Altisource Portfolio Solutions S.A.
Form 10-Q
October 25, 2018

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 1-34354

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)	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 by 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 October 19, 2018, there were 16,990,838 outstanding shares of the registrant's shares of beneficial interest (excluding 8,421,910 shares held as treasury stock).

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PART I — FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 102,860	$ 105,006
Investment in equity securities	44,967	49,153
Accounts receivable, net	46,929	52,740
Prepaid expenses and other current assets	81,622	64,742
Total current assets	276,378	271,641
Premises and equipment, net	52,026	73,273
Goodwill	84,027	86,283
Intangible assets, net	98,754	120,065
Deferred tax assets, net	304,383	303,707
Other assets	13,697	10,195
Total assets	$ 829,265	$ 865,164
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 96,407	$ 84,400
Current portion of long-term debt	34,440	5,945
Deferred revenue	12,955	9,802
Other current liabilities	7,912	9,414
Total current liabilities	151,714	109,561
Long-term debt, less current portion	346,544	403,336
Other non-current liabilities	7,866	12,282
Commitments, contingencies and regulatory matters (Note 21)		
Equity:		
Common stock ($1.00 par value; 100,000 shares authorized, 25,413 issued and 17,048 outstanding as of September 30, 2018; 100,000 shares authorized, 25,413 shares issued and 17,418 outstanding as of December 31, 2017)	25,413	25,413
Additional paid-in capital	118,625	112,475
Retained earnings	603,343	626,600
Accumulated other comprehensive income	—	733
Treasury stock, at cost (8,365 shares as of September 30, 2018 and 7,995 shares as of December 31, 2017)	(425,767)	(426,609)
Altisource equity	321,614	338,612

Non-controlling interests	1,527	1,373
Total equity	323,141	339,985
Total liabilities and equity	$ 829,265	$ 865,164

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue	$204,575	$234,979	$620,569	$726,147
Cost of revenue	147,580	174,898	457,980	538,244
Gross profit	56,995	60,081	162,589	187,903
Operating expenses (income):				
Selling, general and administrative expenses	46,329	46,622	132,377	146,793
Gain on sale of business (Note 3)	(13,688)	—	(13,688)	—
Restructuring charges (Note 20)	3,436	—	3,436	—
Income from operations	20,918	13,459	40,464	41,110
Other income (expense), net:				
Interest expense	(6,725)	(5,599)	(19,615)	(16,862)
Unrealized gain (loss) on investment in equity securities (Note 4)	1,782	—	(4,186)	—
Other income (expense), net	154	2,497	(2,435)	8,015
Total other income (expense), net	(4,789)	(3,102)	(26,236)	(8,847)
Income before income taxes and non-controlling interests	16,129	10,357	14,228	32,263
Income tax provision	(6,608)	(2,591)	(6,059)	(7,615)
Net income	9,521	7,766	8,169	24,648
Net income attributable to non-controlling interests	(854)	(805)	(2,066)	(2,107)
Net income attributable to Altisource	$8,667	$6,961	$6,103	$22,541
Earnings per share:				
Basic	$0.51	$0.39	$0.36	$1.23
Diluted	$0.49	$0.38	$0.35	$1.20
Weighted average shares outstanding:				
Basic	17,033	18,023	17,184	18,337
Diluted	17,575	18,429	17,669	18,854
Comprehensive income:				
Net income	$9,521	$7,766	$8,169	$24,648
Other comprehensive income (loss), net of tax:				
Reclassification of unrealized gain on investment in equity securities, net of income tax provision of $200, to retained earnings from the cumulative effect of an accounting change (Note 1)	—	—	(733)	—
Unrealized (loss) gain on investment in equity securities, net of income tax benefit (provision) of $0, $2,054, $0, $(78)	—	(5,530)	—	212
Comprehensive income, net of tax	9,521	2,236	7,436	24,860

Comprehensive income attributable to non-controlling interests	(854)	(805)	(2,066)	(2,107)
Comprehensive income attributable to Altisource	$8,667	$1,431	$5,370	$22,753

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 income (loss)	Treasury stock, at cost	Non-controlling interests	Total
	Shares							
Balance, December 31, 2016	25,413	$25,413	$107,288	$333,786	$ (1,745)	$(403,953)	$ 1,405	$62,194
Comprehensive income:								
Net income	—	—	—	22,541	—	—	2,107	24,648
Other comprehensive income, net of tax	—	—	—	—	212	—	—	212
Distributions to non-controlling interest holders	—	—	—	—	—	—	(2,143)	(2,143)
Share-based compensation expense	—	—	3,237	—	—	—	—	3,237
Cumulative effect of an accounting change (Note 14)	—	—	932	(932)	—	—	—	—
Exercise of stock options and issuance of restricted shares	—	—	—	(11,787)	—	13,871	—	2,084
Treasury shares withheld for the payment of tax on restricted share issuances	—	—	—	(1,497)	—	409	—	(1,088)
Repurchase of shares	—	—	—	—	—	(24,995)	—	(24,995)
Balance, September 30, 2017	25,413	$25,413	$111,457	$342,111	$ (1,533)	$(414,668)	$ 1,369	$64,149
Balance, December 31, 2017	25,413	$25,413	$112,475	$626,600	$ 733	$(426,609)	$ 1,373	$339,985
Net income	—	—	—	6,103	—	—	2,066	8,169
Distributions to non-controlling interest holders	—	—	—	—	—	—	(1,912)	(1,912)
Share-based compensation expense	—	—	6,150	—	—	—	—	6,150
Cumulative effect of accounting changes (Note 1)	—	—	—	(9,715)	(733)	—	—	(10,448)

