Altisource Portfolio Solutions S.A.
Form 10-K
February 26, 2019

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

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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
(352) 24 69 79 00
(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2018 was $471,036,868 based on the closing share price as quoted on the NASDAQ Global Market on that day and the assumption that all directors and executive officers of the Company, and their families, are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of February 19, 2019, there were 16,303,345 outstanding shares of the registrant’s shares of beneficial interest (excluding 9,109,403 shares held as treasury stock).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Definitive Proxy Statement to be filed subsequent to the date hereof with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant’s Annual Meeting of Shareholders to be held on May 14, 2019 are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant’s fiscal year ended December 31, 2018.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may relate to, among other things, future events or our future performance or financial condition. Words such as “anticipate,” “intend,” “expect,” “may,” “could,” “should,” “would,” “plan,” “estimate,” “believe,” “predict,” “potential” or “c negative of these terms and comparable terminology are intended to identify such forward-looking statements. Such statements are based on expectations as to the future and are not statements of historical fact. Furthermore, forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the risks discussed in Item 1A of Part I “Risk Factors.” We caution you not to place undue reliance on these forward-looking statements which reflect our view only as of the date of this report. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any such statement is based.

PART I

Except as otherwise indicated or unless the context requires otherwise “Altisource,” the “Company,” “we,” “us,” or “our” refer Altisource Portfolio Solutions S.A., a Luxembourg société anonyme, or public limited liability company, together with its subsidiaries.

ITEM 1. BUSINESS

The Company

Altisource® 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.

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Reportable Segments

Our reportable segments are as follows:

Mortgage Market: Provides loan servicers and originators with marketplaces, services and technologies that span the mortgage lifecycle. Within the Mortgage Market segment, we provide:

Servicer Solutions - the solutions, services and technologies typically used or licensed primarily by residential loan servicers, including:

• Property preservation and inspection services
• Real estate brokerage and auction services
• Title insurance (agent and related services) and settlement services
• Appraisal management services, valuation data, broker and non-broker valuation services
• Foreclosure trustee services
• Residential and commercial loan servicing technologies
• Vendor management, marketplace transaction management and payment management technologies
• Document management platform
• Default services (real estate owned (“REO”), foreclosure, bankruptcy, eviction) technologies
• Mortgage charge-off collections
• Residential and commercial construction inspection and risk mitigation services

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Origination Solutions - the solutions, services and technologies typically used or licensed by loan originators (or other similar mortgage market participants) in originating, buying and selling residential mortgages, including:

- Title insurance (agent and related services) and settlement services
- Appraisal management services, valuation data, broker and non-broker valuation services
- Fulfillment services
- Loan origination system
- Document management platform
- Loan certification, and loan certification and mortgage fraud insurance
- Vendor management oversight platform
- Mortgage banker cooperative management

Real Estate Market: Provides real estate consumers and rental property investors with marketplaces and services that span the real estate lifecycle. Within the Real Estate Market segment, we provide:

Consumer Real Estate Solutions - the solutions, services and technologies typically used by home buyers and sellers to handle key aspects of buying and selling a residence, including:

- Real estate brokerage doing business as Owners.com®
- Title insurance (agent and related services) and settlement services
- Mortgage brokerage
- Homeowners insurance

Real Estate Investor Solutions - the solutions, services and technologies used by buyers and sellers of single-family investment homes, including:

- Buy-renovate-lease-sell (“BRS”) (to be discontinued in 2019)
- Property preservation and inspection services
- Real estate brokerage and auction services
- Data solutions
- Title insurance (agent and related services) and settlement services
- Appraisal management services, valuation data, broker and non-broker valuation services

Other Businesses, Corporate and Eliminations: Includes certain ancillary businesses, interest expense and unallocated costs related to corporate support functions. The businesses in this segment include post-charge-off consumer debt collection services primarily to debt originators (e.g., credit card, auto lending and retail credit), customer relationship management services primarily to the utility, insurance and hotel industries, and information technology (“IT”) infrastructure management services. Interest expense relates to the Company’s senior secured term loan and corporate support functions include executive, finance, law, compliance, human resources, vendor management, facilities, risk management and sales and marketing costs, not allocated to the business units. This segment also includes eliminations of transactions between the reportable segments.

We classify revenue in three categories: service revenue, revenue from reimbursable expenses and non-controlling interests. In evaluating our performance, we focus on service revenue. 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 Best Partners Mortgage Cooperative, Inc., doing business as Lenders One® (“Lenders One”). Lenders One 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.

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2018 Highlights

Corporate

- Generated $68.4 million of cash flows from operating activities and $79.4 million of adjusted cash flows from operating activities (this is a non-GAAP measure that is defined and reconciled to the corresponding GAAP measure on pages 28 to 32)
- Refinanced our senior secured term loan in April 2018, extending the maturity from December 2020 to April 2024; entered into an agreement for a $15 million revolving line of credit, available for general corporate purposes, as part of our new credit facility
- Used $15.0 million received from the sale of the rental property management business to Front Yard Residential Corporation (“RESI”) and $49.9 million received and anticipated to be received from the discontinuation of the BRS business to repay debt
- Launched Project Catalyst to better align the Company’s cost structure with anticipated revenue, and improve operating margins and performance; we incurred $11.6 million of severance costs, professional services fees and facility shut-down costs in connection with Project Catalyst
- Repurchased 1.6 million shares of our common stock at an average price of $25.53 per share
- Ended 2018 with $94.5 million of cash, cash equivalents and investment in equity securities
- Ended 2018 with $244.3 million of net debt less investment in equity securities (this is a non-GAAP measure that is defined and reconciled to the corresponding GAAP measure on pages 28 to 32)
- Signed agreements with three new enterprise customers in the fourth quarter and was recognized as an industry leader by Forrester® in two Wave reports, one for Journey Visioning Platforms and the other for Journey Orchestration Platforms, in the Pointillist business

Mortgage Market

- Executed an agreement with one of the largest institutional real estate and mortgage investors in the U.S. to provide REO, foreclosure and short sale auctions, and began receiving REO referrals in the third quarter and foreclosure auction referrals in the fourth quarter (anticipate receiving short sale auction referrals in the first quarter 2019)
- Executed an agreement with a top-10 servicer to provide REO asset management and related services, and began receiving referrals in January 2019
- Executed an agreement with a top-5 servicer to provide field services, and anticipate beginning to receive referrals in the second quarter 2019
- Grew inventory of Hubzu homes by 64% from January 1, 2018 to December 31, 2018 (1,470 units on January 1, 2018 compared to 2,412 units on December 31, 2018) from customers other than Ocwen Financial Corporation (“Ocwen”), New Residential Investment Corp. (individually, together with one or more of its subsidiaries or one or more of its subsidiaries individually, “NRZ”) and RESI
- Launched the Trelix end-to-end fulfillment services offering

Real Estate Market

- Launched a new and improved Owners.com user experience (website and mobile applications) for home buyers and sellers and our real estate agents, to improve purchase and sale funnel conversion rates
- Grew Consumer Real Estate Solutions service revenue by 82% and the number of home purchase and sale transactions by 61%, in 2018 compared to 2017
- Increased the Consumer Real Estate Solutions active customer base from 2,300 clients at the end of 2017 to 5,300 clients at the end of 2018
- Sold the Real Estate Investor Solutions rental property management business to RESI for total transaction proceeds of $18.0 million, $15.0 million of which was received on the closing date and $3.0 million of which will be received on the earlier of a RESI change of control or August 8, 2023; recognized a $13.7 million pretax gain on the sale of this business
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Announced plans to sell the Real Estate Investor Solutions short-term investments in real estate and discontinue the BRS business; used $49.9 million in proceeds and anticipated proceeds from BRS sales to repay a portion of the senior secured term loan

- Ended 2018 with $39.9 million of BRS inventory consisting of 287 homes; the Company anticipates selling the majority of the BRS inventory in 2019

Customers

Overview

Our customers include some of the largest financial institutions in the United States, government-sponsored enterprises ("GSEs"), utility companies, commercial banks, servicers, investors, non-bank originators and correspondent lenders, mortgage bankers, insurance companies and financial services companies. We also serve consumers through our Owners.com business.

Customer Concentration

Ocwen

Ocwen is a residential mortgage loan servicer of mortgage servicing rights ("MSRs") it owns, including those MSRs in which others have an economic interest, and a subservicer of MSRs owned by others.

During the year ended December 31, 2018, Ocwen was our largest customer, accounting for 52% of our total revenue. Ocwen purchases certain mortgage services and technology services from us under the terms of services agreements and amendments thereto (collectively, the "Ocwen Services Agreements") with terms extending through August 2025. Certain of the Ocwen Services Agreements contain a "most favored nation" provision and also grant the parties the right to renegotiate pricing, among other things.

Revenue from Ocwen primarily consists of revenue earned from the loan portfolios serviced and subserviced by Ocwen when Ocwen engages us as the service provider, and revenue earned directly from Ocwen, pursuant to the Ocwen Services Agreements. For the years ended December 31, 2018, 2017 and 2016, we recognized revenue from Ocwen of $437.4 million, $542.0 million and $561.9 million, respectively. Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows for the years ended December 31:

	2018	2017	2016
Mortgage Market	63%	67%	65%
Real Estate Market	1 %	1 %	—%
Other Businesses, Corporate and Eliminations	9 %	11%	27%
Consolidated revenue	52%	58%	56%

We earn additional revenue related to the portfolios serviced and subserviced by Ocwen when a party other than Ocwen or the MSR owner selects Altisource as the service provider. For the years ended December 31, 2018, 2017 and 2016, we recognized revenue of $47.1 million, $148.5 million and $188.0 million, respectively, related to the portfolios serviced by Ocwen when a party other than Ocwen or the MSR owner selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

As of December 31, 2018, accounts receivable from Ocwen totaled $15.2 million, $11.6 million of which was billed and $3.6 million of which was unbilled. As of 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 February 22, 2019, Altisource and Ocwen entered into agreements that, among other things, facilitate Ocwen's transition from REALServicing and related technologies to another mortgage servicing software platform, establish a process for Ocwen to review and approve the assignment of one or more of our agreements to potential buyers of Altisource's business lines, permit Ocwen to use service providers other than Altisource for up to 10% of referrals from certain portfolios (determined on a service-by-service basis), subject to certain restrictions, and affirms Altisource's role as a strategic service provider to Ocwen through August 2025. We do not anticipate that a servicing technology transition would materially impact the other services we provide to Ocwen. For the years ended December 31, 2018, 2017 and 2016, service revenue from REALServicing and related technologies was $35.1 million, $37.2 million and $40.2 million, respectively.

