Altisource Portfolio Solutions S.A.
Form 10-Q
October 23, 2014

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, 2014

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

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

+352 2469 7900
(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 October 20, 2014, there were 20,271,929 outstanding shares of the registrant’s shares of beneficial interest (excluding 5,140,819 shares held as treasury stock).

Table of Contents

Table of Contents

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

FORM 10-Q

Table of Contents

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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$176,589	$130,429
Accounts receivable, net	159,965	104,787
Prepaid expenses and other current assets	17,454	10,891
Deferred tax assets, net	2,837	2,837
Total current assets	356,845	248,944
Premises and equipment, net	115,773	87,252
Deferred tax assets, net	158	622
Goodwill	72,384	99,414
Intangible assets, net	250,315	276,162
Other assets	21,117	17,658
Total assets	$816,592	$730,052
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$99,598	$84,706
Current portion of long-term debt	5,945	3,975
Deferred revenue	13,504	36,742
Other current liabilities	9,683	10,131
Total current liabilities	128,730	135,554
Long-term debt, less current portion	584,028	391,281
Other non-current liabilities	14,572	45,476
Commitments, contingencies and regulatory matters (Note 18)		
Equity:		
Common stock ($1.00 par value; 100,000 shares authorized; 25,413 issued and 20,747 outstanding as of September 30, 2014; 25,413 issued and 22,629 outstanding as of December 31, 2013)	25,413	25,413
Additional paid-in capital	90,911	89,273
Retained earnings	369,952	239,561
Treasury stock, at cost (4,666 shares as of September 30, 2014 and 2,784 shares as of December 31, 2013)	(398,217)	(197,548)
Altisource equity	88,059	156,699

Non-controlling interests	1,203	1,042
Total equity	89,262	157,741
Total liabilities and equity	$816,592	$730,052

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenue	$287,688	$210,835	$823,029	$545,772
Cost of revenue	188,724	134,261	520,528	348,195
Gross profit	98,964	76,574	302,501	197,577
Selling, general and administrative expenses	46,748	31,519	139,303	80,027
Income from operations	52,216	45,055	163,198	117,550
Other income (expense), net:				
Interest expense	(6,480)	(6,188)	(16,040)	(14,302)
Other income (expense), net	131	(253)	135	529
Total other income (expense), net	(6,349)	(6,441)	(15,905)	(13,773)
Income before income taxes and non-controlling interests	45,867	38,614	147,293	103,777
Income tax provision	(2,752)	(1,659)	(9,300)	(6,227)
Net income	43,115	36,955	137,993	97,550
Net income attributable to non-controlling interests	(828)	(947)	(1,974)	(3,093)
Net income attributable to Altisource	$42,287	$36,008	$136,019	$94,457
Earnings per share:				
Basic	$1.96	$1.56	$6.16	$4.07
Diluted	$1.79	$1.42	$5.63	$3.77
Weighted average shares outstanding:				
Basic	21,626	23,025	22,071	23,185
Diluted	23,640	25,333	24,152	25,070
Transactions with related parties included above:				
Revenue	$178,151	$143,557	$502,736	$354,889
Cost of revenue	11,062	5,045	27,904	13,959
Selling, general and administrative expenses	267	613	(464)	329
Other income	—	—	—	773

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Altisource Equity						
	Common stock		Additional paid-in capital	Retained earnings	Treasury stock, at cost	Non-controlling interests	Total
	Shares						
Balance, December 31, 2012	25,413	$25,413	$ 86,873	$124,127	$ (77,954)	$ 1,370	$159,829
Net income	—	—	—	94,457	—	3,093	97,550
Contributions from non-controlling interest holders	—	—	—	—	—	18	18
Distributions to non-controlling interest holders	—	—	—	—	—	(3,234)	(3,234)
Share-based compensation expense	—	—	2,076	—	—	—	2,076
Exercise of stock options	—	—	—	(8,801)	13,511	—	4,710
Repurchase of shares	—	—	—	—	(87,418)	—	(87,418)
Balance, September 30, 2013	25,413	$25,413	$ 88,949	$209,783	$ (151,861)	$ 1,247	$173,531
Balance, December 31, 2013	25,413	$25,413	$ 89,273	$239,561	$ (197,548)	$ 1,042	$157,741
Net income	—	—	—	136,019	—	1,974	137,993
Distributions to non-controlling interest holders	—	—	—	—	—	(1,813)	(1,813)
Share-based compensation expense	—	—	1,638	—	—	—	1,638
Exercise of stock options	—	—		(5,628)	8,151	—	2,523
Repurchase of shares	—	—	—	—	(208,820)	—	(208,820)
Balance, September 30, 2014	25,413	$25,413	$ 90,911	$369,952	$ (398,217)	$ 1,203	$89,262