Exercise of stock options and issuance of restricted shares	—	—	—	(18,524)	—	22,100	—	3,576
Treasury shares withheld for the payment of tax on restricted share issuances and stock option exercises	—	—	—	(1,121)	—	513	—	(608)
Repurchase of shares	—	—	—	—	—	(21,771)	—	(21,771)
Balance, September 30, 2018	25,413	$25,413	$118,625	$603,343	$ —	$(425,767)	$ 1,527	$323,141

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Cash flows from operating activities:		
Net income	$8,169	$24,648
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,743	27,411
Amortization of intangible assets	21,311	27,143
Change in the fair value of acquisition related contingent consideration	—	24
Unrealized loss on investment in equity securities	4,186	—
Share-based compensation expense	6,150	3,237
Bad debt expense	2,408	3,101
Gain on early extinguishment of debt	—	(5,419)
Amortization of debt discount	513	225
Amortization of debt issuance costs	739	625
Deferred income taxes	(676)	—
Loss on disposal of fixed assets	723	2,776
Gain on sale of business (Note 3)	(13,688)	—
Loss on debt refinancing (Note 11)	4,434	—
Changes in operating assets and liabilities:		
Accounts receivable	4,515	21,543
Prepaid expenses and other current assets	(16,880)	(17,272)
Other assets	554	760
Accounts payable and accrued expenses	10,774	165
Other current and non-current liabilities	(14,325)	(41,838)
Net cash provided by operating activities	43,650	47,129
Cash flows from investing activities:		
Additions to premises and equipment	(4,207)	(7,485)
Proceeds from the sale of business (Note 3)	15,000	—
Net cash provided by (used in) investing activities	10,793	(7,485)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	407,880	—
Repayments and repurchases of long-term debt	(436,821)	(48,600)
Debt issuance costs	(5,042)	—
Proceeds from stock option exercises	3,576	2,084
Purchase of treasury shares	(21,771)	(24,995)
Distributions to non-controlling interests	(1,912)	(2,143)
Payment of tax withholding on issuance of restricted shares and stock option exercises	(608)	(1,088)
Net cash used in financing activities	(54,698)	(74,742)
Net decrease in cash, cash equivalents and restricted cash	(255)	(35,098)
Cash, cash equivalents and restricted cash at the beginning of the period	108,843	153,421

Cash, cash equivalents and restricted cash at the end of the period	$108,588	$118,323
Supplemental cash flow information:		
Interest paid	$17,889	$16,203
Income taxes paid, net	4,162	15,445
Non-cash investing and financing activities:		
Increase in payables for purchases of premises and equipment	$12	$52

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
Notes to Condensed Consolidated Financial Statements
NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business
Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as "Altisource," the "Company," "we," "us" or "our"), is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing markets we serve.
We are publicly traded on the NASDAQ Global Select Market under the symbol "ASPS." We are organized under the laws of the Grand Duchy of Luxembourg.
Basis of Accounting and Presentation
The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.
Altisource consolidates Best Partners Mortgage Cooperative, Inc., which is managed by The Mortgage Partnership of America, L.L.C. ("MPA"), a wholly-owned subsidiary of Altisource. Best Partners Mortgage Cooperative, Inc. is a mortgage cooperative doing business as Lenders One® ("Lenders One"). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA's option).
The management agreement between MPA and Lenders One, pursuant to which MPA is the management company, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact the cooperative's economic performance and the right to receive benefits from the cooperative. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis and the interests of the members are reflected as non-controlling interests. As of September 30, 2018, Lenders One had total assets of $2.7 million and total liabilities of $0.9 million. As of December 31, 2017, Lenders One had total assets of $4.6 million and total liabilities of $3.1 million.
These interim condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 22, 2018.
Fair Value Measurements
Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:
Level 1 — Quoted prices in active markets for identical assets and liabilities
Level 2 — Observable inputs other than quoted prices included in Level 1
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities
Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires

judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

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

Recently Adopted Accounting Pronouncements
Revenue from Contracts with Customers
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) and during 2016, the FASB issued additional guidance providing clarifications and corrections, including: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (collectively “Topic 606”). Topic 606 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most prior revenue recognition guidance. This new standard requires that an entity recognize revenue for the transfer of promised goods or services to a customer in an amount that reflects the consideration that the entity expects to receive and consistent with the delivery of the performance obligation described in the underlying contract with the customer.
The Company adopted Topic 606 effective January 1, 2018 using the cumulative effect method. As a result of this adoption, the Company recognized an $11.2 million increase in deferred revenue, a $1.1 million increase in unbilled accounts receivable, a $0.3 million increase in other current liabilities and a $10.4 million decrease in retained earnings as of January 1, 2018. Because the Company adopted Topic 606 retrospectively with a cumulative effect as of January 1, 2018, the comparative results as of December 31, 2017 and for the three and nine months ended September 30, 2017 have not been restated and continue to be reported under Accounting Standards Codification Topic 605, Revenue Recognition and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition. The details of the significant changes and quantitative impact of the adoption of Topic 606 are described below. Also see Note 15 for additional information on revenue, including disaggregation of revenue and contract balances.
As a result of the adoption of Topic 606, the Company’s accounting policy for revenue recognition is as follows:
We recognize revenue from the services we provide in accordance with the 5-step process outlined in Topic 606. We recognize revenue when we satisfy a performance obligation by transferring control of a product or service to a customer in an amount that reflects the consideration that we expect to receive. This revenue can be recognized at a point in time or over time. We invoice customers based on our contractual arrangements with each customer, which may not be consistent with the period that revenues are recognized. When there is a timing difference between when we invoice customers and when revenues are recognized, we record either a contract asset (unbilled accounts receivable) or a contract liability (deferred revenue or other current liabilities), as appropriate. A description of our principal revenue generating activities by reportable segment are as follows:
Mortgage Market