NRZ

NRZ is a residential investment trust that invests in and manages residential mortgage related assets in the United States including MSRs and excess MSRs.

Ocwen has disclosed that NRZ is its largest client. As of September 30, 2018, NRZ owned MSRs or rights to MSRs relating to approximately 57% of loans serviced and subserviced by Ocwen (measured in unpaid principal balances (“UPB”)) (the “Subject MSRs”). In July 2017 and January 2018, Ocwen and NRZ entered into a series of agreements pursuant to which the parties agreed,

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among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the Subject MSRs and under which Ocwen will subservice mortgage loans underlying the Subject MSRs for an initial term of five years.

On August 28, 2017, Altisource, through its licensed subsidiaries, entered into a Cooperative Brokerage Agreement, as amended, and related letter agreement (collectively, the "Brokerage Agreement") with NRZ which extends through August 2025. Under this agreement and related amendments, Altisource remains the exclusive provider of brokerage services for REO associated with the Subject MSRs, irrespective of the subservicer, subject to certain limitations. NRZ's brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions.

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

For the years ended December 31, 2018 and 2017, we recognized revenue from NRZ of $28.7 million and $2.4 million, respectively, under the Brokerage Agreement (no comparative amount in 2016). For the years ended December 31, 2018 and 2017, we recognized additional revenue of $83.6 million and $3.9 million, respectively, relating to the Subject MSRs when a party other than NRZ selects Altisource as the service provider (no comparative amount in 2016).

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, irrespective of the subservicer, through August 2025. The Services LOI expired on December 15, 2018. Altisource is providing services on the Subject MSRs pursuant to its agreements with Ocwen.

Other

Our services are provided to customers primarily located in the United States. Financial information for our segments can be found in Note 26 to our consolidated financial statements.

Sales and Marketing

Our enterprise sales and marketing team and business unit sales executives have extensive relationship management and industry experience. These individuals cultivate and maintain relationships throughout the industry sectors we serve. We sell our suite of services to mortgage servicers, mortgage originators, buyers and sellers of homes for personal and investment use and financial services firms.

Our primary sales and marketing focus areas for institutional customers are to:

- Expand relationships with existing customers by cross-selling additional services and growing the volume of existing services we provide. We believe our customer relationships represent meaningful growth opportunities for us;
- Develop new customer relationships leveraging a comprehensive suite of services, strong performance and controls. We believe there is a large opportunity to provide our services to potential customers; and
- Sell new offerings to existing customers and prospects. Some of our newer offerings include our suite of support services for Federal Housing Administration mortgages, Vendorly™, a SaaS-based vendor management platform, Trelix end to end fulfillment services offering, and residential and commercial loan disbursement processing, risk mitigation and construction inspection services.

Our primary sales and marketing focus areas for consumers are to:

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- Attract home buyers and sellers to Owners.com and Hubzu.com with a compelling value proposition through online marketing, search engine optimization and public relations; and
- Leverage local real estate agents to provide personalized service to existing and prospective customers.

Given the highly regulated nature of the industries that we serve and the comprehensive purchasing process that our institutional customers and prospects follow, the time and effort we spend in expanding relationships or winning new relationships is significant. For example, it can often take more than one year from the request for proposal or qualified lead stage to the selection of Altisource as a service provider. Furthermore, following the selection of Altisource, it is not unusual for it to take an additional six to twelve months or more to negotiate the services agreement(s), complete the implementation procedures and begin receiving referrals.

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Intellectual Property and Data

We rely on a combination of contractual restrictions, internal security practices, patents, trademarks and copyrights to establish and protect our trade secrets, intellectual property, software, technology and expertise. We also own or, as necessary and appropriate, have obtained licenses from third parties to intellectual property relating to our services, processes and businesses. These intellectual property rights are important factors in the success of our businesses.

As of December 31, 2018, we have been awarded one patent that expires in 2023, two patents that expire in 2024, eight patents that expire in 2025, three patents that expire in 2026, two patents that expire in 2027, two patents that expire in 2029, one patent that expires in 2030 and one patent that expires in 2036. In addition, we have registered trademarks, or recently filed applications for the registration of trademarks, in a number of jurisdictions including the United States, the European Union ("EU"), India and nine other jurisdictions. These trademarks generally can be renewed indefinitely, provided they are being used in commerce.

We actively protect our rights and intend to continue our policy of taking the measures we deem reasonable and necessary to develop and protect our patents, trademarks, copyrights, trade secrets and other intellectual property rights.

In addition, we may make use of data in connection with certain of our services. This data generally relates to mortgage information, real property information and consumer information. We gather this data from a variety of third party sources, including from governmental entities and, subject to licensed usage rights, we use this data in connection with the delivery of our services, including combining it with proprietary data we generate to further enhance data and metrics in connection with our services.

Market and Competition

We sell our suite of services to mortgage servicers, mortgage originators, buyers and sellers of homes for personal and investment use and financial services firms. The mortgage and real estate markets are very large and are influenced by macroeconomic factors such as credit availability, interest rates, home prices, inflation, unemployment rates and consumer confidence.

The markets to provide services for mortgage servicers and mortgage originators are highly competitive and generally consist of national companies, in-house providers and a large number of regional and local providers. We typically compete based upon product and service awareness and offerings, product and service delivery, quality and control environment, technology integration and support, price and financial strength.

The markets to provide services for buyers and sellers of homes for personal and investment use are highly competitive and generally consist of several national companies, a large number of regional and local providers and start-up companies. We typically compete based upon product and service awareness and offerings, product and service delivery, ease of transacting, price and personal service.

For financial services firms, we provide collection services and customer relationship management services. The markets to provide these services are highly competitive and generally consist of several national companies, a large number of regional and local providers and in-house providers. We typically compete based upon product and service awareness and offerings, product and service delivery, quality and control environment, technology integration and support, price and financial strength.

Our competitors may have greater financial resources, brand recognition, alternative or disruptive products and other competitive advantages. We cannot determine our market share with certainty, but believe for mortgage servicers and collection services for financial services firms, we have a modest share of the market, and for the others we have relatively small market share.

Employees

As of December 31, 2018, we had the following number of employees:

	United States	India	Philippines	Uruguay	Luxembourg	Consolidated Altisource
Mortgage Market	592	2,093	125	7	1	2,818

Real Estate Market	103	110	85	1	6	305
Other Businesses, Corporate and Eliminations	493	1,903	473	122	14	3,005
Total employees	1,188	4,106	683	130	21	6,128

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We have not experienced any work stoppages and we consider our relations with employees to be good. We believe our future success will depend, in part, on our continuing ability to attract, hire and retain skilled and experienced personnel.

Seasonality

Certain of our revenues are impacted by seasonality. Specifically, revenues from property sales, loan originations and certain property preservation services typically tend to be at their lowest level during the fall and winter months and at their highest level during the spring and summer months. In addition, the asset recovery management business typically tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the remainder of the year.

Government Regulation

Our business and the business of our customers are or may be subject to extensive scrutiny and regulation by federal, state and local governmental authorities including the Federal Trade Commission (“FTC”), the Consumer Financial Protection Bureau (“CFPB”), the Securities and Exchange Commission (“SEC”), the Department of Housing and Urban Development (“HUD”), various federal and state banking, financial and consumer regulators and the state and local agencies that license or oversee certain of our auction, real estate brokerage, mortgage and debt collection services, trustee services, property management services and insurance services. We also must comply with a number of federal, state and local consumer protection laws including, among others:

- the Americans with Disabilities Act (“ADA”);
- the California Homeowner Bill of Rights (“CHBR”);
- the Controlling the Assault of Non-Solicited Pornography And Marketing Act (“CAN-SPAM”);
- the Equal Credit Opportunity Act (“ECOA”);
- the Fair and Accurate Credit Transactions Act (“FACTA”);
- the Fair Credit Reporting Act (“FCRA”);
- the Fair Debt Collection Practices Act (“FDCPA”);
- the Fair Housing Act;
- the Federal Trade Commission Act (“FTC Act”);
- the Gramm-Leach-Bliley Act (“GLBA”);
- the Home Affordable Refinance Program (“HARP”);
- the Home Mortgage Disclosure Act (“HMDA”);
- the Home Ownership and Equity Protection Act (“HOEPA”);
- the New York Real Property Actions and Proceedings Law (“RPAPL”);
- the Real Estate Settlement Procedures Act (“RESPA”);
- the Secure and Fair Enforcement for Mortgage Licensing (“SAFE”) Act;
- the Servicemembers Civil Relief Act (“SCRA”);
- the Telephone Consumer Protection Act (“TCPA”);
- the Truth in Lending Act (“TILA”); and
- Unfair, Deceptive or Abusive Acts and Practices statutes (“UDAAP”).

We are also subject to the requirements of the Foreign Corrupt Practices Act (“FCPA”) and comparable foreign laws, due to our activities in foreign jurisdictions.

In addition to federal and state laws regarding privacy and data security, we are also subject to data protection laws in the countries in which we operate. Additionally, certain of our entities are or may be subject to the European General Data Protection Regulation (“GDPR”).

Legal requirements can and do change as statutes and regulations are enacted, promulgated or amended. One such enacted regulation is the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). The Dodd-Frank Act is extensive and includes reform of the regulation and supervision of financial institutions, as well as the regulation of derivatives, capital market activities and consumer financial services. The Dodd-Frank Act, among other things, created the CFPB, a federal entity responsible for regulating consumer financial services and products.

Title XIV of the Dodd-Frank Act contains the Mortgage Reform and Anti-Predatory Lending Act (“Mortgage Act”). The Mortgage Act imposes a number of additional requirements on lenders and servicers of residential mortgage loans by amending and expanding certain existing regulations. The interpretation or enforcement by regulatory authorities of applicable laws and regulations also may change over time. In addition, the creation of new regulatory authorities or changes in the regulatory authorities overseeing applicable laws and regulations may also result in changing interpretation or enforcement of such laws or regulations.

Our failure or the failure of our customers or vendors to comply with applicable laws or regulations or changing interpretation of such laws or regulations could subject the Company to criminal or civil liability, significant penalties, fines, settlements, costs and consent orders affecting us or our customers that may curtail or restrict the business as it is currently conducted and could have an adverse effect on our financial condition or results of operations.

Furthermore, certain of our services are provided at the direction of, and pursuant to, the identified requirements of our customers. The failure of our customers to properly identify or account for regulatory requirements applicable to such services could expose us to significant penalties, fines, settlements, costs and consent orders that could have an adverse effect on our financial condition or results of operations.

