4 million for the six months ended June 30, 2016 and 2015, respectively ($6.0 million and $7.2 million for the second quarter of 2016 and 2015, respectively).

NOTE 13 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Acquisition related obligations	$5,446	$ 8,422
Other non-current liabilities	11,115	9,731

Total	$16,561	$ 18,153

NOTE 14 — FAIR VALUE

Fair Value Measurements on a Recurring Basis

Available for sale securities are carried at fair value and consist of 4.1 million shares of Residential common stock with a fair value of $38.1 million as of June 30, 2016 (no comparative amount as of December 31, 2015). Available for sale securities are measured using Level 1 inputs as these securities have quoted prices in active markets.

In accordance with ASC Topic 805, Business Combinations, liabilities for contingent consideration are reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with the acquisitions of certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. and Owners Advantage, LLC in 2014. The total fair value of the liabilities for acquisition related contingent consideration was $4.1 million and $3.9 million as of June 30, 2016 and December 31, 2015, respectively. We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which include sensitivities pertaining to discount rates and financial projections.

In the second quarter of 2015, we reached an agreement with the former owners of Equator, LLC (“Equator”) to extinguish any liability for the Equator related contingent consideration (“Equator Earn Out”) in exchange for $0.5 million. In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million reduction in operating expenses in the condensed consolidated statements of operations and comprehensive income.

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

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments held by the Company as of June 30, 2016 and December 31, 2015. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP are as follows:

(in thousands)	June 30, 2016 Carrying amount	Fair value Level 1	Level 2	December 31, 2015 Carrying amount	Fair value Level 1	Level 2
Cash and cash equivalents	$120,486	$120,486	$ —	$179,327	$179,327	$ —
Restricted cash	4,781	4,781	—	4,801	4,801	—
Long-term debt	482,626	—	412,645	536,598	—	469,523

Our financial assets and financial liabilities primarily include cash and cash equivalents, restricted cash and long-term debt. Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments and were measured using Level 1 inputs. The fair value of our long-term debt is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.

NOTE 15 — SHAREHOLDERS’ EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

On May 18, 2016, our shareholders approved a new share repurchase program, which replaced the previous share repurchase program. Under the new program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under prior programs. Under the existing and prior programs, we purchased 0.8 million shares of common stock at an average price of $25.79 per share during the six months ended June 30, 2016 and 1.6 million shares at an average price of $28.02 per share during the six months ended June 30, 2015 (0.3 million shares at an average price of $26.74

per share for the second quarter of 2016 and 1.4 million shares at an average price of $28.57 per share for the second quarter of 2015). As of June 30, 2016, approximately 4.5 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share repurchases and may prevent repurchases in certain circumstances. As of June 30, 2016, approximately $333 million was available to repurchase our common stock under our senior secured term loan.

Share-Based Compensation

We issue share-based awards in the form of stock options and certain other equity-based awards for certain employees and officers. We recorded share-based compensation expense of $3.6 million and $1.3 million for the six months ended June 30, 2016 and 2015, respectively ($1.7 million and $0.9 million for the second quarter of 2016 and 2015, respectively). As of June 30, 2016, estimated unrecognized compensation costs related to share-based awards amounted to $9.0 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.58 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 cliff-vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 1.2 million service-based awards were outstanding at June 30, 2016.

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 internally as “ordinary performance” grants, 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 internally as “extraordinary performance” grants, 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. For substantially all market-based awards, 25% vest upon the achievement of the criteria and the remaining 75% vest thereafter in three 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 1.8 million market-based awards were outstanding at June 30, 2016.

Performance-Based Options. These option grants begin to vest upon the achievement of certain business unit specific financial measures. 25% of the awards vest upon the achievement of the performance criteria and the remaining 75% vest thereafter in three equal annual installments. 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 below a certain threshold, the award is cancelled. The options expire on the earlier of ten years after the date of grant or following termination of service. A total of 0.1 million performance-based awards were outstanding at June 30, 2016.

The Company granted 0.1 million stock options (at a weighted average exercise price of $27.43 per share) and 0.7 million stock options (at a weighted average exercise price of $23.17 per share) during the six months ended June 30, 2016 and 2015, respectively.