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$137,993	$97,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,086	13,791
Amortization of intangible assets	29,290	18,857
Change in the fair value of Equator Earn Out	(37,924)	—
Goodwill impairment	37,473	—
Share-based compensation expense	1,638	2,076
Equity in losses of investment in affiliate	—	176
Bad debt expense	4,667	1,338
Amortization of debt discount	191	184
Amortization of debt issuance costs	799	702
Deferred income taxes	464	—
Loss on disposal of fixed assets	98	1,178
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(58,725)	3,762
Prepaid expenses and other current assets	(6,525)	(6,142)
Other assets	(1,656)	(1,871)
Accounts payable and accrued expenses	14,968	4,574
Other current and non-current liabilities	(18,141)	(1,535)
Net cash provided by operating activities	125,696	134,640
Cash flows from investing activities:		
Additions to premises and equipment	(48,119)	(20,528)
Acquisition of businesses, net of cash acquired	(14,931)	(204,567)
Proceeds from loan to Ocwen	—	75,000
Proceeds from sale of equity affiliate	—	12,648
Other investing activities	(294)	(50)
Net cash used in investing activities	(63,344)	(137,497)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	198,000	201,000
Repayment of long-term debt and payments on capital lease obligations	(3,474)	(2,736)
Debt issuance costs	(2,608)	(2,400)
Proceeds from stock option exercises	2,523	4,710
Purchase of treasury stock	(208,820)	(87,418)
Contributions from non-controlling interests	—	18
Distributions to non-controlling interests	(1,813)	(3,234)
Net cash (used in) provided by financing activities	(16,192)	109,940
Net increase in cash and cash equivalents	46,160	107,083
Cash and cash equivalents at the beginning of the period	130,429	105,502

Cash and cash equivalents at the end of the period	$176,589	$212,585
Supplemental cash flow information:		
Interest paid	$15,049	$13,592
Income taxes paid, net	12,112	2,360
Non-cash investing and financing activities:		
Increase in payables for purchases of premises and equipment	$482	$1,947
Decrease in acquisition of businesses from subsequent working capital true-ups	(3,711)	(2,039)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 offering both distribution and content. We leverage proprietary business process, vendor and electronic payment management software and behavioral science based analytics to 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.”
Altisource® operations are conducted through three reporting segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate-related expenditures and eliminations separately (see Note 19 for a description of our business segments).

Basis of 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 notes 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 these estimates. Intercompany and inter-segment transactions and accounts are eliminated in consolidation.

The Mortgage Partnership of America, L.L.C. (“MPA”), a wholly-owned subsidiary of Altisource, serves as the manager of Best Partners Mortgage Cooperative, Inc. doing business as Lenders One Mortgage Cooperative (“Lenders One”). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025. The management agreement between MPA and Lenders One® members, pursuant to which MPA is the management company of Lenders One, 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 Lenders One’s economic performance and the obligation to absorb losses or the right to receive benefits from Lenders One. As a result, Lenders One is 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 September 30, 2014, Lenders One had total assets of $7.0 million and total liabilities of $5.8 million. As of December 31, 2013, Lenders One had total assets of $4.6 million and total liabilities of $3.5 million.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2013, filed with the SEC on February 13, 2014, which contains a summary of our significant accounting policies. Certain footnote detail in the Form 10-K is omitted from the information included herein.

Correction of Immaterial Errors

As previously disclosed, during the second quarter of 2014, we determined that while we properly identified our related parties in previously issued financial statements, disclosures of certain immaterial related party expenses were omitted. We have corrected the previously presented disclosures of related party expenses in Note 2 — Transactions with Related Parties and on the face of the condensed consolidated statements of operations for the three and nine months ended September 30, 2013. The impact of correcting these items in the notes to the condensed consolidated financial statements had the effect of increasing the amounts disclosed as related party cost of revenue from Ocwen Financial Corporation, together with its subsidiaries ("Ocwen"), by $14.0 million for the nine months ended September 30, 2013 ($5.0 million for the third quarter of 2013), increasing the amounts disclosed as selling, general and administrative expenses from Ocwen billings to Altisource by $1.0 million for the nine months ended

September 30, 2013 ($0.8 million for the third quarter of 2013), decreasing the amounts disclosed as selling, general and administrative expenses from Altisource billings to Ocwen by $0.1 million for the nine months ended September 30, 2013 (less than $0.1 million for the third quarter of 2013) and decreasing the amounts disclosed as selling, general and administrative expenses from Altisource billings to Altisource Asset Management Corporation ("AAMC") by $0.3 million for the nine months ended September 30, 2013 ($0.1 million for the third quarter of 2013). Correcting these items on the face of the condensed consolidated statements of operations resulted in the disclosure of related party cost of revenue of $14.0 million for the nine months ended September 30, 2013 ($5.0 million for the third quarter of 2013) and a decrease in previously disclosed related party selling, general and administrative expenses by $1.8 million for the nine months ended September 30, 2013 ($0.1 million for the third quarter of 2013).

In accordance with Accounting Standards Codification ("ASC") Topic 250, Accounting Changes and Error Corrections, the Company evaluated the effect of the disclosure and presentation errors on its previously issued annual and quarterly financial statements, both qualitatively and quantitatively, and concluded that the related party disclosures in the Company's previously issued annual and quarterly financial statements are not materially misstated.

Future Adoption of New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. 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 the new 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 new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this new guidance may have on its results of operations and financial position.

Fair Value of Financial Instruments

ASC Topic 820, Fair Value Measurement, established a three-level hierarchy that prioritizes the inputs used to measure fair value 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.

Our financial assets and liabilities primarily include cash and cash equivalents, restricted cash, long-term debt and acquisition-related contingent consideration. 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. The fair value for cash and cash equivalents and restricted cash was measured using level 1 inputs. The carrying amount of long-term debt approximates fair value due to the variable interest rate and consistent credit rating of the Company. The fair value of long-term debt was measured using level 2 inputs. The carrying amount of acquisition-related contingent consideration is equal to its fair value. The fair value of acquisition-related contingent consideration was measured using level 3 inputs, which included sensitivities pertaining to discount rates and financial projections. See Note 3 for further discussion of the change in fair value of contingent consideration.