We may be subject to licensing and regulation as a provider of certain services including, among others, services as a mortgage origination underwriter, mortgage broker, valuation provider, appraisal management company, asset manager, property manager, property renovator, property lessor, title insurance agent, insurance broker and underwriter, real estate broker, auctioneer, foreclosure trustee and debt collector in a number of jurisdictions. Our employees and subsidiaries may be required to be licensed by or registered with various jurisdictions for the particular type of service sold or provided and to participate in regular continuing education programs. Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. Due to the inherent uncertainty of such actions, it is often difficult to predict the potential outcome or estimate any potential financial impact in connection with any such inquiries.

Available Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information with the SEC. These filings are available to the public on the SEC’s website at www.sec.gov.

Our principal Internet address is www.altisource.com and we encourage investors to use it as a way to easily find information about us. We promptly make the reports we file or furnish with the SEC, corporate governance information (including our Code of Business Conduct and Ethics), select press releases and other related information available on this website. The contents of our website are available for informational purposes only and shall not be deemed incorporated by reference in this report.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks, or other events related to such risks, or additional risks and uncertainties not presently known to us or that we currently deem immaterial, actually occur, our business, results of operations and financial condition could be adversely affected. Furthermore, the risk factors described below may not describe the full nature or scope of such risks.

Risks Related to Our Business and Industry

The economy and the housing market can affect demand for our services.

The performance and growth of certain of our businesses are dependent on the number of outstanding mortgages, mortgage delinquency rates, volume of residential loan originations and single family residential real estate transactions in the United States. In the event of an economic slowdown, increase in interest rates or any other factor that would lead to a decrease in the volume of residential real estate transactions, our origination services and residential real estate brokerage business could be adversely affected. A strengthening economy and housing market, or changes in applicable regulations or requirements in dealing with delinquent borrowers or regarding foreclosure practices, may result in lower delinquencies or foreclosures, negatively impacting our default-related businesses. Further, in the event that adverse economic conditions or other factors lead to a decline in levels of home ownership and a reduction in the aggregate number of United States mortgage loans outstanding, our revenues and results of operations could be adversely affected.

Our business is subject to substantial competition.

The markets for our services are very competitive. Our competitors vary in size and in the scope and breadth of the services they offer. We compete for existing and new customers against both third parties and the in-house capabilities of our customers and potential customers. Some of our competitors are more established, better known, have a stronger reputation and greater resources, and some have widely-used technology platforms which they seek to use as a competitive advantage to drive sales of other competing products and services. Some of our competitors may have additional competitive advantages over us. In addition, we expect the markets in which we compete will continue to attract new competitors, and that our competitors will develop new

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products, services and technologies. These new products, services and technologies may render our existing offerings obsolete and our competitors' offerings may gain market acceptance over our offerings. Furthermore, we may not be able to meet the terms of our customers' service level agreements or otherwise meet our customers' expectations. There can be no assurance we will be able to compete successfully against current or future competitors or that competitive pressures we face in the markets in which we operate will not adversely affect our business, financial condition and results of operations.

Ocwen is currently our largest customer and the loss of Ocwen as a customer or a significant reduction in the volume of services that we provide to Ocwen could adversely affect our business and results of operations.

During the year ended December 31, 2018, Ocwen was our largest customer, accounting for 52% of our total revenue. Additionally, 6% of our revenue for the year ended December 31, 2018 was earned on the loan portfolios serviced by Ocwen, when a party other than Ocwen or the MSR owner selected Altisource as the service provider.

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

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

If any of the following events occurred, Altisource's revenue could be significantly lower and our results of operations could be materially adversely affected, including from the possible impairment or write-off of goodwill, intangible assets, property and equipment, other assets and accounts receivable:

- Altisource loses Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us
- Ocwen loses, sells or transfers a significant portion or all of its remaining non-GSE servicing rights or subservicing arrangements and Altisource fails to be retained as a service provider
- Ocwen loses state servicing licenses in states with a significant number of loans in Ocwen's servicing portfolio
- The contractual relationship between Ocwen and Altisource changes significantly or there are significant changes to our pricing to Ocwen for services from which we generate material revenue
- Altisource otherwise fails to be retained as a service provider

Furthermore, Altisource and Ocwen entered into an agreement on February 22, 2019 that, among other things, facilitates Ocwen's transition from REALServicing and related technologies to another mortgage servicing software platform. There can be no assurance that we will be able to integrate our systems and technologies with Ocwen's new mortgage servicing platform or inter-operate with Ocwen's new mortgage servicing platform without adversely impacting our business and results of operations.

There may be other events that could cause the loss of Ocwen as a customer or reduce the size of our relationship with Ocwen, or that could otherwise adversely affect the revenues we earn from Ocwen, and adversely affect our business and results of operations.

We entered into the Brokerage Agreement with NRZ's licensed brokerage subsidiary with respect to the Subject MSRs. If the Brokerage Agreement is terminated, our business and results of operations could be affected.

Ocwen has disclosed that NRZ is its largest client. As of September 30, 2018, NRZ owned MSRs or rights to MSRs relating to approximately 57% of loans serviced and subserviced by Ocwen (measured in UPB). In July 2017 and January 2018, Ocwen and NRZ entered into a series of agreements pursuant to which the parties agreed, among other things, to undertake certain actions to facilitate the transfer from Ocwen to NRZ of Ocwen's legal title to the Subject MSRs and under which Ocwen will subservice mortgage loans underlying the Subject MSRs for an initial term of five years.

On August 28, 2017, Altisource, through its licensed subsidiaries, entered into 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, irrespective of the subservicer. NRZ's brokerage subsidiary receives a cooperative brokerage commission on the sale of certain REO properties from these portfolios subject to certain exceptions. The Brokerage Agreement can be terminated by Altisource at Altisource's discretion if a services agreement is not signed by Altisource and NRZ. The Brokerage Agreement may otherwise only be terminated upon the occurrence of certain specified events. Termination events include, but are not limited to, a breach of the terms of the Brokerage Agreement (including, without limitation, the failure to meet performance standards and non-compliance with law in a material respect), the failure to maintain licenses which failure materially prevents performance of the contract, regulatory allegations of non-compliance resulting in an adversarial proceeding against NRZ, voluntary or involuntary bankruptcy, appointment of a receiver, disclosure in a Form 10-K or Form 10-Q that there is significant uncertainty about Altisource's ability to continue as a going concern, failure to maintain a specified level of cash and an unapproved change of control. The Services LOI expired on December 15, 2018. Altisource is providing services on the Subject MSRs pursuant to its agreements with Ocwen, and we have not exercised our right to terminate the Brokerage Agreement. If any one of these termination events occurs and the Brokerage Agreement is terminated, this could have a material adverse impact on our future revenue and results of operations.

We are providing other default-related services for the Subject MSRs subject to our agreements with Ocwen, and we do not have a services agreement with NRZ. If NRZ significantly reduces the volume of default-related services for the Subject MSRs, our business and results of operations could be affected.

The Services LOI expired on December 15, 2018. Altisource is providing services on the Subject MSRs pursuant to its agreements with Ocwen. Since the Services LOI expired, we believe Altisource has continued to receive the fee-based-service referrals on the Subject MSRs on an uninterrupted basis. While we believe that our agreements with Ocwen require the use of Altisource as service provider on the Subject MSRs, there can be no assurance that NRZ will not challenge our position or exercise its purported right to assign other service providers or that the fee-based service referrals will continue in whole or in part. If Altisource were no longer providing services for some or all of the Subject MSRs, this could have a material adverse impact on our future revenue and results of operations.

Our continuing relationship with Ocwen may inhibit our ability to attract and retain other customers.

Given the significance of our relationship with Ocwen and the regulatory scrutiny of Ocwen and Altisource, we may encounter difficulties in attracting new customers and retaining existing customers. Should these and other potential customers view Altisource as part of Ocwen or as too closely related to or dependent upon Ocwen or view Altisource as being subject to or at risk of regulatory scrutiny, they may be unwilling to utilize our services and our non-Ocwen growth could be inhibited as a result and our results of operations could be adversely impacted.

We have key customer relationships, other than Ocwen and NRZ, the loss of which could affect our business and results of operations.

While no individual client, other than Ocwen and NRZ, represents more than 10% of our consolidated revenue, we are exposed to customer concentration risks beyond Ocwen and NRZ, particularly in our financial services businesses. Most of our customers are not contractually obligated to continue to use our services at historical levels or at all. The loss of any of these key customers or their failure to pay us could reduce our revenue and adversely affect our results of operations.

Our intellectual property rights are valuable and any inability to protect them or challenges to our right to use them could reduce the value of our services or increase our costs.

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets. The efforts we have taken to protect these proprietary rights may not be sufficient or effective in every case and in some cases we may not seek protection or to defend our rights. The unauthorized use of our intellectual property or significant impairment of our intellectual property rights could harm our business, make it more expensive to do business or hurt our ability to compete. Protecting our intellectual property rights is costly and time-consuming. Although we seek to obtain patent protection for certain of our innovations, it is possible we may not be able to protect all of the innovations for which we seek protection. Changes in patent law, such as changes in the law regarding patentable subject matter, can also impact our ability to obtain patent protection for our innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or an issued patent may be deemed invalid or unenforceable.

Further, as our technology solutions and services develop, we may become increasingly subject to infringement claims by others. Any claims, whether with or without merit, could:

- be expensive and time-consuming to defend;
- cause us to cease making, licensing or using technology solutions that incorporate the challenged intellectual property;

- require us to redesign our technology solutions, if feasible;
- divert management's attention and resources; and/or
- require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies.

Our failure to protect our intellectual property rights could adversely impact our results of operations.

Technology disruptions, failures, defects or inadequacies, development delays or installation difficulties, acts of vandalism or the introduction of harmful code could damage our business operations and increase our costs.

Disruptions, failures, defects or inadequacies in our technology or technology we acquire from third parties, delays in the development of our technology or acts of vandalism, system attacks or the introduction of malicious code to our technology or software, may interrupt or delay our ability to provide services to our customers or cause the loss, corruption or disclosure of data. Any sustained and repeated disruptions in these services may have an adverse impact on our and our customers' results of operations and, in the case of acts of vandalism or introduction of harmful code, could necessitate improvements to our physical and cyber security practices that may require an investment of money, time and resources. Further, our customers may require changes and improvements to the systems we provide to them to manage the volume and complexity, laws or regulations of their businesses, which changes and improvements may be unfeasible, unsuccessful, costly or time-consuming to implement or may create disruptions in our provision of services to customers, which may have an adverse impact on our business operations or financial condition, or increase our costs. Additionally, the improper implementation or use of Altisource technology by customers could impact the operation of that technology, and potentially cause harm to our reputation, loss of customers, negative publicity or exposure to liability claims or government investigations or actions, and our results of operations could be adversely impacted.