- For the majority of the services we provide through the Mortgage Market segment, we recognize transactional revenue when the service is provided.
- For loan servicing technologies, we recognize revenue based on the number of loans on the system, on a per-transaction basis or over the estimated average number of months the loans and real estate owned (“REO”) are on the platform, as applicable. We generally recognize revenue for professional services relating to loan servicing technologies over the contract period. For our loan origination system, we generally recognize revenue over the contract term, beginning on the commencement date of each contract. For foreclosure trustee services, we recognize revenue over the period during which we perform the related services, with full recognition upon completion and/or recording the related foreclosure deed. For loan disbursement processing services, we recognize revenue over the period during which we perform the processing services with full recognition upon completion of the disbursements. We use judgment to determine the period over which we recognize revenue for certain of these services. For mortgage charge-off collections performed on behalf of our clients, we recognize revenue as a percentage of amounts collected following collection from the borrowers.
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For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed percentage or amount.

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

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

Real Estate Market

- For the majority of the services we provide through the Real Estate Market segment, we recognize transactional revenue when the service is provided.
- For our renovation services, revenue is recognized over the period of the construction activity, based on the estimated percentage of completion of each project. We use judgment to determine the period over which we recognize revenue for certain of these services. For real estate brokerage and auction services, we recognize revenue on a net basis as we perform services as an agent without assuming the risks and rewards of ownership of the asset and the commission earned on the sale is a fixed percentage or amount. For the buy-renovate-lease-sell business, we recognize revenue associated with our sales of short-term investments in real estate on a gross basis as we assume the risks and rewards of ownership of the asset.
- Reimbursable expenses revenue, primarily related to our real estate sales business, is included in revenue with an equal offsetting expense recognized in cost of revenue. These amounts are recognized on a gross basis, principally because generally we have control over selection of vendors and the vendor relationships are with us, rather than with our customers.

Other Businesses, Corporate and Eliminations

- For the majority of the services we provide through Other Businesses, Corporate and Eliminations, we recognize transactional revenue when the service is provided. We generally earn fees for our post-charge-off consumer debt collection services as a percentage of the amount we collect on delinquent consumer receivables and recognize revenue following collection from the borrowers. We provide customer relationship management services for which we typically earn and recognize revenue on a per-person, per-call or per-minute basis as the related services are performed.
- For the information technology ("IT") infrastructure services we provide to Ocwen Financial Corporation ("Ocwen"), Front Yard Residential Corporation ("RESI") and Altisource Asset Management Corporation ("AAMC"), we recognize revenue primarily based on the number of users of the applicable systems, fixed fees and the number and type of licensed platforms. We recognize revenue associated with implementation services upon completion and maintenance services ratably over the related service period.

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

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Accounts receivable, net	$46,929	$ 789	$47,718
Total current assets	276,378	789	277,167
Total assets	829,265	789	830,054
Other current liabilities	7,912	(2,303)	5,609
Deferred revenue	12,955	(4,048)	8,907
Total current liabilities	151,714	(6,351)	145,363
Other non-current liabilities	7,866	686	8,552
Retained earnings	603,343	6,454	609,797

Altisource equity	321,614	6,454	328,068
Total equity	323,141	6,454	329,595
Total liabilities and equity	829,265	789	830,054

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

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

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Revenue	$204,575	$ (3,966)	$200,609
Cost of revenue	147,580	392	147,972
Gross profit	56,995	(4,358)	52,637
Income from operations	20,918	(4,358)	16,560
Income before income taxes and non-controlling interests	16,129	(4,358)	11,771
Income tax provision	(6,608)	2,164	(4,444)
Net income	9,521	(2,194)	7,327
Net income attributable to Altisource	8,667	(2,194)	6,473

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

	Impact of the adoption of Topic 606		
(in thousands)	As reported	Adjustments	Balances without adoption of Topic 606
Revenue	$620,569	$ (4,757)	$615,812
Cost of revenue	457,980	1,851	459,831
Gross profit	162,589	(6,608)	155,981
Income from operations	40,464	(6,608)	33,856
Income before income taxes and non-controlling interests	14,228	(6,608)	7,620
Income tax provision	(6,059)	2,814	(3,245)
Net income	8,169	(3,794)	4,375
Net income attributable to Altisource	6,103	(3,794)	2,309

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

Financial Instruments

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

Other Recently Adopted Accounting Pronouncements

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

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

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This standard requires that companies include restricted cash and restricted cash equivalents in their cash and cash equivalent balances in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard was effective for the Company on January 1, 2018, and was adopted using the retrospective transition method, as required by the standard. The adoption of this standard resulted in the classification of the Company’s restricted cash with cash and cash equivalents reported in the Company’s condensed consolidated statements of cash flows. As a result, the Company included \$5.7 million, \$3.8 million, \$4.2 million and \$4.1 million of restricted cash with cash and cash equivalents in its condensed consolidated statements of cash flows as of September 30, 2018, December 31, 2017, September 30, 2017 and December 31, 2016, respectively.

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

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

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

Future Adoption of New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) 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 will require lessees 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. Based on the Company’s preliminary analysis of arrangements where the Company is a lessee, we estimate that the new standard, if implemented as of September 30, 2018, would have resulted in the addition of approximately $16.8 million right-of-use assets and lease liabilities onto the Company's condensed consolidated balance sheet. The Company will continue to analyze the impact of this guidance and refine the estimated impact on its results of operations, financial position and financial disclosures.