NOTE 2 — TRANSACTIONS WITH RELATED PARTIES

Our Chairman, William C. Erbey, also serves as Executive Chairman of Ocwen and Chairman of Home Loan Servicing Solutions, Ltd. (“HLSS”), Altisource Residential Corporation (“Residential”) and AAMC. As a result, he has obligations to Altisource as well as Ocwen, HLSS, Residential and AAMC. As of September 30, 2014, Mr. Erbey owned or controlled approximately 29% of the common stock of Altisource, approximately 14% of the common stock of Ocwen, approximately 1% of the common stock of HLSS, approximately 4% of the common stock of Residential and approximately 28% of the common stock of AAMC. As of September 30, 2014, Mr. Erbey also held 873,501 options to purchase Altisource common stock (all of which were exercisable), 3,620,498 options to purchase Ocwen common stock (3,220,498 of which were exercisable) and 87,350 options to purchase AAMC common stock (all of which were exercisable).

Ocwen

Revenue

Ocwen is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of the master services agreements and amendments to the master services agreements (collectively, the “Service Agreements”) with terms extending through August 2025. 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. In connection with our March 29, 2013 acquisition from Ocwen of the fee-based businesses of Homeward Residential, Inc. (“Homeward”) and the April 12, 2013 transaction with Ocwen related to the fee-based businesses of Residential Capital, LLC (“ResCap”) (see Note 3), our Service Agreements with Ocwen were amended to extend the term from 2020 to 2025. Further, as part of the amendments, Ocwen agreed not to establish similar fee-based businesses that would directly or indirectly compete with Altisource’s services with respect to the Homeward and ResCap businesses. During the third quarter of 2014, we agreed with Ocwen to apply a negligence standard with respect to indemnification obligations arising out of property preservation and inspection services. Previously, Altisource and Ocwen applied a gross negligence standard with respect to these indemnification obligations. We settle amounts with Ocwen on a daily, weekly or monthly basis depending upon the nature of the service and when the service is provided.

Related party revenue consists of revenue earned directly from Ocwen and revenue earned from the loans serviced by Ocwen when Ocwen designates us as the service provider. We earn additional revenue on the portfolios serviced by Ocwen that are not considered related party revenue when a party other than Ocwen selects Altisource as the service provider. Related party revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Mortgage Services	66 %	72 %	67 %	70 %
Financial Services	31 %	37 %	28 %	25 %
Technology Services	42 %	53 %	39 %	53 %
Consolidated revenue	60 %	68 %	60 %	65 %

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

Cost of Revenue

At times, we use Ocwen’s contractors and/or employees to support Altisource related services. Ocwen bills us for these contractors and/or employees based on their fully-allocated cost. Additionally, we purchase certain data relating to Ocwen’s servicing portfolio in connection with a Data Access and Services Agreement. The Data Access and Services Agreement may be renegotiated and may be cancelled by either Altisource or Ocwen with 90 days prior written notice. Ocwen bills us a per asset fee for this data. For the nine months ended September 30, 2014 and 2013, Ocwen billed us $27.9 million and $14.0 million, respectively ($11.1 million and $5.0 million for the third quarter of 2014 and 2013, respectively). These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations.

Selling, General and Administrative Expenses

We provide certain other services to Ocwen and Ocwen provides certain other services to us. These services include such areas as human resources, vendor management, vendor oversight, corporate services, operational effectiveness, quality assurance, quantitative analytics, tax and treasury. Billings for these services are 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. For the nine months ended September 30, 2014 and 2013, we billed Ocwen $3.4 million and $1.9 million, respectively ($1.2 million and $0.6 million for the third quarter of 2014 and 2013, respectively), and Ocwen billed us $4.3 million and $3.1 million, respectively ($1.9 million and $1.5 million for the third quarter of 2014 and 2013, respectively). These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

Unsecured Term Loan

On December 27, 2012, we entered into a senior unsecured term loan agreement with Ocwen under which we loaned $75.0 million to Ocwen. Payments of interest were due quarterly at a rate per annum equal to the Eurodollar Rate (as defined in the agreement) plus 6.75%, provided that the Eurodollar Rate is not less than 1.50%. On February 15, 2013, Ocwen repaid the outstanding principal amount of this loan and all accrued and unpaid interest and the term loan was terminated. Interest income related to this loan was $0.8 million for the nine months ended September 30, 2013, all of which was recognized in the first quarter of 2013.

Transactions Related to Fee-Based Businesses

On January 31, 2013, we entered into non-binding letters of intent with Ocwen to acquire certain fee-based businesses associated with Ocwen’s acquisitions of the Homeward and ResCap servicing portfolios. Ocwen acquired the Homeward servicing portfolio on December 27, 2012 and the ResCap servicing portfolio on February 15, 2013. Altisource acquired the Homeward fee-based businesses from Ocwen on March 29, 2013 (see Note 3). Altisource entered into an agreement with Ocwen on April 12, 2013 to establish additional terms related to our services in connection with the ResCap fee-based businesses (see Note 3).

Correspondent One and HLSS

In July 2011, we acquired an equity interest in Correspondent One S.A. (“Correspondent One”). Correspondent One purchased closed conforming and government guaranteed residential mortgages from approved mortgage bankers. On March 31, 2013, we sold our 49% interest in Correspondent One to Ocwen for $12.6 million. Prior to the sale to Ocwen, we provided Correspondent One certain finance, human resources, legal support, facilities, technology, vendor management and risk management services under a support services agreement. For the nine months ended September 30, 2013, we billed Correspondent One $0.1 million (no comparative amounts for 2014 and the third quarter of 2013). This amount was reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations. We also provided certain origination related services to Correspondent One. We earned revenue of $0.1 million for the nine months ended September 30, 2013 for these services (no comparative amounts for 2014 and the third quarter of 2013).