We depend on our ability to access data from external sources to maintain and grow our businesses. If we are unable to access data from these sources or if the prices charged for these services significantly increase, the quality, pricing and availability of our products and services may be adversely affected, which could have a material adverse impact on our business, financial condition and results of operations.

We rely on data from public and private sources to maintain and grow some of our businesses (such as Owners.com and RentRange®) and to maintain our databases (such as multiple listing service data). Our data sources could cease providing or reduce the availability, type, details or other aspects of their data to us or increase the price we pay for their data. If a number of suppliers are no longer able or are unwilling to provide us with certain data, or if our sources of data become unavailable or too expensive, we may need to find alternative sources. If we are unable to identify and contract with suitable alternative data suppliers and efficiently and effectively integrate these data sources into our service offerings, we could experience service disruptions, increased costs and reduced quality of our services. New legal restrictions could limit the use or dissemination of data in a manner that adversely impacts our products, services or operations. Significant price increases or restrictions could have a material adverse effect on our business, results of operations or financial condition, in particular if we are unable to arrange for substitute sources of data on commercially reasonable terms or at all.

The Company's databases containing our proprietary information, the proprietary information of third parties and personal information of our customers, vendors and employees could be breached, which could subject us to adverse publicity, investigations, costly government enforcement actions or private litigation and expenses.

As part of our business and operation of our technology, we maintain proprietary information belonging to the Company or third parties in tangible and electronic forms and electronically receive, process, store and transmit personal information (including, but not limited to personally identifiable information) ("PI") and confidential and sensitive business information of ourselves and of our customers, vendors and employees. We also rely extensively on the operation of technology networks and systems that are administered by third parties, including the Internet and cloud based solutions. We rely on the security of our facilities, networks, databases, systems and processes and, in certain circumstances, those of third parties, such as vendors, to protect our proprietary information and PI in our possession and information about our customers, vendors and employees. Hackers, criminals and others are constantly devising schemes to circumvent security safeguards and other large and small companies have suffered serious data security breaches. If our controls and those of our vendors are not effective, are outdated or do not exist, unauthorized parties may gain access to our networks or databases, or those of our vendors, and they may be able to steal, publish, delete, or modify our sensitive proprietary information and sensitive third party information, including PI. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release of such PI, proprietary or confidential information. In such circumstances, our business could suffer and we could be held liable to our customers, vendors, other parties or employees, as well as be subject to notification requirements or regulatory or other actions for breaching privacy laws or failing to adequately protect such information. This could result in costly investigations and litigation, civil or criminal penalties, large scale remediation requirements, operational changes or other response measures, significant penalties, fines, settlements, costs, consent orders, loss of consumer confidence in our security measures and negative publicity that could adversely affect our financial condition, results of operations and reputation. Furthermore, customer and governmental authorities increasingly impose more stringent security obligations on us, our services and the security of our customers' data and PI, and impose new liabilities for data breaches, all of which could have an adverse effect on us and our results of operations.

Our business is susceptible to disruption from natural disasters or intentional acts of destruction that may render certain of our assets and business facilities unusable for an extended period of time.

Our physical facilities and technology infrastructure, including infrastructure provided by third parties, is susceptible to disruption due to natural disasters or intentional acts of destruction that could impair or prevent our use of such facilities and infrastructure for an extended period of time. Current business continuity plans, back-up facilities and technology infrastructure may not be adequate or sufficient to remotely operate for an extended period of time, and current business interruption insurance may not be adequate to sufficiently compensate for any loss, in the event of a natural disaster or intentional act of destruction. Furthermore, certain of our assets are concentrated in geographical areas that may be affected by natural disasters, which may result in limited access to those assets, significant damage to such assets or destruction of such assets. Interruptions in our operations for an extended period of time and/or damage or destruction of assets and facilities could have an adverse effect on our business, financial condition or results of operations.

We have long development and sales cycles for many of our services, analytics and technology solutions and if we fail to close sales after expending significant time and resources to do so, our business, financial condition and results of operations may be adversely affected.

We have long development and sales cycles for many of our services, analytics and technology solutions. We may expend significant time and resources in pursuing a particular customer or customers that does not generate revenue or pursuing a particular service or solution for our existing customers that does not generate revenue. We may encounter delays when developing new services or technology solutions. Changes in relevant regulations or industry practices may render existing solutions or ongoing development efforts obsolete or require significant modifications. We may experience difficulties in installing or integrating our services and technologies on platforms used by our customers. Further, defects in our technology solutions, errors or delays in the processing of electronic transactions or other difficulties could result in interruption of business operations, delay in market acceptance, additional development and remediation costs, loss of customers, negative publicity or exposure to liability claims, and our results of operations could be adversely impacted.

Delays due to the length of our sales cycle or costs incurred that do not result in sales could have an adverse effect on our business, financial condition or results of operations.

The failure of any of the insurance underwriting loss limitation methods we use could have adverse effects on our results.

Altisource, through its subsidiary Association of Certified Mortgage Originators Risk Retention Group, Inc., provides certified loan insurance to its customers. Altisource reduces a portion of its risk of insurance loss through third party reinsurance. The incidence and severity of claims against insurance policies are inherently unpredictable. Although we attempt to manage our exposure to insurance underwriting risk through the use of disciplined underwriting controls and the purchase of third party reinsurance, the frequency and severity of claims could be greater than contemplated in our pricing and risk management methods and our controls and mitigation efforts may not be effective or sufficient. We also face counterparty risk when purchasing reinsurance from third party reinsurers. The insolvency or unwillingness of any of our present or future reinsurers to contract with us or make timely payments to us under the terms of our reinsurance agreements could have an adverse effect on us. Further, there is no certainty that we will be able to purchase the amount or type of reinsurance we desire in the future or that the reinsurance we desire will be available on terms we consider acceptable or with reinsurers with whom we want to do business. Any failure of our insurance underwriting loss limitation methods or similar insurance related risks described above could adversely impact our results of operations.

Under certain material agreements that we are currently a party to or may enter into in the future, the formation by shareholders of Altisource of a "group" (as that term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")) with ownership of Altisource capital stock exceeding a defined percentage may give rise

to a termination event or an event of default, which could result in a material adverse impact on the Company’s future revenue, results of operations and financial position.
Under certain of the Company’s material agreements, such as its senior secured term loan agreement, a change of control would be deemed to occur if, among other things, a “group” (as that term is used in Sections 13(d) and 14(d) of the Exchange Act) is formed by shareholders holding beneficial ownership of a defined percentage of the combined voting power and/or economic interest of the Company’s capital stock. The Company’s Brokerage Agreement with NRZ’s licensed brokerage subsidiary contains a similar provision, and the Company may enter into material agreements in the future that contain similar provisions. The formation of a “group” could occur without the involvement of or input by the Company, and the Company is not in a position to prevent

such an event from occurring. Such a change of control could constitute a termination event or an event of default under these agreements. If any of these agreements were terminated, or if the event of default is not waived, this could have a material adverse impact on the Company's future revenue, results of operations and financial position.

Our business and the business of our customers are subject to extensive scrutiny and regulation, and the perceived failure or failure to comply with existing or new regulations or license requirements may adversely impact us.

Our business and the business of our customers are subject to extensive scrutiny and regulation by federal, state and local governmental authorities including the FTC, the CFPB, the SEC, the HUD and the state and local agencies that license or oversee certain of our auction, real estate brokerage, mortgage and debt collection services, trustee services and insurance services. We also must comply with a number of federal, state and local consumer protection laws including, among others, ADA, CHBR, CAN- SPAM, ECOA, FACTA, FCRA, FDCPA, Fair Housing Act, the FTC Act, GLBA, HARP, HMDA, HOEPA, RPAPL, RESPA, the SAFE Act, SCRA, TCPA, TILA, UDAAP and FCPA. We are also subject, or may in the future become subject, to various foreign laws and regulations as well, including those pertaining to data protection, such as the GDPR. These foreign, federal, state and local requirements can and do change as statutes and regulations are enacted, promulgated or amended. Furthermore, the interpretation or enforcement by regulatory authorities of these requirements may change over time. The creation of new regulatory authorities or changes in the regulatory authorities overseeing applicable laws and regulations may also result in changing interpretation or enforcement of such laws or regulations. We are also subject to licensing and regulation as a provider of certain services including, among others, services as a mortgage origination underwriter, valuation provider, appraisal management company, asset manager, property manager, title insurance agent, insurance broker and underwriter, real estate broker, auctioneer, foreclosure trustee and debt collector in a number of states. Our employees and subsidiaries may be required to be licensed by various state commissions for the particular type of service provided and to participate in regular continuing education programs. We incur significant ongoing costs to comply with licensing requirements and governmental regulations and to respond to government and regulatory confidential inquiries, audits, regulatory examinations and other similar matters. We also may lose or fail to maintain required licenses necessary to continue to do business in certain of our markets, which could have an adverse effect on our financial condition or results of operations.

Participants in the industries in which we operate are subject to a high level of government and regulatory scrutiny. This scrutiny has included review by federal and state governmental authorities of all aspects of the mortgage servicing and lending industries and the debt collection industry, including an increased legislative and regulatory focus on consumer protection practices. Our and our customers' failure to comply with applicable laws, regulations, consent orders or settlements could subject us to civil and criminal liability, loss of licensure, damage to our reputation in the industry, significant penalties, fines, settlements, adverse publicity, litigation, including class action lawsuits or administrative enforcement actions, costs and consent orders against us or our customers that may curtail or restrict our business as it is currently conducted. If governmental authorities continue to impose new or more restrictive requirements or enhanced oversight, we may be required to increase or decrease our prices, modify our contracts or course of dealing and/or we may incur significant additional costs to comply with such requirements. Also, if we are unable to adapt our products and services to conform to the new laws and regulations, or if these laws and regulations have a negative impact on our clients, we may experience client losses or increased operating costs. Any of the foregoing outcomes could have an adverse effect on our financial condition or results of operations. Furthermore, even if we believe we complied with such laws and regulations, we may choose to settle enforcement actions or lawsuits in order to avoid the potentially significant costs of defending such actions or lawsuits and to further avoid the risk of increased damages if we ultimately were to receive an unfavorable outcome.

In addition, certain of our technology and other services are provided at the direction and pursuant to the identified requirements of our customers. The failure of our customers to properly identify or account for regulatory requirements applicable to such technology and services or to use such technology or services in a compliant manner could expose us to significant penalties, fines, settlements, costs and consent orders that could have an adverse effect on our financial condition or results of operations.