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

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate (%)	1.25 - 1.89	0.23 - 1.97	1.50 - 1.78	0.02 - 2.26
Expected stock price volatility (%)	59.75 - 62.14	59.76 - 62.14	55.06 - 57.60	55.06 - 57.60
Expected dividend yield	—	—	—	—

Expected option life (in years)	6.00 - 6.25	4.54 - 4.88	6.00 - 6.25	4.54 - 4.88
Fair value	\$11.15 - \$17.09	\$11.06 - \$17.58	\$10.01 - \$16.05	\$9.91 - \$16.13

We determined the expected option life of all service-based stock option grants using the simplified method. We use the simplified method because we believe that our historical data does not provide a reasonable basis upon which to estimate expected option life.

The following table summarizes the weighted average grant date fair value of stock options granted per share, the total intrinsic value of stock options exercised and the grant date fair value of stock options that vested during the period presented:

(in thousands, except per share amounts)	Six months ended June 30, 2016	2015
Weighted average grant date fair value of stock options granted per share	$15.81	$12.49
Intrinsic value of options exercised	1,002	176
Grant date fair value of stock options that vested	2,010	530

The following table summarizes the activity related to our stock options:

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2015	3,163,125	$ 20.13	4.94	$ 35,842
Granted	93,500	27.43		
Exercised	(79,726)	12.36		
Forfeited	(46,950)	25.32		
Outstanding at June 30, 2016	3,129,949	20.47	4.43	34,598
Exercisable at June 30, 2016	2,286,429	15.19	2.84	32,079

Other Share-Based Awards

The Company’s other share-based and similar types of awards are composed of restricted shares and Equity Appreciation Rights (“EARs”).

The restricted shares are service-based awards that vest over one to four years with either annual cliff-vesting, vesting of all of the restricted shares at the end of the vesting period or vesting beginning after two years of service. The Company granted 12 thousand restricted shares (at a weighted average price of $26.66 per share) during the six months ended June 30, 2016.

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

	Number of restricted shares
Outstanding at December 31, 2015	272,326
Granted	12,378
Issued	(13,388)
Forfeited	(5,100)
Outstanding at June 30, 2016	266,216

EARs provide participating employees of certain divisions of the Company with the potential to receive a percentage of the increase in the value of the applicable division during the term of the EARs. The Company has established EAR plans for three divisions: Consumer Analytics, Document Solutions and Marketplace Solutions. These EAR plans allow for the issuance of EARs representing up to 15% of each of these divisions. The EARs consist of service-based awards and performance-based awards. Service-based EARs generally vest in equal installments on the first, second, third and fourth anniversaries of the grant date. Performance-based EARs generally begin to vest on the date certain performance criteria are achieved by the applicable division of the Company.

The participating employee will have the opportunity at certain times specified in the award agreement to exercise EARs that have vested and in exchange will receive share equivalency units, the number of which will be based on the increase in value of the division and the amount of EARs awarded to the participating employee that are exercised. After a holding period of six months

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and one day, the Company, the applicable division or an affiliate of the Company may redeem the share equivalency units for a payment equal to the then fair market value of the share equivalency units. At the Company's option, the share equivalency units may be redeemed for cash, shares of Altisource's common stock under its shareholder approved equity incentive plan, a subordinated note payable or, under certain circumstances where the division has been converted into a company form, shares of that company. Upon the occurrence of certain corporate transactions, including the sale of the division, a qualified initial public offering of the equity of the division or a spin-off of the division, the Company will have the right to repurchase and cancel any outstanding share equivalency units or shares of the division that have been issued in payment of redeemed share equivalency units, and the applicable plan administrator will have the discretion to adjust the terms of the applicable division EAR plan and any outstanding EARs.

The following table reflects outstanding EARs (expressed as a percentage of each of the divisions):

	Consumer Analytics	Document Solutions	Marketplace Solutions
Outstanding at December 31, 2015	5.6 %	5.6 %	5.3 %
Granted	—	—	—
Forfeited	(0.5)	—	(0.1)
Outstanding at June 30, 2016	5.1 %	5.6 %	5.2 %

Share-based compensation expense for stock options, restricted shares and EARs is recorded net of estimated forfeiture rates ranging from 0% to 40%.