HLSS is a publicly traded company whose primary objective is the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. Under a support services agreement, we provide HLSS certain finance, human resources, tax and facilities services. We billed HLSS $0.7 million and $0.5 million for the nine months ended September 30, 2014 and 2013, respectively ($0.2 million in each period for the third quarter of 2014 and 2013). These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

Residential and AAMC

Residential and AAMC were established, capitalized and their equity was distributed to our shareholders on December 21, 2012 and they are each separate publicly traded companies. Residential is focused on acquiring and managing single family rental properties by acquiring portfolios of sub-performing and non-performing residential mortgage loans throughout the United States. AAMC is an asset management company providing portfolio management and corporate governance services to Residential.

For purposes of governing certain ongoing relationships between Altisource, Residential and AAMC, we entered into certain agreements with Residential and AAMC. We have agreements to provide Residential with renovation management, lease management and property management services. We have an agreement with AAMC's subsidiary, Newsource Reinsurance Company Ltd. to provide a variety of title insurance related services. In addition, we have agreements with Residential and AAMC to provide services such as finance, human resources, facilities, technology and risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.

For the nine months ended September 30, 2014 and 2013, we billed Residential $8.9 million and $1.3 million, respectively ($4.2 million and $0.9 million for the third quarter of 2014 and 2013, respectively). This excludes revenue from services we provide to Residential's loans serviced by Ocwen where we are retained by Ocwen. That revenue is included in Ocwen related party revenue. For the nine months ended September 30, 2014 and 2013, we billed AAMC $2.2 million and less than $0.1 million, respectively ($2.1 million and less than $0.1 million for the third quarter of 2014 and 2013, respectively), under the services agreements. These amounts are reflected in revenue in the condensed consolidated statements of operations. In addition, for the nine months ended September 30, 2014 and 2013, we billed AAMC $0.7 million and $0.3 million, respectively ($0.2 million and $0.1 million for the third quarter of 2014 and 2013, respectively), under the services agreements. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

NOTE 3 — ACQUISITIONS

Homeward Fee-Based Businesses

On March 29, 2013, we acquired certain fee-based businesses associated with Ocwen's acquisition of Homeward. As part of the acquisition, Ocwen agreed not to develop similar fee-based businesses that would directly or indirectly compete with services provided by Altisource relative to the Homeward servicing portfolio. Additionally, the terms of our Service Agreements with Ocwen were amended to extend the term from 2020 to 2025 (see Note 2). We paid $75.8 million, after a working capital and pre-acquisition net income adjustment payment by Ocwen of $11.1 million, which we received in September 2013.

Since the acquisition date, management adjusted the purchase price allocation and assigned associated asset lives based upon information that has become available. In addition to the working capital adjustment, we also reduced premises and equipment by $1.2 million based on a post-acquisition detailed analysis of software licenses received and increased current liabilities by $2.0 million based on a subsequent detailed analysis of obligations payable as of the closing date, which we paid in July 2014. Consequently, the Company retrospectively adjusted the fair value of the assets acquired and liabilities assumed in the condensed consolidated balance sheet as of December 31, 2013 as well as disclosed the corresponding amount of non-cash investing and financing activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2013.

The final adjusted allocation of the purchase price is as follows:

(in thousands)	
Premises and equipment	$1,559
Customer relationship	75,609
Goodwill	2,039
	79,207
Accounts payable and accrued expenses	(3,390)
Purchase price	$75,817

	Estimated life (in years)
Premises and equipment	3 - 5
Customer relationship	7

ResCap Fee-Based Businesses

On April 12, 2013, we entered into an agreement with Ocwen to establish additional terms related to the existing servicing arrangements between Altisource and Ocwen in connection with certain mortgage servicing platform assets of ResCap (the "ResCap Business"). The agreement provides that (i) Altisource will be a provider to Ocwen of certain services related to the ResCap Business, (ii) Ocwen will not establish similar fee-based businesses that would directly or indirectly compete with Altisource's services as they relate to the ResCap Business and (iii) Ocwen will market and promote the utilization of Altisource's services to their various third party relationships. Additionally, the parties agreed to use commercially reasonable best efforts to ensure that the loans associated with the ResCap Business are boarded onto Altisource's mortgage servicing platform. We paid $128.8 million to Ocwen in connection with the ResCap fee-based businesses agreement.

We acquired no tangible assets and assumed no liabilities in connection with the ResCap transaction. However, certain employees as well as practices and processes developed to support the ResCap servicing portfolio were components of the transaction. We accounted for this transaction as a business combination in accordance with ASC Topic 805, Business Combinations.

Management prepared a final purchase price allocation and assigned associated asset lives based upon available information at the time of the agreement and until finalized as of December 31, 2013. The agreement consideration of $128.8 million was fully allocated to the customer relationship intangible asset with an estimated average useful life of 7 years.