Periodically, we are subject to audits and examinations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities relating to certain aspects of our business, including as set forth in the Government Regulation section of Item 1 of Part I, “Business” above. Responding to such audits, examinations and inquiries will cause us to incur costs, including legal fees or other charges, which may be material in amount, and in addition, may result in management distraction or may cause us to modify or terminate certain services we currently offer. If any such audits, examinations or inquiries result in allegations or findings of non-compliance, we could incur significant penalties, fines, settlements, costs and consent orders that may curtail, restrict or otherwise have an adverse effect on our business and results of operations. Furthermore, even if we believe we complied with applicable laws and regulations, we may choose to settle such allegations with the governmental authorities in order to avoid the potentially significant costs of defending such allegations and to further avoid the risk of increased damages if we ultimately were to receive an unfavorable outcome, but such settlements may also result in further claims or create issues for existing and potential customers.

National servicing standards and federal and state government scrutiny and regulation and other requirements require very specific loan modification and foreclosure procedures among others that have further reduced the number of loans entering the foreclosure process and have negatively impacted our default services revenue and profit. It is unclear when or if volumes will increase in the future.

Our customers are subject to government regulation, requiring our customers to, among other things, oversee their vendors and maintain documentation that demonstrates their oversight. If our performance does not meet or is perceived not to meet such requirements, our results of operations could be adversely affected.

Our customers are subject to a variety of federal, state and local government regulations, including the Bank Service Company Act and those promulgated by the CFPB and others, as well as consent orders and settlements. The foregoing may require our customers to oversee their vendors and document the procedures performed to demonstrate that oversight. Altisource, as a vendor, is subject to oversight by our customers. If we do not meet the standards established by or imposed upon our customers or if any other oversight procedures result in a negative outcome for Altisource, we may lose customers, may no longer be granted referrals for certain services, or may have to conform our business to address these standards, negatively impacting our business and results of operations. Even if Altisource satisfies its contractual obligations to its clients, regulators may allege that products or services provided by Altisource fail to meet applicable regulatory requirements.

We may be subject to claims of legal violations or wrongful conduct which may cause us to pay unexpected litigation costs, damages or indemnifications, or modify our products or processes.

From time to time, we may be subject to costly and time-consuming regulatory or legal proceedings that claim legal violations or wrongful conduct. These proceedings may involve regulators, clients, our clients' customers, vendors, competitors and/or other large groups of plaintiffs and, if resulting in findings of violations, could result in substantial damages or indemnification obligations. Additionally, we may be forced to settle some claims and change existing company practices, services and processes that are currently revenue generating. This could lead to unexpected costs or a loss of revenue and our results of operations could be adversely impacted. Furthermore, even if we believe we have no liability for the alleged regulatory or legal violations or wrongful conduct, we may choose to settle such regulatory or legal proceedings in order to avoid the potentially significant costs of defending such allegations and to further avoid the risk of increased damages if we ultimately were to receive an unfavorable outcome.

The tax regulations, and the interpretation thereof, in the countries, states and local jurisdictions in which we operate periodically change, which may impact our results of operations associated with higher taxes.

Certain of our subsidiaries provide services in the United States and several countries internationally. Those jurisdictions are subject to changing tax environments, which may result in higher operating expenses and/or taxes and which may introduce uncertainty as to the application of tax laws and regulations to our operations. Furthermore, we may determine that we owe additional taxes or may be required to pay taxes for services provided in prior periods as interpretations of tax laws and regulations are clarified or revised. We may not be able to raise our prices to customers or pass-through such taxes to our customers or vendors, which could adversely affect our results of operations. In addition, if we fail to accurately anticipate or apply tax laws and regulations to our operations, we could be subject to liabilities and penalties.

We rely on third party vendors for many aspects of our business. If our vendor oversight activities are ineffective, we fail to meet customer or regulatory requirements or we face difficulties managing our relationships with third party vendors, our results of operations could be adversely affected.

We rely on third party vendors to provide goods and services in relation to many aspects of our operations. Our dependence on these vendors makes our operations vulnerable to the unavailability of such third parties, the pricing and services offered by such third parties and such third parties' failure to perform adequately under our agreements with them. In addition, where a vendor provides services that we are required to provide under a contract with a client, we are generally responsible for such performance and could be held accountable by the client for any failure of performance by our vendors. We evaluate the competency and solvency of our key third party vendors. We perform ongoing vendor oversight activities to identify potential new vendors, review vendor pricing and to identify any performance or other issues related to current vendors. If our vendor oversight activities are ineffective or if a vendor fails to provide the services that we require or expect, or fails to meet contractual requirements, such as service levels or compliance with applicable laws, the failure could negatively impact our business by adversely affecting our ability to serve our customers and/or subjecting us to litigation and regulatory risk for ineffective vendor oversight. Furthermore, the failure to obtain services at anticipated pricing could impact our cost structure and the prices of services we provide. In addition, Altisource may be required by its customers or by applicable regulations to oversee its vendors and document procedures performed to demonstrate that oversight. If we fail to meet such customer or regulatory requirements, or we face difficulties managing our relationships with third party vendors, we may lose customers or may no longer be granted referrals for certain services or could

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be subject to adverse regulatory action, negatively impacting our business and results of operations. Such failures could adversely affect the reliability and quality of the services we provide our customers and could adversely affect our results of operations.

If financial institutions at which we hold cash and cash equivalents as well as escrow and trust funds fail, it could have an adverse impact on our Company.

We hold our cash and cash equivalents at various financial institutions. In addition, we hold customers' deposits in escrow and trust accounts at various financial institutions pending completion of certain real estate activities. We also hold cash in trust accounts at various financial institutions where contractual obligations mandate maintaining dedicated bank accounts. These amounts are held in escrow and trust accounts for limited periods of time and are not included in the accompanying consolidated balance sheets. We may become liable for funds owed to third parties as a result of the failure of one or more of these financial institutions, in addition to loss of our cash and cash equivalents, and there is no guarantee we would recover the funds deposited, whether through Federal Deposit Insurance Corporation coverage, private insurance or otherwise and our results of operations could be adversely impacted.

We generate significant cash from our operations that is deposited into our operating accounts at banks and also, in connection with debt collections (in our Other Businesses, Corporate and Eliminations segment) and real estate transactions (Mortgage Market and Real Estate Market segments), in escrow and trust accounts, which exposes us to risk of loss due to fraudulent or inadvertent misappropriation of cash.

We hold our cash and cash equivalents at various financial institutions. In addition, we hold customers' deposits in escrow and trust accounts at various financial institutions pending completion of certain real estate activities. These cash balances expose us to purposeful misappropriation of cash by employees or others and unintentional mistakes resulting in a loss of cash which may not be recoverable. In addition, we may become liable for funds owed to third parties as a result of such purposeful misappropriation of cash by employees or others and unintentional mistakes resulting in a loss of cash held in escrow and trust accounts, and there is no guarantee we would recover the lost funds from the party or parties involved in a fraudulent or inadvertent misappropriation of cash and our results of operations could be adversely impacted.

Our primary source of liquidity is cash flows from operations. We seek to deploy cash generated in a disciplined manner, including to repurchase and repay our senior secured term loan and, from time to time, repurchase shares of our common stock, make capital investments and make acquisitions. We may not continue to deploy cash as we have in the past.

While we have historically used cash from operations to repurchase and repay our senior secured term loan, repurchase shares of our common stock, make capital investments and make acquisitions, there is no guarantee that we will continue to do so or that we will do so at attractive prices. Furthermore, there is no guarantee that cash from operations will be available for repurchasing our senior secured term loan, repurchasing shares of our common stock, making capital investments and making acquisitions. Also, we may not repurchase our senior secured term loan and common stock, make capital investments and acquisitions at the same levels as in the past. In addition, while the Company has not historically declared dividends, the Company may decide in the future to declare a dividend rather than, or in addition to, repurchasing our senior secured term loan and/or repurchasing shares of our common stock, making capital investments and/or acquisitions. If we continue or increase such repurchases, make or increase capital investments and acquisitions or declare a dividend, we may not have sufficient cash for other opportunities that may arise.

Our senior secured term loan makes us more sensitive to the effects of economic change, including economic downturns and interest rate increases; our level of debt and provisions in our senior secured term loan agreement could limit our ability to react to changes in the economy or our industry.

Our senior secured term loan makes us more vulnerable to changes in our results of operations because a portion of our cash flows from operations is dedicated to servicing our debt and is not available for other purposes. Our senior secured term loan is secured by virtually all of our assets and from time to time trades at a substantial discount to face value. Our ability to raise additional debt is largely limited and in many circumstances would be subject to lender approval and would require modification of our current senior secured term loan agreement. Additionally, increases in interest rates will negatively impact our cash flows as the interest rate on our debt is variable. The provisions of our senior secured term loan agreement could have other negative consequences to us including the following:

- limiting our ability to borrow money for our working capital, capital expenditures and debt service requirements or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our operations, our business or the industry in which we compete;

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- requiring us to use a portion of our excess cash flow, as defined in the debt agreement, to repay debt in the event our net debt less marketable securities to EBITDA ratios, as defined in the debt agreement, exceed certain thresholds; and
- placing us at a competitive disadvantage by limiting our ability to invest in our business.

Our ability to make payments on our indebtedness depends, in part, on our ability to generate cash in the future. If we do not generate sufficient cash flows and do not have sufficient cash on hand to meet our debt service and working capital requirements, we may need to seek additional financing, raise equity or sell assets. This may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Without any such financing, we could be forced to sell assets to make up for any shortfall in our payment obligations under unfavorable circumstances. If necessary, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations. Failure to meet our debt service requirements could result in an event of default under our senior secured term loan agreement which, if not cured or waived, could result in the holders of the defaulted debt causing all outstanding amounts with respect to that debt to be immediately due and payable.

In addition, our senior secured term loan agreement contains covenants that limit our flexibility in planning for, or reacting to changes in, our business and our industry, including limitations on incurring additional indebtedness, making investments, adding new product lines, granting liens and merging or consolidating with other companies. Complying with these covenants may impair our ability to finance our future operations or capital needs or to engage in other favorable business activities.

Our failure to comply with the covenants or terms contained in our senior secured term loan agreement, including as a result of events beyond our control, could result in an event of default which could adversely affect our operating results and our financial condition.