NOTE 16 — REVENUE

Revenue includes service revenue, reimbursable expenses and non-controlling interests. Service revenue consists of amounts attributable to our fee-based services. 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, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One and Wholesale One, consolidated entities not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource (see Note 1). The components of revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Service revenue	$241,324	$236,595	$475,604	$444,411
Reimbursable expenses	13,783	30,830	29,237	62,786
Non-controlling interests	692	896	1,090	1,606
Total	$255,799	$268,321	$505,931	$508,803

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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, reimbursable expenses, technology and telecommunications costs as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Compensation and benefits	$69,773	$64,890	$134,836	$134,216
Outside fees and services	73,326	54,822	145,129	108,069
Reimbursable expenses	13,783	30,830	29,237	62,786
Technology and telecommunications	10,703	10,355	20,643	22,248
Depreciation and amortization	6,786	7,262	13,389	13,666
Total	$174,371	$168,159	$343,234	$340,985

NOTE 18 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include payroll and employee benefits associated with personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, professional fees, marketing costs, depreciation and amortization of non-operating assets and other expenses. The components of selling, general and administrative expenses were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Compensation and benefits	$14,324	$13,636	$28,315	$26,399
Occupancy related costs	8,799	10,047	17,882	20,701
Amortization of intangible assets	12,756	8,986	24,967	17,877
Professional services	6,696	6,639	13,436	14,629
Marketing costs	5,671	5,920	12,163	11,273
Depreciation and amortization	2,352	2,344	4,957	4,766
Other	3,609	3,994	6,103	8,327
Total	$54,207	$51,566	$107,823	$103,972

NOTE 19 — GAIN (LOSS) ON HLSS EQUITY SECURITIES AND DIVIDENDS RECEIVED

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million. This investment was classified as available for sale. On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. (“NRZ”) and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million. As a result of these transactions, we recognized a net gain of $1.4 million in the second quarter of 2015 and a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 20 — OTHER INCOME (EXPENSE), NET

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

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Gain on early extinguishment of debt	$5,464	$1,114	$5,464	$1,114
Expenses related to the purchase of available for sale securities	(3,356)	—	(3,356)	—
Interest income	6	31	17	62
Other, net	630	(324)	592	(352)
Total	$2,744	$821	$2,717	$824

NOTE 21 — EARNINGS PER SHARE

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

Basic and diluted EPS are calculated as follows:

(in thousands, except per share data)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income attributable to Altisource	$19,994	$45,950	$38,488	$49,648
Weighted average common shares outstanding, basic	18,437	19,571	18,646	19,870
Dilutive effect of stock options and restricted shares	1,167	1,098	1,176	960
Weighted average common shares outstanding, diluted	19,604	20,669	19,822	20,830
Earnings per share:				
Basic	$1.08	$2.35	$2.06	$2.50
Diluted	$1.02	$2.22	$1.94	$2.38

For the six months ended June 30, 2016 and 2015, 0.4 million options and 0.7 million options, respectively, that were anti-dilutive have been excluded from the computation of diluted EPS (0.4 million options and 0.7 million options for the second quarter of 2016 and 2015, respectively). These options were anti-dilutive and excluded from the computation of diluted EPS because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS are 0.4 million options and 0.3 million options for the six months ended June 30, 2016 and 2015, respectively (0.4 million and 0.3 million options for the second quarter of 2016 and 2015, respectively), granted for shares that begin to vest upon the achievement of certain market and performance criteria related to our common stock price and an annualized rate of return to investors that have not yet been met.

NOTE 22 — COMMITMENTS, CONTINGENCIES AND REGULATORY MATTERS

Litigation

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters 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.