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 consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. This standard requires at a minimum the annual review of the assumptions used for liability measurement with the impact of any change recorded in net income, standardizes the liability discount rate with the effect of rate changes recorded in other comprehensive income, requires the measurement of market risk benefits at fair value, simplifies the amortization of deferred acquisition costs and requires enhanced disclosures. This standard will be effective for annual periods beginning after December 15, 2020, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its 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 results of operations and financial position.

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 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 consolidated financial statements.

NOTE 2 — CUSTOMER CONCENTRATION

During the three and nine months ended September 30, 2018, Ocwen was our largest customer, accounting for 53% of our total revenue for the nine months ended September 30, 2018 (56% of our revenue for the third quarter of 2018). Ocwen is a residential mortgage loan servicer of mortgage servicing rights ("MSRs") it owns, including those MSRs in which others have an economic interest, and a subservicer of MSRs owned by others. Ocwen purchases certain mortgage services and technology services from us under the terms of services agreements and amendments thereto (collectively, the "Ocwen Services Agreements") with terms extending through August 2025. Certain of the Ocwen Service Agreements contain a "most favored nation" provision and also grant the parties the right to renegotiate pricing, among other things. Certain of the Ocwen Service Agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource's services with respect to the Homeward Residential, Inc. and Residential Capital, LLC loan portfolios acquired by Ocwen in December 2012 and February 2013, respectively. Ocwen has previously purchased certain origination services from Altisource under an agreement that expires in January 2019, but which is subject to a 90 day termination right by Ocwen.

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Revenue from Ocwen primarily consists of revenue earned from the loan portfolios serviced by Ocwen when Ocwen designates us as the service provider and revenue earned directly from Ocwen. For the nine months ended September 30, 2018 and 2017, we recognized revenue from Ocwen of $325.8 million and $422.1 million, respectively ($115.0 million and $136.4 million for the third quarter of 2018 and 2017, respectively). Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Mortgage Market	65 %	68 %	62 %	68 %
Real Estate Market	1 %	1 %	1 %	1 %
Other Businesses, Corporate and Eliminations	9 %	7 %	9 %	11 %
Consolidated revenue	56 %	58 %	53 %	58 %

We earn additional revenue related to the loan portfolios serviced by Ocwen when a party other than Ocwen or the MSR owner selects Altisource as the service provider. For the nine months ended September 30, 2018 and 2017, we recognized revenue of $37.3 million and $118.0 million, respectively ($11.1 million and $35.1 million for the third quarter of 2018 and 2017, respectively), related to the loan portfolios serviced by Ocwen when a party other than Ocwen or the MSR owner selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

As of September 30, 2018, accounts receivable from Ocwen totaled $17.5 million, $13.9 million of which was billed and $3.6 million of which was unbilled. As of December 31, 2017, accounts receivable from Ocwen totaled $18.9 million, $13.6 million of which was billed and $5.3 million of which was unbilled.

As of June 30, 2018, New Residential Investment Corp. (individually, together with one or more of its subsidiaries or one or more of its subsidiaries individually, “NRZ”) owned Ocwen-serviced MSRs and rights to MSRs (the “Subject MSRs”) with underlying unpaid principal balances (“UPB”) of $94.7 billion. As of June 30, 2018, Ocwen serviced and subserviced MSRs with underlying UPB of $167.1 billion. As previously disclosed, in July 2017, Ocwen and NRZ entered into agreements to convert NRZ’s economic rights to the Subject MSRs into fully-owned MSRs in exchange for payments from NRZ to Ocwen when such Subject MSRs were transferred. The transfers are subject to certain third party consents. Ocwen disclosed that under these agreements, Ocwen would subservice the transferred Subject MSRs for an initial term of five years, and the agreements provided for the conversion of the existing arrangements into a more traditional subservicing arrangement.

In January 2018, Ocwen disclosed that it and NRZ entered into new agreements to accelerate the implementation of certain parts of their July 2017 arrangement in order to achieve the intent of the July 2017 agreements sooner while Ocwen continues the process of obtaining the third party consents necessary to transfer the Subject MSRs to NRZ.

On August 28, 2017, Altisource, through its licensed subsidiaries, entered into a Cooperative Brokerage Agreement, as amended, and related letter agreement (collectively, the “Brokerage Agreement”) with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSRs when Ocwen transfers such MSRs to NRZ or when NRZ acquires both an additional economic interest in such Subject MSRs and the right to designate the broker for REO properties in such portfolios. The Brokerage Agreement provides that Altisource is the exclusive provider of brokerage services for REO associated with the Subject MSRs, irrespective of the sub-servicer. NRZ’s brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

For the nine months ended September 30, 2018 and 2017, we recognized revenue from NRZ of $24.1 million and $0.8 million, respectively, under the Brokerage Agreement associated with the Subject MSRs transferred from Ocwen to NRZ (the “Transferred MSRs”) ($5.0 million and $0.8 million for the third quarter of 2018 and 2017, respectively). For the nine months ended September 30, 2018 and 2017, we recognized additional revenue of $64.4 million and $1.0 million relating to the Transferred MSRs when a party other than NRZ selects Altisource as the service provider ($21.6 million and $1.0 million for the third quarter of 2018 and 2017, respectively).

On August 28, 2017, Altisource and NRZ also entered into a non-binding Letter of Intent, as amended, to enter into a Services Agreement (the “Services LOI”), setting forth the terms pursuant to which Altisource would remain the exclusive service provider of fee-based services for the Subject MSRs through August 2025. The Services LOI was amended most recently to extend the term through November 15, 2018.

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

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

NOTE 3 — SALE OF BUSINESS

In August 2018, Altisource entered into an amendment to its agreements with 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. 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 with a discounted value of $2.2 million as of September 30, 2018 in Other Assets in the condensed consolidated balance sheets. In connection with the sale of the rental property management business, the Company recognized a pretax gain of $13.7 million in the third quarter of 2018 in the accompanying condensed consolidated statements of operations and comprehensive income.