Our senior secured term loan agreement requires us to comply with various operational, reporting and other covenants or terms including, among other things, limiting us from engaging in certain types of transactions. If there were an event of default under our senior secured term loan agreement that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be immediately due and payable. There can be no assurance that our assets or cash flows would be sufficient to fully repay borrowings under our outstanding senior secured term loan if accelerated upon an event of default or that we would be able to refinance or restructure the payments on the senior secured term loan.

We may be unable to repay the balance of our senior secured term loan upon maturity in April 2024, particularly if cash from operations declines and assets are not readily available for sale.

Our senior secured term loan agreement requires us to repay the outstanding balance due in April 2024 ($283.3 million, based on scheduled repayments through the maturity date). If our cash from operations declines, there can be no assurance that our cash balances and other assets readily available for sale would be sufficient to fully repay borrowings under our outstanding senior secured term loan upon maturity in April 2024 or that we will be able to refinance the remaining portion of the debt prior to the due date.

Our failure to maintain certain net debt less marketable securities to EBITDA ratios contained in our senior secured term loan agreement could result in required payments to the lenders of a percentage of our excess cash flows, which could adversely affect our ability to use our excess cash flows for other purposes.

Our senior secured term loan agreement requires us to distribute to our lenders 50% of our consolidated excess cash flows, as defined in the senior secured term loan agreement, if our net debt less marketable securities to EBITDA ratio, as defined in the senior secured term loan agreement, exceeds 3.50 to 1.00 and 25% of our consolidated excess cash flows if our net debt less marketable securities to EBITDA ratio is 3.50 to 1.00 or less, but greater than 3.00 to 1.00. If we were required to distribute a portion of our excess cash flows to our lenders, we may be limited in our ability to support our business, grow our business through acquisitions or investments in technology and we may be limited in our ability to repurchase our common stock. There can be no assurance that we will maintain net debt less marketable securities to EBITDA ratios at levels that will not require us to distribute a portion of our excess cash flows to lenders.

If we fail to maintain adequate internal controls, our ability to prepare accurate and timely financial statements could be impaired, which could adversely affect investor confidence in our reported financial information.

We cannot be certain that we will be successful in implementing or maintaining adequate internal control over our financial reporting and financial processes. The existence of material weaknesses in our internal control over financial reporting could materially adversely affect our ability to comply with applicable financial reporting requirements.

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We have significant investments in goodwill and intangible assets recorded as a result of prior acquisitions and an impairment of these assets would require a write-down that would reduce our net income.

Goodwill and intangible assets are assessed for impairment annually or sooner if circumstances indicate a possible impairment. Factors that could lead to impairment of goodwill and intangible assets include significant under-performance relative to historical or projected future operating results, a significant decline in our stock price and market capitalization and negative industry or economic trends, among other indications of impairment. In the event that the recorded values of goodwill and intangible assets are impaired, any such impairment would be charged to earnings in the period of impairment. In the event of significant volatility in the capital markets or a worsening of current economic conditions, we may be required to record an impairment charge, which would negatively impact our results of operations. Possible future impairment of goodwill and intangible assets may have a material adverse effect on our business, results of operations and financial condition.

Risks Related to our Growth Strategy

Our ability to grow is affected by our ability to execute on our strategic businesses, retain and expand our existing customer relationships and our ability to attract new customers.

Our ability to retain existing customers and expand those relationships and attract new customers is subject to a number of risks including the risk that we do not:

- execute on our strategic businesses;
- maintain or improve the quality and legal, regulatory and contractual compliance of services we provide to our customers;
- meet or exceed the expectations of our customers;
- maintain a good reputation;
- successfully leverage our existing customer relationships to sell additional services; and
- attract new customers.

If our efforts to execute on our strategic businesses, retain and expand our customer relationships and attract new customers do not prove effective, it could have an adverse effect on our business and results of operations and our ability to maintain and grow our operations.

Our ability to expand existing relationships and attract new customers is also affected by broader economic factors and the strength of the overall housing market, which can reduce demand for our services and increase competition for each customer’s business, and our results of operations could be adversely impacted. See “The economy and the housing market can affect demand for our services.”

If we do not adapt our services to changes in technology or in the marketplace, changing requirements of governmental authorities, GSEs and clients or if our ongoing efforts to upgrade our technology and particularly our efforts to complete development of our technology are not successful, we could lose customers and have difficulty attracting new customers for our services, which could have an adverse effect on our business and results of operations.

The markets for our services are characterized by constant technological change, our customers’ and competitors’ frequent introduction of new services and evolving industry standards and government regulation. We are currently in the process of, and from time to time will be, developing and introducing new services and technologies and improvements to existing services and technologies. Our future success will be significantly affected by our ability to complete our current efforts and in the future enhance, primarily through use of automation, econometrics and behavioral science principles, our services and develop and introduce new services that address the increasingly sophisticated needs of our customers and their customers. These initiatives carry the risks associated with any new service development effort, including cost overruns, delays in delivery and performance effectiveness. There can be no assurance that we will be successful in developing, marketing and selling new and improved technologies and services. In addition, we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these services. Our services and their enhancements may also not adequately meet the demands of the marketplace or governmental authorities and achieve market acceptance.

Many of our institutional customers are consolidating the number of service providers, and we may face significant pricing pressures.

Institutional customers of our default-related services and origination services are undergoing vendor consolidation efforts, reducing the number of service providers employed. If we are not able to maintain our customer relationships in the face of such consolidation, we could lose some of our customers. In addition, certain prices that we can charge may be dictated by GSEs and/or our institutional customers and we may not be able to reduce our vendor costs in order to maintain our profitability for those services. Any of these results could have a negative impact on our financial condition and results of operations and our ability to maintain and grow our operations.

Our ability to meet our growth objectives is dependent on the timing and market acceptance of our existing and new service offerings.

Our ability to grow may be adversely affected by difficulties or delays in service development or the inability to gain market acceptance of existing and new services to existing and new customers. There are no guarantees that existing and new services will prove to be commercially successful, and our results of operations could be adversely impacted.

Some of our businesses are dependent on outsourcing.

Our continued growth at historical rates for some of our businesses is dependent on industry participants accepting of outsourcing. Organizations may elect to perform such services themselves or may be prevented from outsourcing services. A significant change in our customers' preference or ability to outsource could have an adverse effect on our continued growth and our results of operations.

Acquisitions to accelerate growth initiatives involve potential risks.

Our strategy has included the acquisition of complementary businesses from time to time. During 2016, we acquired Granite Loan Management of Delaware, LLC ("Granite"). During 2015, we acquired CastleLine Holdings, LLC and its subsidiaries ("CastleLine") and GoldenGator, LLC (doing business as RentRange) ("RentRange"), REIsmart, LLC (doing business as Investability) ("Investability") and Onit Solutions, LLC, a support company for RentRange and Investability (collectively "RentRange and Investability"). During 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder") and acquired certain assets and assumed certain liabilities of Owners Advantage, LLC ("Owners").

In the future, we may consider acquisitions of other businesses that could complement our business, offer us greater access in our current markets or offer us greater access and expertise in other asset types and markets that are related to ours but we do not currently serve. Our ability to pursue additional acquisitions in the future is dependent on our access to sufficient capital (equity and/or debt) to fund the acquisition and subsequent integration. We may not be able to secure adequate capital as needed on terms that are acceptable to us, or at all, and our ability to secure such capital through debt financing is limited by our senior secured term loan agreement.

When we acquire new businesses, we may face a number of integration risks, including a loss of focus on our daily operations, the need for additional management, constraints on operating resources, constraints on financial resources from integration and system conversion costs and the inability to maintain key pre-acquisition relationships with customers, suppliers and employees. In addition, any acquisition may result in the incurrence of additional amortization expense of related intangible assets, which could reduce our profitability. Our failure to effectively pursue or integrate acquisitions, and such acquisitions themselves, may have an adverse effect on our financial condition or results of operations.

We may be unable to reduce our cost structure in a timely manner in connection with a significant loss of revenue and/or customers.

Our cost structure is composed of variable costs, which may be largely controllable with changes in revenue and/or our customer base, and fixed costs, which are less controllable with changes in revenue and/or our customer base, including interest associated with our senior secured term loan. If we are unable to reduce our cost structure consistent with a significant decline in revenue, our results of operations, cash flows and financial position could be adversely affected.

Risks Related to International Business

Our international operations subject us to additional risks which could have an adverse effect on our results of operations.

We have attempted to control our operating expenses by utilizing lower cost labor in foreign countries such as India, the Philippines and Uruguay. As of December 31, 2018, 4,919 of our employees were based in India, the Philippines and Uruguay. These countries are subject to relatively higher degrees of political and social instability and may lack the infrastructure to withstand political unrest or natural disasters. The occurrence of natural disasters or political or economic instability in these countries could interfere with work performed by these labor sources, or could result in our having to replace or reduce these labor sources. Such disruptions could decrease efficiency, increase our costs and have an adverse effect on our financial condition or results of operations.

Furthermore, the practice of utilizing labor based in foreign countries has come under increased scrutiny in the United States. Governmental authorities could seek to impose financial costs or restrictions on foreign companies providing services to customers in the United States. Governmental authorities may attempt to prohibit or otherwise discourage our United States-based customers from sourcing services from foreign companies and, as a result, some of our customers may require us to use labor based in the United States or cease doing business with Altisource. In addition, some of our customers may require us to use labor based in the United States for other reasons. To the extent that we are required to use labor based in the United States, we may not be able to pass on the increased costs of higher-priced United States-based labor to our customers, which ultimately could have an adverse effect on our results of operations.

The FCPA and other applicable anti-corruption laws and regulations prohibit certain types of payments by our employees, vendors and agents. Any violation of the applicable anti-corruption laws or regulations by us, our subsidiaries or our local agents could expose us to significant penalties, fines, settlements, costs and consent orders that may curtail or restrict our business as it is currently conducted and could have an adverse effect on our financial condition or results of operations.

Weakness of the United States dollar in relation to the currencies used in these foreign countries may also reduce the savings achievable through this strategy and could have an adverse effect on our financial condition or our results of operations.

Altisource is a Luxembourg company and it may be difficult to obtain and enforce judgments against it or its directors and executive officers.

Altisource is a public limited liability company organized under the laws of, and headquartered in, Luxembourg. As a result, Luxembourg law and the articles of incorporation govern the rights of shareholders. The rights of shareholders under Luxembourg law may differ from the rights of shareholders of companies incorporated in other jurisdictions. A significant portion of the assets of Altisource are owned outside of the United States. It may be difficult for investors to obtain and enforce, in the United States, judgments obtained in United States courts against Altisource or its directors based on the civil liability provisions of the United States securities laws or to enforce, in Luxembourg, judgments obtained in other jurisdictions including the United States.