On September 8, 2014, the West Palm Beach Firefighters' Pension Fund filed a putative securities class action suit against Altisource Portfolio Solutions S.A. and certain of its current or former officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource Portfolio Solutions S.A. share prices. The Court subsequently appointed the Pension Fund for the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund for the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which added Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of Altisource Portfolio Solutions S.A. securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource Portfolio Solutions S.A. moved to dismiss the suit on March 23, 2015. On September 4, 2015, the Court granted the defendants' motion to dismiss, finding that the Lead Plaintiffs' amended complaint failed to state a claim as to any of the defendants, but permitting the Lead Plaintiffs to file another amended complaint. Lead Plaintiffs subsequently filed second and third amended complaints with substantially similar claims and theories. Altisource Portfolio Solutions S.A. moved to dismiss the third amended complaint on October 22, 2015. On December 22, 2015, the Court issued an order dismissing with prejudice all claims against Ocwen Financial Corporation and certain claims against Altisource Portfolio Solutions S.A. and the officer and director defendants, but denying the motion to dismiss as to other claims. Altisource Portfolio Solutions S.A. intends to continue to vigorously defend this suit.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen Financial Corporation's officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. Altisource Portfolio Solutions S.A. filed a motion to dismiss the complaint on November 9, 2015. While that motion was pending, additional lawsuits alleging similar claims for alleged breaches of fiduciary duties by current or former Ocwen Financial Corporation officers and directors were filed in or transferred to the Court. The Court subsequently consolidated these actions and denied Altisource Portfolio Solutions S.A.'s motion to dismiss the Sokolowski complaint without prejudice to re-file following appointment of lead counsel for the consolidated action and the filing or designation of an operative complaint. Lead counsel for plaintiffs filed their Consolidated Verified Shareholder Derivative Complaint (the "Consolidated Complaint") on March 8, 2016. The Consolidated Complaint alleges claims that Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants aided and abetted alleged breaches of fiduciary duties by Ocwen Financial Corporation officers and directors and/or were unjustly enriched in connection with business dealings with Ocwen Financial Corporation. The Consolidated Complaint also seeks contribution from Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants for amounts Ocwen Financial Corporation paid in connection with a settlement with the New York State Department of Financial Services. Altisource Portfolio Solutions S.A. and Beltline Road Insurance Agency, Inc. filed motions to dismiss the Consolidated Complaint on May 13, 2016 and intend to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duties by the current or former Ocwen Financial Corporation officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. On November 9, 2015, the Court entered an order staying all proceedings in the case pending further order of the Court. If the litigation proceeds, Altisource Portfolio Solutions S.A. intends to vigorously defend the lawsuit and to move to dismiss all claims against it.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that the motion to dismiss in the second case has not been adjudicated, a stay has been entered in the third case and significant legal and factual issues remain to be determined in all three cases.

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

Regulatory Matters

Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

Ocwen Related Matters

Ocwen is our largest customer and 55% of our revenue for the six months ended June 30, 2016 (55% of our revenue for the second quarter of 2016) was from Ocwen. Additionally, 19% of our revenue for the six months ended June 30, 2016 (20% of our revenue for the second quarter of 2016) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions and is subject to pending legal proceedings that have or could result in adverse regulatory or other actions against Ocwen. While not all inclusive, regulatory actions to date have included subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights. Ocwen may become subject to future federal and state regulatory investigations, inquiries, requests for information and legal proceedings, any of which could also result in adverse regulatory or other actions against Ocwen.

As a result of the sale of substantially all of the assets of HLSS to NRZ in April of 2015, NRZ owns the rights to approximately 78% of Ocwen's non-government-sponsored enterprise ("non-GSE") servicing rights as of March 31, 2016. Under an agreement between NRZ and Ocwen, NRZ has the right (not necessarily the obligation or ability) to transfer servicing away from Ocwen if Ocwen fails to achieve and maintain certain minimum servicer ratings on or after April 6, 2017.

Ocwen has also disclosed that in 2015 certain bondholders of Ocwen-serviced residential mortgage-backed securities ("RMBS") alleged that Ocwen, as servicer defaulted on these servicing agreements. Ocwen has further disclosed that it has been directed by the trustee for two of the RMBS trusts to transfer servicing to another loan servicing company based on rating downgrades. Additional bondholders of RMBS may attempt to replace Ocwen as servicer as a result of such ratings downgrades or the alleged defaults.

All of the foregoing may have significant adverse effects on Ocwen's business and our continuing relationships with Ocwen. For example, Ocwen may be required to alter the way it conducts business, including the parties it contracts with for services (including information technology and software services), it may be required to seek changes to its existing pricing structure with us, it may lose or sell some or all of its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing licenses. Additional regulatory actions or adverse financial developments may impose additional restrictions on or require changes in Ocwen's business that could require it to sell assets or change its business operations. Any or all of these effects could result in our eventual loss of Ocwen as a customer or a reduction in the number and/or volume of services they purchase from us or the loss of other customers.

If any of the following events occurred, Altisource's revenue would be significantly lower and our results of operations would 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 or sells a significant portion or all of its non-GSE servicing rights or subservicing arrangements and Altisource fails to be retained as a service provider
- Ocwen loses state servicing licenses in states with a significant number of loans in Ocwen's servicing portfolio
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