Equator Acquisition

On November 15, 2013, we completed the acquisition of all of the outstanding limited liability company interests of Equator, LLC ("Equator") pursuant to a Purchase and Sale Agreement dated August 19, 2013 (the "Purchase Agreement"). Pursuant to the terms of the Purchase Agreement, we paid $63.4 million at closing in cash (net of closing working capital adjustments), subject to certain post-closing adjustments based on current assets and current liabilities of Equator at closing. After the acquisition date, management adjusted the purchase price allocation based upon information that has subsequently become available relating to acquisition date working capital, resulting in an obligation of the Company to pay the sellers an additional $3.7 million. Consequently, the Company retrospectively adjusted the fair value of the assets acquired and liabilities assumed in the condensed consolidated balance sheet as of December 31, 2013 as well as disclosed the corresponding amount of non-cash investing and financing activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2014.

The Purchase Agreement also provides for the payment of up to $80 million in potential additional consideration (the “Earn Out”). The Earn Out is determined based on Equator’s Adjusted EBITA (as defined in the Purchase Agreement) in the three consecutive 12-month periods following closing. Up to $22.5 million of the Earn Out can be earned in each of the first two 12-month periods, and up to $35.0 million can be earned in the third 12-month period. Any amounts earned upon the achievement of Adjusted EBITA thresholds are payable through 2017. We may, in our discretion, pay up to 20% of each payment of any Earn Out in shares of Company restricted stock, with the balance to be paid in cash. As of the closing date, we estimated the fair value of the Earn Out to be $46.0 million, determined based on the present value of future estimated Earn Out payments at such date, which has subsequently been reduced to $8.1 million, as further described below. The acquisition date fair value of the Earn Out is included as a component of the purchase price of Equator.

The final adjusted allocation of the purchase price is as follows:

(in thousands)	Initial purchase price allocation	Adjustments	Adjusted purchase price allocation
Cash and cash equivalents	$—	$105	$105
Accounts receivable	9,293	3,490	12,783
Prepaid expenses and other current assets	954	(498)	456
Premises and equipment	16,974	—	16,974
Customer relationships and trade names	43,393	—	43,393
Goodwill	82,460	—	82,460
Other non-current assets	242	78	320
Assets acquired	153,316	3,175	156,491
Accounts payable and accrued expenses	(7,232)	536	(6,696)
Deferred revenue	(36,689)	—	(36,689)
Liabilities assumed	(43,921)	536	(43,385)
Purchase price	$109,395	$3,711	$113,106

	Estimated life (in years)
Premises and equipment (excluding internally developed software)	3 - 5
Internally developed software (included in premises and equipment)	7

Customer relationships (weighted average)	15
Trade names	4

In accordance with ASC Topic 805, Business Combinations, the liability for Earn Out payments is remeasured to fair value each period until the contingency is resolved with the change in fair value recognized in earnings. As of the closing date, December 31, 2013 and March 31, 2014, we estimated the fair value of the Earn Out to be $46.0 million, determined based on the present value of future estimated Earn Out payments. As of June 30, 2014 and September 30, 2014, we estimated the fair value of the Earn Out to be $8.1 million, determined based on the present value of future estimated Earn Out payments. The lower fair value of the Earn Out is based on management's revised estimates that expected earnings of Equator will be lower than projected at the time of acquisition. The reduction in fair value of $37.9 million was recorded in the second quarter of 2014 and is reflected as a reduction of selling, general and administrative expenses in the condensed consolidated statements of operations.

As a result of the decline in fair value of the Earn Out, management evaluated and determined that Equator goodwill should be tested for impairment. Consequently, we initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of Equator to its fair value based on a discounted cash flow analysis. In the second quarter of 2014, we determined, based on a preliminary assessment, that the fair value of Equator was less than its carrying value. Based on this preliminary assessment, management has estimated that the Equator goodwill impairment was approximately $37.5 million, which is reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations (see Note 15). This assessment was preliminary due to the timing of revisions to forecasted results of operations and cash flows and the volatility of the markets in which Equator's customers operate. We completed our Equator goodwill impairment assessment in the third quarter of 2014 resulting in no further adjustment to the goodwill impairment recorded in the second quarter of 2014.

The following table presents the impact of the change in the fair value of the Equator Earn Out and Equator goodwill impairment for the nine months ended September 30, 2014, which are included in selling, general and administrative expenses in the condensed consolidated statements of operations:

(in thousands)	
Change in the fair value of Equator Earn Out	$(37,924)
Goodwill impairment	37,473
	$(451)

The following tables present the unaudited pro forma consolidated results of operations for the third quarter of 2013 and the nine months ended September 30, 2013 as if the Homeward, ResCap Business and Equator transactions had occurred at the beginning of the period presented.

	Three months ended September 30, 2013	
(in thousands, except per share amounts)	As reported	Pro forma
Revenue	$210,835	$225,764
Net income attributable to Altisource	36,008	34,157
Earnings per share — Diluted	1.42	1.35

	Nine months ended September 30, 2013	
(in thousands, except per share amounts)	As reported	Pro forma
Revenue	$545,772	$624,049
Net income attributable to Altisource	94,457	95,865
Earnings per share — Diluted	3.77	3.82

The unaudited pro forma information presents the combined operating results of Altisource and the Homeward, ResCap Business and Equator transactions. The Homeward, ResCap Business and Equator operating results were derived from their historical financial statements for the most comparable periods available. The results prior to the acquisition dates have been adjusted to include the pro forma impact of the adjustment of amortization of the acquired intangible assets based on the purchase price allocations, the adjustment of interest expense reflecting the portion of our senior secured term loan used in the Homeward, ResCap Business and Equator transactions and to reflect the impact of income taxes on the pro forma adjustments utilizing Altisource's effective income tax rate.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect additional revenue opportunities, the realization of any potential cost savings and any related integration costs. Certain revenue opportunities and cost savings may result from the transactions and the conversion to the Altisource model; however, there can be no assurance that these revenue opportunities and cost savings will be achieved. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the transactions occurred as of the beginning of the period presented, nor is the pro forma data intended to be a projection of results that may be obtained in the future.