NOTE 4 — INVESTMENT IN EQUITY SECURITIES

During 2016, we purchased 4.1 million shares of RESI common stock for $48.2 million. This investment is reflected in the condensed consolidated balance sheets at a fair value of $45.0 million as of September 30, 2018 and $49.2 million as of December 31, 2017. During the three and nine months ended September 30, 2018, we recognized an unrealized gain (loss) of $1.8 million and $(4.2) million, respectively, on our investment in RESI in other income (expense), net in the condensed consolidated statements of operations and comprehensive income as a result of a change in the market value of RESI common shares. During the three and nine months ended September 30, 2017, an unrealized gain (loss) on our investment in RESI of $(5.5) million and $0.2 million, respectively, net of income tax provision (benefit), was reflected in other comprehensive income in the condensed consolidated statements of operations and comprehensive income (see Note 1 for additional information on the adoption of the new accounting standard on investments in equity securities). During the nine months ended September 30, 2018 and 2017, we earned dividends of $1.9 million in each period related to this investment ($0.6 million in both the third quarter of 2018 and 2017).

Pursuant to the agreement between Altisource and RESI to sell the rental property management business to RESI (see Note 3 for additional information), Altisource will be 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 the period between the closing date of the sale and December 31, 2018, Altisource will be restricted from selling any of the Shares. Following the expiration of that period, in each of the four subsequent quarters, Altisource will be permitted to transfer no more than 25% of the Shares (approximately 1.0 million shares as of September 30, 2018), 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.

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 5 — ACCOUNTS RECEIVABLE, NET
Accounts receivable, net consists of the following:

(in thousands)	September 30, 2018	December 31, 2017
Billed	$ 44,248	$ 40,787
Unbilled	14,515	22,532
Subtotal	58,763	63,319
Less: Allowance for doubtful accounts	(11,834)	(10,579)
Total	$ 46,929	$ 52,740

Unbilled accounts receivable consist primarily of certain real estate asset management and sales services for which we generally recognize revenue when the service is provided but collect upon closing of the sale, and foreclosure trustee services, for which we generally recognize revenues over the service delivery period but bill following completion of the service. We also include amounts in unbilled accounts receivable that are earned during a month and billed in the following month.

NOTE 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS
Prepaid expenses and other current assets consist of the following:

(in thousands)	September 30, 2018	December 31, 2017
Short-term investments in real estate	$ 51,688	$ 29,405
Maintenance agreements, current portion	3,860	8,014
Income taxes receivable	8,354	9,227
Prepaid expenses	7,070	7,898
Other current assets	10,650	10,198
Total	$ 81,622	$ 64,742

NOTE 7 — PREMISES AND EQUIPMENT, NET
Premises and equipment, net consists of the following:

(in thousands)	September 30, 2018	December 31, 2017
Computer hardware and software	$ 181,489	$ 179,567
Leasehold improvements	32,413	33,417
Furniture and fixtures	13,438	14,092
Office equipment and other	8,542	9,388
	235,882	236,464
Less: Accumulated depreciation and amortization	(183,856)	(163,191)
Total	$ 52,026	$ 73,273

Depreciation and amortization expense totaled $24.7 million and $27.4 million for the nine months ended September 30, 2018 and 2017, respectively ($7.7 million and $8.5 million for the third quarter of 2018 and 2017, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations and comprehensive income.

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NOTE 8 — GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill
The following is a summary of goodwill by segment:

(in thousands)	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations	Total
Balance as of December 31, 2017	$ 73,259	$ 10,056	$ 2,968	$ 86,283
Dispositions[(1)]	—	(2,256)	—	(2,256)
Balance as of September 30, 2018	$ 73,259	$ 7,800	$ 2,968	$ 84,027

(1) During the third quarter of 2018, goodwill of $2.3 million attributable to the rental property management business was included in the gain on sale of the rental property management business to RESI (see Note 3).
Intangible Assets, net
Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount September 30, 2018	Gross carrying amount December 31, 2017	Accumulated amortization September 30, 2018	Accumulated amortization December 31, 2017	Net book value September 30, 2018	Net book value December 31, 2017
Definite lived intangible assets:							
Customer related intangible assets	10	$ 273,172	$ 277,828	$ (202,501)	$ (188,258)	$ 70,671	$ 89,570
Operating agreement	20	35,000	35,000	(14,896)	(13,865)	20,104	21,135
Trademarks and trade names	14	12,554	15,354	(6,611)	(8,881)	5,943	6,473
Non-compete agreements	4	1,230	1,560	(897)	(897)	333	663
Intellectual property	10	300	300	(132)	(115)	168	185
Other intangible assets	5	3,745	3,745	(2,210)	(1,706)	1,535	2,039
Total		$ 326,001	$ 333,787	$ (227,247)	$ (213,722)	$ 98,754	$ 120,065

Amortization expense for definite lived intangible assets was $21.3 million and $27.1 million for the nine months ended September 30, 2018 and 2017, respectively ($6.6 million and $8.6 million for the third quarter of 2018 and 2017, respectively). Anticipated annual definite lived intangible asset amortization is $26.9 million in 2018, $20.6 million in 2019, $17.9 million in 2020, $12.5 million in 2021 and $7.3 million in 2022.
NOTE 9 — OTHER ASSETS
Other assets consist of the following:

(in thousands)	September 30, 2018	December 31, 2017
Security deposits	$ 4,063	$ 5,304
Restricted cash	5,728	3,837