A significant challenge of the Luxembourg tax regime or of its interpretation by the Luxembourg tax authorities or others could adversely affect our results of operations.

The Company received and historically operated under a tax ruling from the Luxembourg tax authorities, which would have expired in 2019 unless extended or renewed. In connection with an internal reorganization by the Company during 2017, the Company no longer operates under the tax ruling. The European Commission (“EC”) has initiated investigations into several EU member states, including Luxembourg, to determine whether these EU member states have provided tax advantages to companies on a basis not allowed by the EU. While the EC’s investigations continue, it has concluded that certain companies in certain EU member states, including Luxembourg, have been provided such tax advantages. The EC is requiring these EU member states to recover from certain companies the prior year tax benefits they received. Such a development could have an adverse effect on our financial condition and results of operations.

In the fourth quarter of 2017, the United States amended its tax code which resulted in the reduction of the United States corporate tax rate. This tax code amendment changed our consolidated effective income tax rate, including compared to our competitors, and could adversely affect our results of operations.

This significant change in the United States tax code that resulted in the reduction of the United States corporate tax rate could reduce the effective tax rate of some of our competitors. A reduction in the effective tax rate of some of our competitors may put us at a competitive disadvantage. Such disadvantage and potential loss of customers could have an adverse effect on our financial condition and results of operations.

Our consolidated effective income tax rate for financial reporting purposes may change periodically due to the creation of, and our ability to utilize, net operating loss and tax credit carryforwards, changes in enacted tax rates and fluctuations in the mix of income earned from our domestic and international operations, and could adversely affect our financial condition and results of operations.

The Company has a significant net operating loss recognized by one of Altisource’s Luxembourg subsidiaries, Altisource S.à r.l. The utilization of this net operating loss is dependent on future earnings of Altisource S.à r.l., which may not occur before the net operating loss expires.

In connection with a merger of two of the Company’s wholly-owned subsidiaries in December 2017, which was recognized at fair value, a net operating loss of $1.3 billion with a 17 year life was generated, creating a deferred tax asset of $342.6 million. If Altisource S.à r.l. is unable to generate sufficient pretax income by 2034, the Company may not be able to fully utilize the net operating loss within this 17 year period which could have an adverse effect on our financial condition and results of operations.

Risks Related to Our Employees

Our success depends on members of our Board of Directors, our executive officers and other key personnel.

Our success is dependent on the efforts and abilities of members of our Board of Directors, our executive officers and other key employees, many of whom have significant experience in the real estate and mortgage, financial services and technology industries. In particular, we are dependent on the services of members of our Board of Directors and key executives at our corporate headquarters and personnel at each of our segments. The loss of the services of any of these members of our Board of Directors, executives or key personnel, for any reason, could have an adverse effect upon our business, financial condition and results of operations.

Our inability to attract, motivate and retain skilled employees may adversely impact our business.

Our business is labor intensive and places significant importance on our ability to recruit, engage, train and retain skilled employees. Additionally, demand for qualified technical and software professionals conversant in certain technologies may exceed supply as additional skills are required to keep pace with evolving computer technology. Our ability to recruit and train employees is critical to achieving our growth objective. Our inability to attract and retain skilled employees or an increase in wages or other costs of attracting, training or retaining skilled employees could have an adverse effect on our business, financial condition and results of operations.

We make extensive use of independent contractors in certain of our lines of business. If we are required to reclassify independent contractors as employees, we may incur fines and penalties and additional costs and taxes which could adversely affect our business, financial condition and results of operations.

We are increasingly using independent contractors in our operations for whom we do not pay or withhold any federal, state or local employment tax or provide employee benefits. There are a number of tests used in determining whether an individual is an employee or an independent contractor. There can be no assurance that legislative, judicial or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change, or at least challenge, the classification of our independent contractors. Although we believe we have properly classified our independent contractors, the U.S. Internal Revenue Service or other U.S. federal or state authorities or similar authorities of a foreign government may determine that we have misclassified our independent contractors for employment tax or other purposes and, as a result, seek additional taxes from us, require us to pay certain compensation or benefits to wrongly classified employees, or attempt to impose fines or penalties. If we are required to pay employer taxes, pay backup withholding, or pay compensation or benefits with respect to prior periods with respect to or on behalf of our independent contractors, our operating costs will increase, which could adversely impact our business, financial condition and results of operations.

Risks Related to Our Relationships

We could have conflicts of interest with Ocwen, NRZ, and certain of our shareholders, members of management, and members of our Board of Directors, which may be resolved in a manner adverse to us.

We have significant business relationships with and provide services to Ocwen and to NRZ. We are aware, based on public filings, that our largest shareholder, William C. Erbey, owns or controls common stock in Altisource and Ocwen. As of December 31, 2018 and February 19, 2019, based on public filings, Mr. Erbey reported beneficially owning or controlling approximately 37% of the common stock of Altisource and approximately 5% of the common stock of Ocwen. In addition, certain members of our management and independent members of our Board of Directors (or entities affiliated with such Board of Directors members) have direct or beneficial equity interests in Ocwen or in NRZ, including in one instance, equity interests in Ocwen of slightly less than 10% as well as Ocwen’s debt. Such interests could create, or appear to create, potential conflicts of interest with respect to matters potentially or actually involving or affecting us and Ocwen or NRZ.

There can be no assurance that we will implement measures that will enable us to manage potential conflicts with Ocwen or NRZ. There can be no assurance that any current or future measures that may be implemented to manage potential conflicts will be effective or that we will be able to manage or resolve all potential conflicts with Ocwen or NRZ, and, even if we do, that the resolution will be no less favorable to us than if we were dealing with another third party that has none of the connections we have with Ocwen or NRZ.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space in Luxembourg, Grand Duchy of Luxembourg. A summary of our principal leased office space as of December 31, 2018 and the segments primarily occupying each location is as follows:

	Mortgage Market	Real Estate Market	Other Businesses, Corporate and Eliminations
Luxembourg	X	X	X
United States			
Atlanta, GA	X	X	X
Boston, MA	X		X
Endicott, NY			X
Fort Washington, PA	X		X
Plano, TX	X	X	X
Sacramento, CA			X
Southfield, MI	X		X
St. Louis, MO	X	X	X
Tempe, AZ			X
Montevideo, Uruguay	X	X	X
Pasay City, Philippines	X	X	X
India			
Bangalore	X	X	X
Mumbai	X	X	X

We do not own any office facilities. We consider these facilities to be suitable and currently adequate for the management and operations of our businesses.

ITEM 3. LEGAL PROCEEDINGS

Litigation

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

Regulatory Matters

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

Our businesses are also subject to extensive regulation which may result in regulatory proceedings or actions against us. For further information, see Item 1A of Part I, “Risk Factors” above and Note 25 to the consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol “ASPS.”

The number of holders of record of our common stock as of February 19, 2019 was 85. The number of beneficial shareholders is substantially greater than the number of holders as a large portion of our common stock is held through brokerage firms.

Dividends

We have not historically declared or paid cash dividends on our common stock, but may declare dividends in the future. Under Luxembourg law, shareholders need to approve certain dividends. Such approval typically occurs during a company’s annual meeting of shareholders. Luxembourg law imposes limits on our ability to pay dividends based on annual net income and net income carried forward, less any amounts placed in reserve. The provisions of our senior secured term loan agreement, as amended, limit our ability to pay dividends.

Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P 500 Index and the NASDAQ Composite Index for the five year period ending on December 31, 2018. The graph assumes an investment of $100 at the beginning of this period. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	12/31/13	6/30/14	12/31/14	6/30/15	12/31/15	6/30/16	12/31/16	6/30/17	12/31/17	6/30/18	12/31/18
Altisource	$ 100.00	$ 72.23	$ 21.30	$ 19.41	$ 17.53	$ 17.55	$ 16.76	$ 13.76	$ 17.65	$ 18.39	$ 14.18
S&P 500 Index	100.00	106.05	111.39	111.62	110.58	113.55	121.13	131.11	144.65	147.07	135.63
NASDAQ Composite Index	100.00	105.54	113.40	119.40	119.89	115.95	128.89	147.02	165.29	179.82	158.87

Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item is incorporated herein by reference to our definitive proxy statement in connection with our 2019 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Exchange Act.

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Issuer Purchases of Equity Securities

On May 15, 2018, our shareholders approved the renewal and replacement of the share repurchase program previously approved by the shareholders on May 17, 2017. Under the 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 December 31, 2018, approximately 3.4 million shares of common stock remain available for repurchase under the program. We purchased 1.6 million shares of common stock at an average price of $25.53 per share during the year ended December 31, 2018, 1.6 million shares at an average price of $23.84 per share during the year ended December 31, 2017 and 1.4 million shares at an average price of $26.81 per share during the year ended December 31, 2016. Luxembourg law limits share repurchases to the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings, less the value of shares repurchased. As of December 31, 2018, we can repurchase up to approximately $139 million of our common stock under Luxembourg law. Our Credit Agreement also limits the amount we can spend on share repurchases, which was approximately $489 million as of December 31, 2018, and may prevent repurchases in certain circumstances.

The following table presents information related to the repurchases of our equity securities during the three months ended December 31, 2018:

Period	Total number of shares purchased (1)	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(2)	Maximum number of shares that may yet be purchased under the plans or programs(2)
Common stock:				
October 1 – 31, 2018	130,629	$ 27.98	130,629	4,026,110
November 1 – 30, 2018	328,321	22.96	328,321	3,697,789
December 1 – 31, 2018	329,191	22.41	329,191	3,368,598
	788,141	$ 23.56	788,141	3,368,598

(1) In addition to the repurchases included in the table above, 9,715 common shares were withheld from employees to satisfy tax withholding obligations that arose from the vesting of restricted shares.

(2) On May 15, 2018, our shareholders approved the renewal and replacement of the share repurchase program previously approved by the shareholders on May 17, 2017. Under the program, we are authorized to purchase up to 4.3 million shares of our common stock in the open market, subject to certain parameters, for a period of five years from the date of approval.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 has been derived from our audited consolidated financial statements. The historical results may not be indicative of our future performance.

The selected consolidated financial data should be read in conjunction with the information contained in Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto in Item 8 of Part II, "Financial Statements and Supplementary Data."