Mortgage Builder Acquisition

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. (“Mortgage Builder”) pursuant to a Purchase and Sale Agreement dated July 18, 2014 (“the Purchase and Sale Agreement”). Mortgage Builder is a provider of mortgage loan origination and servicing software systems. Pursuant to the terms of the Purchase and Sale Agreement, we paid $15.7 million at closing in cash (net of closing working capital adjustments). Additionally, the Purchase and Sale Agreement provides for the payment of up to $7.0 million in potential additional consideration (the “MB Earn-Out”) based on Adjusted Revenue (as defined in the Purchase and Sale Agreement) in the three consecutive 12-month periods following closing. The Mortgage Builder purchase price includes the fair value of the MB Earn-Out of $1.0 million, determined based on the present value of future estimated MB Earn-Out payments. The Mortgage Builder acquisition is not material in relation to the Company’s results of operations or financial position.

The preliminary allocation of the purchase price is as follows:

(in thousands)	
Cash	$726
Accounts receivable, net	1,120
Prepaid expenses	38
Premises and equipment, net	2,068
Customer relationship	3,143
Goodwill	10,443
	17,538
Accounts payable and accrued expenses	(881)
Purchase price	$16,657

NOTE 4 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	September 30, 2014	December 31, 2013 (1)
Billed		
Non-related parties	$44,768	$41,011
Ocwen	34,692	11,658
HLSS	234	83
AAMC	1,015	1,347
Residential	6,488	547
Other receivables	713	1,643
	87,910	56,289
Unbilled		
Non-related parties	71,632	44,102
Ocwen	9,390	10,027
AAMC	2,118	—
	171,050	110,418
Less: allowance for doubtful accounts	(11,085)	(5,631)
Total	$159,965	$104,787

(1) December 31, 2013 accounts receivable has been revised to reflect a purchase accounting measurement period adjustment related to the Equator acquisition. See Note 3.

Unbilled receivables consist primarily of asset management and default management services for which we 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.

Table of Contents

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

NOTE 5 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	September 30, 2014	December 31, 2013 [1]
Maintenance agreements, current portion	$6,760	$4,600
Income taxes receivable	4,155	1,645
Prepaid expenses	3,647	3,672
Other current assets	2,892	974
Total	$17,454	$10,891

[1] December 31, 2013 prepaid expenses and other current assets have been revised to reflect a purchase accounting measurement period adjustment related to the Equator acquisition. See Note 3.

NOTE 6 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following:

(in thousands)	September 30, 2014	December 31, 2013
Computer hardware and software	$136,456	$103,400
Office equipment and other	34,699	28,057
Furniture and fixtures	10,162	8,391
Leasehold improvements	26,215	17,574
	207,532	157,422
Less: accumulated depreciation and amortization	(91,759)	(70,170)
Total	$115,773	$87,252

Depreciation and amortization expense, inclusive of capital leases, amounted to $21.1 million and $13.8 million for the nine months ended September 30, 2014 and 2013, respectively ($7.7 million and $4.5 million for the third quarter of 2014 and 2013, 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.

NOTE 7 — GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services[1]	Financial Services	Technology Services	Total

Balance, December 31, 2013	$12,958	$2,378	$84,078	$99,414
Acquisition of Mortgage Builder	—	—	10,443	10,443
Impairment of Equator goodwill [2]	—	—	(37,473)	(37,473)
Balance, September 30, 2014	$12,958	$2,378	$57,048	$72,384

(1) December 31, 2013 goodwill has been revised to reflect a purchase accounting measurement period adjustment related to
the Homeward acquisition. See Note 3.

(2) See Note 3 for a discussion of the Equator goodwill impairment.

15

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

Intangible Assets, Net

Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount September 30, 2014	Gross carrying amount December 31, 2013	Accumulated amortization September 30, 2014	Accumulated amortization December 31, 2013	Net book value September 30, 2014	Net book value December 31, 2013
Definite lived intangible assets:							
Trademarks	14	$12,249	$ 12,249	$(4,889)	$ (4,534)	$7,360	$ 7,715
Customer-related intangible assets	10	287,627	284,484	(71,788)	(44,208)	215,839	240,276
Operating agreement	20	35,000	35,000	(8,166)	(6,854)	26,834	28,146
Non-compete agreement	4	—	1,300	—	(1,275)	—	25
Intellectual property	10	300	—	(18)	—	282	—
Total		$335,176	$ 333,033	$(84,861)	$ (56,871)	$250,315	$ 276,162

Amortization expense for definite lived intangible assets was $29.3 million and $18.9 million for the nine months ended September 30, 2014 and 2013, respectively ($9.7 million and $8.6 million for the third quarter of 2014 and 2013, respectively). Expected annual definite lived intangible asset amortization for 2014 through 2018 is $40.1 million, $40.3 million, $33.9 million, $29.4 million and $25.4 million, respectively.