Other	3,906	1,054
Total	$ 13,697	$ 10,195

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Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 10 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	September 30, 2018	December 31, 2017
Accounts payable	$ 30,065	$ 15,682
Accrued expenses - general	31,208	27,268
Accrued salaries and benefits	33,153	41,363
Income taxes payable	1,981	87
Total	$ 96,407	$ 84,400

Other current liabilities consist of the following:

(in thousands)	September 30, 2018	December 31, 2017
Unfunded cash account balances	$ 3,643	$ 5,900
Other	4,269	3,514
Total	$ 7,912	$ 9,414

NOTE 11 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	September 30, 2018	December 31, 2017
Senior secured term loans	$ 388,760	$ 413,581
Less: Debt issuance costs, net	(4,080)	(3,158)
Less: Unamortized discount, net	(3,696)	(1,142)
Net long-term debt	380,984	409,281
Less: Current portion	(34,440)	(5,945)
Long-term debt, less current portion	$ 346,544	$ 403,336

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

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

The Term B Loans must be repaid in consecutive quarterly principal installments with remaining amounts due as of September 30, 2018 of $1.5 million in the fourth quarter of 2018, $41.2 million in 2019, $25.7 million in 2020 and $12.4 million annually thereafter, with the balance due at maturity. During the three months ended September 30, 2018, the Company used the proceeds received from the sale of the rental property management business to RESI (see Note 3) to repay $15.0 million of the Term B Loans. This repayment is applied to contractual amortization payments in the direct order of 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, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00, as calculated in accordance with the provisions of the Credit Agreement (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). Certain mandatory prepayments reduce future contractual amortization payments by an amount equal to the mandatory prepayment. No mandatory prepayments were owed for the three months ended September 30, 2018.

Altisource may incur incremental indebtedness under the Credit Agreement from one or more incremental lenders, which may include existing lenders, in an aggregate incremental principal amount not to exceed $125.0 million, subject to certain conditions set forth in the Credit Agreement, including a sublimit of $80.0 million with respect to incremental revolving credit commitments. The lenders have no obligation to provide any incremental indebtedness.

The Term B Loans bear interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate term loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for a three month interest period and (y) 1.00% plus (ii) 4.00%. Base Rate term loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) 3.00%. The interest rate at September 30, 2018 was 6.39%.

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 September 30, 2018.

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

The Credit Agreement includes covenants that restrict or limit, among other things, our ability, subject to certain exceptions and baskets, to incur indebtedness; incur liens on our assets; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases, dividends and repayment of junior indebtedness; make investments; dispose of equity interests of any Material Subsidiaries; engage in a line of business substantially different than existing businesses and businesses reasonably related, complimentary or ancillary thereto; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to our fiscal year; and engage in mergers and consolidations; and to the extent any Revolving Credit Loans are outstanding on the last day of a fiscal quarter, permit the Total Leverage Ratio to be greater than 3.50:1.00 as of the last day of such fiscal quarter, subject to a customary cure provision (the “Revolving Financial Covenant”).

The Credit Agreement contains certain events of default including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the Credit Agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of certain other covenants, subject to cure periods described in the Credit Agreement, (iv) a breach of the Revolving Financial Covenant, subject to a customary cure provision and not an Event of Default with respect to the Term Loans unless and until the Required Revolving Lenders accelerate the Revolving Credit Loans, (v) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due, (vi) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vii) occurrence of a Change of Control, (viii) bankruptcy and insolvency events, (ix) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (x) the occurrence of certain ERISA events and (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.

At September 30, 2018, debt issuance costs were $4.1 million, net of $0.5 million of accumulated amortization. At December 31, 2017, debt issuance costs related to the prior term loans were $3.2 million, net of $7.1 million of accumulated amortization.

During the nine months ended September 30, 2017, we repurchased portions of our prior senior secured term loan with an aggregate par value of $50.1 million at a weighted average discount of 12.2%, recognizing a net gain of $5.4 million on the early extinguishment of debt (repurchased aggregate par value of $24.1 million at a weighted average discount of 7.5%, recognizing a net gain of $1.5 million on the early extinguishment of debt for the third quarter of 2017). There were no similar repurchases in 2018. The net gain was included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

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NOTE 12 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	September 30, 2018	December 31, 2017
Income tax liabilities	$ 5,227	$ 5,955
Deferred revenue	21	2,101
Other non-current liabilities	2,618	4,226
Total	$ 7,866	$ 12,282

NOTE 13 — FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The following table presents the carrying amount and estimated fair value of financial instruments and certain liabilities as of September 30, 2018 and December 31, 2017. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

	September 30, 2018				December 31, 2017			
(in thousands)	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Assets:								
Cash and cash equivalents	$102,860	$102,860	$ —	$ —	$105,006	$105,006	$ —	$ —
Restricted cash	5,728	5,728	—	—	3,837	3,837	—	—
Investment in equity securities	44,967	44,967	—	—	49,153	49,153	—	—
Long-term receivable (Note 3)	2,165	—	—	2,165	—	—	—	—
Liabilities:								
Long-term debt	388,760	—	388,760	—	413,581	—	407,377	—

Fair Value Measurements on a Recurring Basis

Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair values due to the highly liquid nature of these instruments and were measured using Level 1 inputs.

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

The fair value of our long-term debt is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.

In connection with the sale of the rental property management business in August 2018, Altisource received cash proceeds of $15.0 million on the closing date and will receive $3.0 million on the earlier of a RESI change of control or on August 8, 2023 (see Note 3 for additional information). We measure long-term receivables without a stated interest rate based on the present value of the future payments.

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

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk primarily consist of cash and cash equivalents and accounts receivable. Our policy is to deposit our cash and cash equivalents with larger, highly rated financial institutions. The Company derives over 50% of its revenues from Ocwen (see Note 2 for additional information on Ocwen revenues and accounts receivable balance). The Company mitigates its concentrations of credit risk with respect to accounts receivable by actively monitoring past due accounts and the economic status of larger customers, if known.