	For the years ended December 31,				
(in thousands, except per share data)	2018	2017	2016	2015	2014
Revenue	$838,202	$942,213	$997,303	$1,051,466	$1,078,916
Cost of revenue	622,165	699,865	690,045	687,327	707,180
Gross profit	216,037	242,348	307,258	364,139	371,736
Operating expenses (income):					
Selling, general and administrative expenses	175,670	192,642	214,155	220,868	201,733
Gain on sale of business	(13,688)	—	—	—	—
Restructuring charges	11,560	—	—	—	—
Litigation settlement loss, net of $4,000 insurance recovery	—	—	28,000	—	—
Impairment losses	—	—	—	71,785	37,473
Change in the fair value of Equator® Earn Out	—	—	—	(7,591)	(37,924)
Income from operations	42,495	49,706	65,103	79,077	170,454
Other income (expense), net:					
Interest expense	(26,254)	(22,253)	(24,412)	(28,208)	(23,363)
Unrealized loss on investment in equity securities[(1)]	(12,972)	—	—	—	—
Other income (expense), net	(1,870)	7,922	3,630	2,191	174
Total other income (expense), net	(41,096)	(14,331)	(20,782)	(26,017)	(23,189)
Income before income taxes and non-controlling interests	1,399	35,375	44,321	53,060	147,265
Income tax (provision) benefit	(4,098)	276,256	(12,935)	(8,260)	(10,178)
Net (loss) income	(2,699)	311,631	31,386	44,800	137,087
Net income attributable to non-controlling interests	(2,683)	(2,740)	(2,693)	(3,202)	(2,603)
Net (loss) income attributable to Altisource	$(5,382)	$308,891	$28,693	$41,598	$134,484
(Loss) earnings per share:					
Basic	$(0.32)	$16.99	$1.53	$2.13	$6.22
Diluted	$(0.32)	$16.53	$1.46	$2.02	$5.69
Weighted average shares outstanding:					
Basic	17,073	18,183	18,696	19,504	21,625
Diluted	17,073	18,692	19,612	20,619	23,634
Outstanding shares (at December 31)	16,276	17,418	18,774	19,021	20,279

Transactions with related parties included above:					
Revenue	$—	$—	$—	N/A(2)	$666,800
Cost of revenue	—	—	—	N/A(2)	38,610
Selling, general and administrative expenses	—	—	—	N/A(2)	(268)
Non-GAAP Financial Measures(3)					
Adjusted net income attributable to Altisource	$42,609	$55,617	$94,884	$147,942	$171,222
Adjusted diluted earnings per share	$2.43	$2.98	$4.84	$7.18	$7.24
Adjusted EBITDA	$118,279	$130,687	$184,501	$224,544	$236,433

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(in thousands)	December 31, 2018	2017	2016	2015	2014
Cash and cash equivalents	$58,294	$105,006	$149,294	$179,327	$161,361
Investment in equity securities	36,181	49,153	45,754	—	—
Accounts receivable, net	36,466	52,740	87,821	105,023	112,183
Short-term investments in real estate	39,873	29,405	13,025	—	—
Premises and equipment, net	45,631	73,273	103,473	119,121	127,759
Goodwill	81,387	86,283	86,283	82,801	90,851
Intangible assets, net	91,653	120,065	155,432	197,003	245,246
Total assets	741,700	865,164	689,212	721,798	780,122
Long-term debt, net (including current portion)	331,476	409,281	473,545	528,178	580,515
Total liabilities	445,032	525,179	627,018	669,528	738,679
Net debt less investment in equity securities(3)	244,347	259,422	284,605	357,271	430,182

(in thousands)	For the years ended December 31, 2018	2017	2016	2015	2014
Cash flows from operating activities	$68,402	$66,082	$126,818	$195,352	$197,493
Additions to premises and equipment	3,916	10,514	23,269	36,188	64,846
Non-GAAP Financial Measures(3)					
Adjusted cash flows from operating activities	79,370	110,462	139,843	195,352	197,493
Adjusted cash flows from operating activities less additions to premises and equipment	75,454	99,948	116,574	159,164	132,647

(1) Effective January 1, 2018, mark-to-market adjustments of our investment in equity securities are reflected in our results of operations in connection with the adoption of a new accounting principle (previously reflected in comprehensive income).

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

(3) These are non-GAAP measures that are defined and reconciled to the corresponding GAAP measures on pages 28 to 32.

Significant events affecting our historical earnings trends from 2016 through 2018, including acquisitions, are described in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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NON-GAAP MEASURES

Adjusted net income attributable to Altisource, adjusted diluted earnings per share, adjusted earnings before interest, taxes depreciation and amortization (“Adjusted EBITDA”), adjusted effective income tax rate, adjusted cash flows from operating activities, adjusted cash flows from operating activities less additions to premises and equipment and net debt less investment in equity securities, which are presented elsewhere in this Annual Report on Form 10-K, are non-GAAP measures used by management, existing shareholders, potential shareholders and other users of our financial information to measure Altisource’s performance and do not purport to be alternatives to net (loss) income attributable to Altisource, diluted (loss) earnings per share, the effective income tax rate, cash flows from operating activities and long-term debt, including current portion, as measures of Altisource’s performance. We believe these measures are useful to management, existing shareholders, potential shareholders and other users of our financial information in evaluating operating profitability and cash flow generation more on the basis of continuing cost and cash flows as they exclude amortization expense related to acquisitions that occurred in prior periods and non-cash share-based compensation expense and/or depreciation expense, financing expense and income taxes, as well as the effect of more significant non-operational items from earnings and cash flows from operating activities and long-term debt net of cash on-hand and investment in equity securities. We believe these measures are also useful in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management’s evaluation of business performance. Furthermore, we believe the exclusion of more significant non-operational items enables comparability to prior period performance and trend analysis.

It is management’s intent to provide non-GAAP financial information to enhance the understanding of Altisource’s GAAP financial information, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies. The non-GAAP financial information should not be unduly relied upon.

Adjusted net income attributable to Altisource is calculated by adding intangible asset amortization expense (net of tax), share-based compensation expense (net of tax), unrealized loss on investment in equity securities (net of tax), sales tax accrual (net of tax), litigation settlement loss, net of insurance recovery (net of tax), restructuring charges (net of tax), loss on debt refinancing (net of tax), goodwill write-off from business exit (net of tax), impairment losses (net of tax) and adding or deducting certain income tax related items relating to the Luxembourg subsidiary merger, other income tax rate changes in Luxembourg and the United States and an increase in foreign income tax reserves (and related interest), and deducting gains associated with reductions of the Equator, LLC (“Equator”) related contingent consideration (“Equator Earn Out”) (net of tax) and gain on sale of business (net of tax) from net (loss) income attributable to Altisource. Adjusted diluted earnings per share is calculated by dividing net income attributable to Altisource plus intangible asset amortization expense (net of tax), share-based compensation expense (net of tax), unrealized loss on investment in equity securities (net of tax), sales tax accrual (net of tax), net litigation settlement loss (net of tax), restructuring charges (net of tax), loss on debt refinancing (net of tax), goodwill write-off from business exit (net of tax), impairment losses (net of tax) and adding or deducting certain income tax related items described above and deducting gains associated with reductions of the Equator Earn Out (net of tax) and gain on sale of business (net of tax), by the weighted average number of diluted shares. Adjusted EBITDA is calculated by deducting income tax benefit from, or adding the income tax provision to, interest expense (net of interest income), depreciation and amortization, intangible asset amortization expense, share-based compensation expense, unrealized loss on investment in equity securities, sales tax accrual, loss on debt refinancing, restructuring charges, goodwill write-off from business exit, the net litigation settlement loss and impairment losses and deducting gains associated with reductions of the Equator Earn Out and gain on sale of business from, net (loss) income attributable to Altisource. The adjusted effective income tax rate is calculated by adding or deducting the net impact of the certain income tax related items described above from the income tax benefit (provision) and dividing the resulting adjusted income tax provision by income before income taxes and non-controlling interests. Adjusted cash flows from operating activities is calculated by adding the cash payment related to the net litigation settlement loss and the increase in short-term investments in real estate to cash flows from operating activities. Adjusted cash flows from operating activities less additions to premises and equipment is calculated by adding the cash payment related to the net litigation settlement loss and the increase in short-term investments in real estate to, and deducting additions to premises and equipment from, cash flows from operating activities. Net debt less investment in equity securities is calculated as long-term debt, including current portion, minus cash and cash equivalents and investment in equity securities.

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Reconciliations of the non-GAAP measures to the corresponding GAAP measures are set forth in the following tables:

	For the years ended December 31,				
(in thousands, except per share data)	2018	2017	2016	2015	2014
Net (loss) income attributable to Altisource	$(5,382)	$308,891	$28,693	$41,598	$134,484
Intangible asset amortization expense, net of tax	19,905	27,523	36,819	38,187	35,076
Share-based compensation expense, net of tax	7,141	3,311	4,789	4,467	2,081
Gain on sale of business, net of tax	(9,341)	—	—	—	—
Sales tax accrual, net of tax	4,608	—	—	—	—
Restructuring charges, net of tax	8,966	—	—	—	—
Loss on refinancing, net of tax	3,232	—	—	—	—
Goodwill write-off from business exit, net of tax	1,953	—	—	—	—
Unrealized loss on investment in equity securities, net of tax	9,598	—	—	—	—
Certain income tax related items, net	1,588	(284,108)	—	—	—
Net litigation settlement loss, net of tax	341	—	24,583	—	—
Impairment loss, net of tax	—	—	—	70,630	34,884
Gain on Equator Earn Out, net of tax	—	—	—	(6,940)	(35,303)
Adjusted net income attributable to Altisource	$42,609	$55,617	$94,884	$147,942	$171,222
Diluted (loss) earnings per share	$(0.32)	$16.53	$1.46	$2.02	$5.69
Impact of using diluted share count instead of basic share count for a loss per share	0.01	—	—	—	—
Intangible asset amortization expense, net of tax, per diluted share	1.14	1.47	1.88	1.85	1.48
Share-based compensation expense, net of tax, per diluted share	0.41	0.18	0.24	0.22	0.09
Gain on sale of business, net of tax, per diluted share	(0.53)	—	—	—	—
Sales tax accrual, net of tax, per diluted share	0.26	—	—	—	—
Restructuring charges, net of tax, per diluted share	0.51	—	—	—	—
Loss on refinancing, net of tax, per diluted share	0.18	—	—	—	—
Goodwill write-off from business exit, net of tax, per diluted share	0.11	—	—	—	—
Unrealized loss on investment in equity securities, net of tax, per diluted share	0.55	—	—	—	—
Certain income tax related items, net, per diluted share	0.09	(15.20)	—	—	—
Net litigation settlement loss, net of tax, per diluted share	0.02	—	1.25	—	—
Impairment loss, net of tax, per diluted share	—	—	—	3.43	1.48
Gain on Equator Earn Out, net of tax, per diluted share	—	—	—	(0.34)	(1.49)