NOTE 8 — INVESTMENT IN EQUITY AFFILIATE

Correspondent One purchased closed conforming residential mortgages from approved mortgage bankers. Prior to the sale of our interest in Correspondent One to Ocwen on March 31, 2013 (see Note 2), we had significant influence over the general operations of Correspondent One consistent with our 49% ownership level, and therefore, accounted for our investment under the equity method. On March 31, 2013, we sold our 49% interest in Correspondent One to Ocwen for $12.6 million.

Our net loss on this investment using the equity method was $0.1 million for the nine months ended September 30, 2013 (no comparative amounts for 2014).

NOTE 9 — OTHER ASSETS

Other assets consist of the following:

(in thousands)	September 30, 2014	December 31, 2013 [(1)]
Security deposits, net	$7,500	$7,314
Debt issuance costs, net	8,451	6,687

Maintenance agreements, non-current portion	2,987	1,465
Restricted cash	1,615	1,620
Other	564	572
Total	$21,117	$17,658

(1) December 31, 2013 security deposits, net and other assets have been revised to reflect a purchase accounting measurement period adjustment related to the Equator acquisition. See Note 3.

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

Accounts payable and accrued expenses consist of the following:

(in thousands)	September 30, 2014	December 31, 2013 [1]
Accounts payable	$13,182	$15,171
Accrued expenses - general	27,963	20,945
Accrued salaries and benefits	39,276	30,011
Income taxes payable	9,042	11,211
Payable to Ocwen	9,723	7,361
Payable to AAMC	412	7
Total	$99,598	$84,706

[1] December 31, 2013 payables have been revised to reflect purchase accounting measurement period adjustments related to the Homeward and Equator acquisitions. See Note 3.

Other current liabilities consist of the following:

(in thousands)	September 30, 2014	December 31, 2013
Book overdrafts	$5,747	$4,232
Other	3,936	5,899
Total	$9,683	$10,131

NOTE 11 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	September 30, 2014	December 31, 2013
Senior secured term loan	$593,029	$396,503
Less: unamortized discount, net	(3,056)	(1,247)
Net long-term debt	589,973	395,256
Less: current portion	(5,945)	(3,975)
Long-term debt, less current portion	$584,028	$391,281

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of the Company, entered into a senior secured term loan agreement, as subsequently amended, with Bank of America, N.A., as administrative agent, and certain lenders, pursuant to which we borrowed $200.0 million. The senior secured term loan was issued with an original issue discount of $2.0 million, resulting in net proceeds of $198.0 million with the Company and certain wholly-owned subsidiaries acting as guarantors (collectively, the “Guarantors”).

On May 7, 2013, we amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan by $200.0 million (the “Incremental Term Loan”), which was issued with a $1.0 million original issue premium, resulting in gross proceeds to the Company of $201.0 million. Additionally, the Incremental Term Loan amended the senior secured term loan agreement to, among other changes, provide for an additional $200.0 million incremental term loan facility accordion and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement) that may be made by us, including increasing the amount of Company share repurchases permitted.

On December 9, 2013, we entered into an Amendment No. 2 (“Second Amendment”) to the senior secured term loan agreement in which we incurred indebtedness in the form of Refinancing Debt (as defined in the senior secured term loan agreement), the proceeds of which were used to refinance, in full, the $397.5 million of term loans outstanding under the senior secured term loan agreement immediately prior to the effectiveness of the Second Amendment. The Refinancing Debt bears interest at lower rates and has a maturity date approximately one year later than the prior term loans. The Second Amendment further modified the senior secured term loan agreement to, among other changes, increase the maximum permitted amount of Restricted Junior Payments, including share repurchases by the Company.

On August 1, 2014, we entered into Amendment No. 3 (“Third Amendment”) to the senior secured term loan agreement to increase the principal amount of the term loan under the senior secured term loan agreement by $200.0 million, which was issued with a $2.0 million original issue discount, resulting in gross proceeds to the Company of $198.0 million. Additionally, the Third Amendment modified the senior secured term loan agreement to, among other changes, to re-establish the $200.0 million incremental term loan facility accordion and increase the maximum amount of permitted Restricted Junior Payments by $200.0 million.
After giving effect to the Third Amendment, the Refinancing Debt must be repaid in equal consecutive quarterly principal installments of $1.5 million commencing 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, being the seventh anniversary of the closing date of the Second Amendment, 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 senior secured term loan agreement) upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, the Refinancing Debt is (with certain exceptions) subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of excess cash flow (as defined in the senior secured term loan agreement) if the leverage ratio (as defined in the senior secured term loan agreement) is greater than 3.00 to 1.00. No mandatory prepayments were owed for the nine months ended September 30, 2014.

All of the term loans outstanding under the senior secured term loan bear interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate (each as defined in the senior secured term loan agreement). 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 September 30, 2014 was 4.50%.

Payments under the senior secured term loan agreement 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; 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 its 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 (as defined in the senior secured term loan agreement), (vii) bankruptcy and insolvency events (as defined in the senior secured term loan agreement), (viii) entry by a court of one or more judgments against us (as defined in the senior secured term loan agreement) 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 (as defined in the senior secured term loan agreement) 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.

At September 30, 2014, debt issuance costs were $8.5 million, net of $1.8 million of accumulated amortization. At December 31, 2013, debt issuance costs were $6.7 million, net of $1.0 million of accumulated amortization. Debt issuance costs are included in other assets in the accompanying condensed consolidated balance sheets.

Interest expense on the term loans, including amortization of debt issuance costs and the net debt discount, totaled $16.0 million and $14.3 million for the nine months ended September 30, 2014 and 2013, respectively ($6.5 million and $6.2 million for the third quarter of 2014 and 2013, respectively).