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NOTE 14 — SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Share Repurchase Program

On May 15, 2018, our shareholders approved the renewal of the share repurchase program previously approved by the shareholders on May 17, 2017, which replaced the previous share repurchase program. We are authorized to purchase up to 4.3 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval, at a minimum price of $1.00 per share and a maximum price of $500.00 per share, for a period of five years from the date of approval. As of September 30, 2018, approximately 4.2 million shares of common stock remain available for repurchase under the program. We purchased 0.8 million shares of common stock at an average price of $27.48 per share during the nine months ended September 30, 2018 and 1.1 million shares at an average price of $22.48 per share during the nine months ended September 30, 2017 (21 thousand shares at an average price of $30.93 per share for the third quarter of 2018 and 0.3 million shares at an average price of $23.48 per share for the third quarter of 2017). Luxembourg law limits share repurchases to the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings, less the cost of shares previously repurchased. As of September 30, 2018, we can repurchase up to approximately $141 million of our common stock under Luxembourg law. The Credit Agreement also limits the amount we can spend on share repurchases, which was approximately $477 million as of September 30, 2018, and may prevent repurchases in certain circumstances.

Share-Based Compensation

We issue share-based awards in the form of stock options, restricted shares and restricted share units for certain employees, officers and directors. We recognized share-based compensation expense of $6.2 million and $3.2 million for the nine months ended September 30, 2018 and 2017, respectively ($2.0 million and $1.4 million for the third quarter of 2018 and 2017, respectively). As of September 30, 2018, estimated unrecognized compensation costs related to share-based awards amounted to $11.2 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 1.89 years.

In connection with the January 1, 2017 adoption of ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, the Company made an accounting policy election to account for forfeitures in compensation expense as they occur, rather than continuing to apply the Company's previous policy of estimating forfeitures. Prior to this accounting change, share-based compensation expense for stock options and restricted shares was recognized net of estimated forfeiture rates ranging from 0% to 40%. This policy election resulted in a cumulative effect adjustment of $0.9 million to retained earnings and additional paid-in capital as of January 1, 2017 using the modified retrospective transition method.

Stock Options

Stock option grants are composed of a combination of service-based, market-based and performance-based options.

Service-Based Options. These options generally vest over three or four years with equal annual vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 518 thousand service-based awards were outstanding as of September 30, 2018.

Market-Based Options. These option grants generally have two components, each of which vests only upon the achievement of certain criteria. The first component, which we refer to as "ordinary performance" grants, generally consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to as "extraordinary performance" grants, generally begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. Market-based awards vest in three or four year installments with the first installment vesting upon the achievement of the criteria and the remaining installments vesting thereafter in equal annual installments. Market-based options generally expire on the earlier of ten years after the date of grant or following termination of service, unless the performance criteria is met prior to termination of service or in the final three years of the option term, in which case vesting will generally continue in accordance with the provisions of the award agreement. A total of 659 thousand market-based awards were outstanding as of September 30, 2018.

Performance-Based Options. These option grants generally begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-fourth vest on each anniversary of the grant date. For certain other financial measures, awards cliff-vest upon the achievement of the specific performance during the period from 2018 through 2021. The award of performance-based options is adjusted based on the level of achievement specified in the award agreements. If the performance criteria achieved is above threshold performance levels, participants have the opportunity to vest in 50% to 200% of the option grants, depending upon performance achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. The options expire on the earlier of ten years after the date of grant or following termination of service. There were 282 thousand performance-based awards outstanding as of September 30, 2018.

The Company granted 272 thousand stock options (at a weighted average exercise price of $25.06 per share) and 216 thousand stock options (at a weighted average exercise price of $34.07 per share) during the nine months ended September 30, 2018 and 2017, respectively.

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

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate (%)	2.66 – 2.98	1.64 – 2.83	1.89 – 2.29	0.77 – 2.38
Expected stock price volatility (%)	70.31 – 71.86	71.81 – 71.86	61.49 – 71.31	66.68 – 71.31
Expected dividend yield	—	—	—	—
Expected option life (in years)	6.00 – 6.25	2.56 – 4.32	6.00 – 7.50	2.55 – 4.32
Fair value	$16.17 – $19.06	$14.67 – $18.28	$13.57 – $24.80	$11.94 – $24.30

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

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

(in thousands, except per share amounts)	Nine months ended September 30, 2018	2017
Weighted average grant date fair value of stock options granted per share	$16.27	$20.95
Intrinsic value of options exercised	4,584	2,524
Grant date fair value of stock options that vested	1,598	2,063

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

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2017	1,745,906	$ 28.20	4.96	$ 10,202
Granted	271,876	25.06		
Exercised	(326,737)	11.24		
Forfeited	(232,247)	32.47		
Outstanding at September 30, 2018	1,458,798	30.73	5.40	10,053
Exercisable at September 30, 2018	886,720	27.18	3.67	7,364

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Other Share-Based Awards
The Company’s other share-based and similar types of awards are composed of restricted shares and, beginning in 2018, restricted share units. The restricted shares and restricted share units are composed of a combination of service-based awards and performance-based awards.
Service-Based Awards. These awards generally vest over one to four years with vesting in equal annual installments, vesting of all of the restricted shares at the end of the vesting period or vesting beginning after two years of service. A total of 455 thousand service-based awards were outstanding as of September 30, 2018.
Performance-Based Awards. These awards generally begin to vest upon the achievement of certain specific financial measures. Generally, the awards begin vesting if the performance criteria are achieved; one-third vest on each anniversary of the grant date. The number of performance-based restricted shares that may vest will be based on the level of achievement, as specified in the award agreements. If the performance criteria achieved is above threshold performance levels, participants have the opportunity to vest in 80% to 150% of the restricted share award, depending on performance level achieved. If the performance criteria achieved is below a certain threshold, the award is canceled. A total of four thousand performance-based awards were outstanding as of September 30, 2018.
The Company granted 318 thousand restricted shares and restricted share units (at a weighted average grant date fair value of $25.51 per share) during the nine months ended September 30, 2018.
The following table summarizes the activity related to our restricted shares and restricted share units:

	Number of restricted shares
Outstanding at December 31, 2017	356,509
Granted	317,524
Issued	(99,500)
Forfeited/canceled	(115,301)
Outstanding at September 30, 2018	459,232

During the third quarter of 2018, the Company modified the vesting condition to remove the requirement that a certain employee be employed by the Company in order for the restricted shares to vest for 31 thousand restricted shares granted in the fourth quarter of 2017 and the first quarter of 2018. The award modification did not change the inputs into the valuation model or the Company’s assessment of the probability of vesting as of the effective date of the modifications. Consequently, no incremental compensation expense was required as a result of this modification.
NOTE 15 — REVENUE
Revenue includes service revenue, reimbursable expenses and non-controlling interests. Service revenue consists of amounts attributable to our fee-based services and sales of short-term investments in real estate. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services that we pass directly on to our customers without a markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity that is a mortgage cooperative managed, but not owned, by Altisource. Lenders One is included in revenue and reduced from net income to arrive at net income attributable to Altisource (see Note 1).
The components of revenue were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2018	2017	2018	2017
Service revenue	$196,906	$224,308	$594,533	$692,254

Reimbursable expenses	6,815	9,866	23,970	31,786
Non-controlling interests	854	805	2,066	2,107
Total	$204,575	$234,979	$620,569	$726,147

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

Disaggregation of Revenue

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

	Three months ended September 30, 2018			
(in thousands)	Revenue recognized when services are performed or assets are sold	Revenue related to technology platforms and professional services	Reimbursable expenses revenue	Total revenue
Mortgage Market:				
Servicer Solutions	$135,395	$ 20,565	$ 6,530	$162,490
Origination Solutions	11,223	2,160	87	13,470
Total Mortgage Market	146,618	22,725	6,617	175,960
Real Estate Market:				
Consumer Real Estate Solutions	2,693	—	—	2,693
Real Estate Investor Solutions	10,132	—	185	10,317
Total Real Estate Market	12,825	—	185	13,010
Other Businesses, Corporate and Eliminations	14,138	1,454	13	15,605
Total revenue	$173,581	$ 24,179	$ 6,815	$204,575

	Nine months ended September 30, 2018			
(in thousands)	Revenue recognized when services are performed or assets are sold	Revenue related to technology platforms and professional services	Reimbursable expenses revenue	Total revenue
Mortgage Market:				
Servicer Solutions	$404,015	$ 57,363	$ 22,592	$483,970
Origination Solutions	30,651	7,138	201	37,990
Total Mortgage Market	434,666	64,501	22,793	521,960
Real Estate Market:				
Consumer Real Estate Solutions	6,410	—	2	6,412
Real Estate Investor Solutions	44,882	—	1,141	46,023
Total Real Estate Market	51,292	—	1,143	52,435
Other Businesses, Corporate and Eliminations	41,785	4,355	34	46,174

Total revenue	$527,743	$ 68,856	$ 23,970	$620,569

Contract Balances

Our contract assets consist of unbilled accounts receivable (see Note 5). Our contract liabilities consist of current deferred revenue as reported on the condensed consolidated balance sheets and non-current deferred revenue (see Note 12). Revenue recognized that was included in the contract liability at the beginning of the period, including amounts added to the contract liability as part of the cumulative effect of adopting Topic 606, was $6.1 million and $17.4 million for the three and nine months ended September 30, 2018, respectively.

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NOTE 16 — COST OF REVENUE
Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, cost of real estate sold, reimbursable expenses, technology and telecommunications costs as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows:

(in thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Compensation and benefits	$49,707	$60,332	$159,342	$186,090
Outside fees and services	73,096	83,670	207,073	250,883
Cost of real estate sold	1,092	4,411	17,591	16,461
Technology and telecommunications	10,230	10,389	30,533	32,681
Reimbursable expenses	6,815	9,866	23,970	31,786
Depreciation and amortization	6,640	6,230	19,471	20,343
Total	$147,580	$174,898	$457,980	$538,244

NOTE 17 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
Selling, general and administrative expenses include payroll and employee benefits associated with personnel employed in executive, finance, law, compliance, human resources, vendor management, facilities, risk management, sales and marketing roles. This category also includes professional fees, occupancy costs, marketing costs, depreciation and amortization of non-operating assets and other expenses. The components of selling, general and administrative expenses were as follows:

(in thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Compensation and benefits	$11,991	$15,068	$37,757	$43,115
Occupancy related costs	7,428	8,536	23,051	28,347
Amortization of intangible assets	6,620	8,604	21,311	27,143
Marketing costs	4,267	3,992	11,852	11,958
Professional services	4,915	3,886	12,469	11,983
Depreciation and amortization	1,054	2,286	5,272	7,068
Other	10,054	4,250	20,665	17,179
Total	$46,329	$46,622	$132,377	$146,793

NOTE 18 — OTHER INCOME (EXPENSE), NET
Other income (expense), net consists of the following:

(in thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Loss on debt refinancing	$ —	$ —	$(4,434)	$ —

Gain on early extinguishment of debt	—	1,482	—	5,419
Interest income	224	27	455	169
Other, net	(70)	988	1,544	2,427