NOTE 12 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	September 30, 2014	December 31, 2013
Contingent consideration	$9,091	$42,946
Other non-current liabilities	5,481	2,530
Total	$14,572	$45,476

NOTE 13 — EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

On February 28, 2014, our shareholders approved a new stock repurchase program, which replaced the previous stock repurchase program. Under the new program, we are authorized to purchase up to 3.4 million shares of our common stock, based on a limit of 15% of the outstanding shares of common stock on the date of approval, in the open market, 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 the prior programs. From authorization of the previous programs through September 30, 2014, we have purchased approximately 5.7 million shares of our common stock in the open market at an average price of $77.55 per share. We purchased 2.0 million shares of common stock at an average price of $104.88 per share during the nine months ended September 30, 2014 and 0.8 million shares at an average price of $103.45 per share during the nine months ended September 30, 2013 (1.3 million shares at an average price of $102.45 per share for the third quarter of 2014 and 0.3 million shares at an average price of $134.86 per share for the third quarter of 2013). As of September 30, 2014, approximately 1.6 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 in any year and may prevent repurchases in certain circumstances. As of September 30, 2014, approximately $220 million was available to repurchase our common stock under our senior secured term loan. Luxembourg law also limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings, less the value of shares repurchased. As the result of a restructuring of our Luxembourg holding companies in the third quarter of 2014, as of September 30, 2014, approximately $1,950 million was available to repurchase our common stock under Luxembourg law.

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 $1.6 million and $2.1 million for the nine months ended September 30, 2014 and 2013, respectively ($0.5 million and $0.6 million for the third quarter of 2014 and 2013, respectively).

Outstanding share-based compensation currently consists primarily of stock option grants that are a combination of service-based and market-based options.

Service-Based Options. These options are granted at fair value on the date of grant. The options generally vest over four years with equal annual cliff-vesting and expire on the earlier of 10 years after the date of grant or following termination of service. A total of 0.7 million service-based awards were outstanding at September 30, 2014.

Market-Based Options. These option grants 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. The vesting schedule for all market-based awards is 25% upon achievement of the criteria and the remaining 75% in three equal annual installments. A total of 1.8 million market-based awards were outstanding at September 30, 2014.

The Company granted 0.1 million stock options (at a weighted average exercise price of $92.91 per share) and less than 0.1 million stock options (at a weighted average exercise price $104.84 per share) during the nine months ended September 30, 2014 and 2013, respectively.

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

	Nine months ended September 30, 2014		Nine months ended September 30, 2013	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate	1.80% – 1.90%	0.02% – 2.49%	1.02% – 1.81%	0.01% – 2.71%
Expected stock price volatility	37.57% – 38.58%	38.48% – 38.58%	36.35% – 36.76%	36.40% – 36.80%
Expected dividend yield	—	—	—	—
Expected option life (in years)	6.25	—	6.25	—
Contractual life (in years)	—	14	—	14
Fair value	$35.37 – $41.79	$25.51 – $31.93	$31.33 – $49.14	$16.12 – $41.72

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

	Nine months ended September 30,	
(in thousands, except per share amounts)	2014	2013
Weighted average fair value at grant date per share	$26.39	$32.59
Intrinsic value of options exercised	7,636	24,587
Grant date fair value of options vested during the period	1,412	1,867

Share-based compensation expense is recorded net of estimated forfeiture rates ranging from 1% to 10%.

As of September 30, 2014, estimated unrecognized compensation costs related to share-based payments amounted to $2.5 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 3.1 years.

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, 2013	2,589,343	$18.33	5.20	$363,293
Granted	65,000	92.91		

Exercised	(101,337)	24.93		
Forfeited	(16,001)	73.14		
Outstanding at September 30, 2014	2,537,005	19.63	4.54	206,753
Exercisable at September 30, 2014	2,192,639	13.04	4.08	192,474

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

NOTE 14 — 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 expenses as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2014	2013	2014	2013
Compensation and benefits	$68,502	$39,600	$184,273	$108,923
Outside fees and services	62,086	56,611	186,279	137,851
Reimbursable expenses	39,149	29,496	100,220	73,061
Technology and telecommunications	13,388	5,459	34,078	18,010
Depreciation and amortization	5,599	3,095	15,678	10,350
Total	$188,724	$134,261	$520,528	$348,195

NOTE 15 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include payroll for personnel employed in executive, finance, legal, human resources, vendor management, risk and operational effectiveness roles. This category also includes occupancy costs, professional fees and depreciation and amortization on non-operating assets. The components of selling, general and administrative expenses were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	2014	2013	2014	2013
Compensation and benefits	$11,770	$6,802	$31,870	$18,868
Professional services	4,106	2,168	10,896	5,184
Occupancy related costs	9,041	7,438	27,848	21,971
Amortization of intangible assets	9,717	8,620	29,290	18,857
Depreciation and amortization	2,112	1,390	5,408	3,441
Change in the fair value of Equator Earn Out	—	—	(37,924)	—
Goodwill impairment	—	—	37,473	—
Marketing costs	6,021	1,636	18,805	3,617
Other	3,981	3,465	15,637	8,089
Total	$46,748	$31,519	$139,303	$80,027

NOTE 16 — OTHER INCOME (EXPENSE), NET

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

	Three months ended September 30,		Nine months ended September 30,
(in thousands)	2014	2013	2014