

Altisource Portfolio Solutions S.A.

Form 10-Q

July 28, 2011

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 1-34354

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

Luxembourg
(State or other jurisdiction of incorporation or organization)

Not applicable
(I.R.S. Employer Identification No.)

**291, route d Arlon
L-1150 Luxembourg
Grand Duchy of Luxembourg**
(Address of principal executive offices) (Zip Code)
+352 2469 7900

Registrant's telephone number

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of July 15, 2011, there were 24,505,125 outstanding shares of the registrant's shares of beneficial interest (excluding 907,623 shares held as treasury stock).

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, Except per Share Data)

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 35,032	\$ 22,134
Accounts Receivable, net	52,495	53,495
Prepaid Expenses and Other Current Assets	4,405	13,076
Deferred Tax Assets, net	633	551
Total Current Assets	92,565	89,256
Restricted Cash	1,222	1,045
Premises and Equipment, net	16,814	17,493
Deferred Tax Assets, net	490	1,206
Intangible Assets, net	69,269	72,428
Goodwill	12,537	11,836
Investment in Equity Affiliate	3,328	
Other Non-current Assets	6,824	4,536
Total Assets	\$ 203,049	\$ 197,800
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 27,625	\$ 35,384
Capital Lease Obligations - Current	651	680
Other Current Liabilities	3,574	5,616
Total Current Liabilities	31,850	41,680
Capital Lease Obligations - Non-current	541	852
Other Non-current Liabilities	2,782	3,370
Commitment and Contingencies (Note 13)		
Equity:		
Common Stock (\$1.00 par value; 100,000 shares authorized; 25,413 shares issued and 24,586 outstanding in 2011; 25,413 shares issued and 24,881 outstanding in 2010)	25,413	25,413

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Retained Earnings	84,744	58,546
Additional Paid-in Capital	80,676	79,297
Treasury Stock, at cost (\$1.00 par value; 827 and 532 shares in 2011 and 2010, respectively)	(24,442)	(14,418)
Altisource Equity	166,391	148,838
Non-controlling Interests	1,485	3,060
Total Equity	167,876	151,898
Total Liabilities and Equity	\$ 203,049	\$ 197,800

See accompanying notes to condensed consolidated financial statements.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	\$ 93,268	\$ 71,348	\$ 181,938	\$ 132,321
Cost of Revenue	63,097	44,375	118,046	83,729
Gross Profit	30,171	26,973	63,892	48,592
Selling, General and Administrative Expenses	13,904	12,476	30,158	24,545
Income from Operations	16,267	14,497	33,734	24,047
Other Income (Expense), net	270	40	614	(32)
Income Before Income Taxes and Non-controlling Interests	16,537	14,537	34,348	24,015
Income Tax (Provision) Benefit	(1,847)	3,107	(3,534)	722
Net Income	14,690	17,644	30,814	24,737
Net Income Attributable to Non-controlling Interests	(1,305)	(1,297)	(2,604)	(2,084)
Net Income Attributable to Altisource	\$ 13,385	\$ 16,347	\$ 28,210	\$ 22,653
Earnings Per Share:				
Basic	\$ 0.54	\$ 0.65	\$ 1.14	\$ 0.91
Diluted	\$ 0.52	\$ 0.62	\$ 1.09	\$ 0.87
Weighted Average Shares Outstanding:				
Basic	24,625	25,226	24,734	24,960
Diluted	25,773	26,247	25,851	25,965

Transactions with Related Parties Included Above:

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Revenue	\$ 53,694	\$ 35,784	\$ 102,484	\$ 65,035
Selling, General and Administrative Expenses	\$ 455	\$ 264	\$ 846	\$ 588

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Altisource Equity		Treasury	Non-	Comprehensive	
			Retained	Additional	Stock, at	controlling	Total	Income
			Earnings	Paid-in	Cost	Interests		
				Capital				
Balance, December 31, 2009	24,145	\$ 24,145	\$ 11,665	\$ 50,538	\$	\$	\$ 86,348	
Net Income			22,653			2,084	24,737	\$ 24,737
Acquisition of MPA	959	959		22,941		3,268	27,168	
Contributions from Non-controlling Interest Holders						18	18	
Distributions to Non-controlling Interest Holders						(3,896)	(3,896)	
Share-based Compensation Expense				973			973	
Exercise of Stock Options	127	127		1,150			1,277	
Balance, June 30, 2010	25,231	\$ 25,231	\$ 34,318	\$ 75,602	\$	\$ 1,474	\$ 136,625	\$ 24,737
Balance, December 31, 2010	25,413	\$ 25,413	\$ 58,546	\$ 79,297	\$ (14,418)	\$ 3,060	\$ 151,898	
Net Income			28,210			2,604	30,814	\$ 30,814
Contributions from Non-controlling Interest Holders						14	14	
Distributions to Non-controlling Interest Holders						(4,193)	(4,193)	
Share-based Compensation Expense				1,379			1,379	
Exercise of Stock Options			(2,012)		2,522		510	
Repurchase of Shares					(12,546)		(12,546)	
Balance, June 30, 2011	25,413	\$ 25,413	\$ 84,744	\$ 80,676	\$ (24,442)	\$ 1,485	\$ 167,876	\$ 30,814

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from Operating Activities:		
Net Income	\$ 30,814	\$ 24,737
Reconciling Items:		
Depreciation and Amortization	4,114	3,211
Amortization of Intangible Assets	2,613	2,639
Share-based Compensation Expense	1,379	973
Bad Debt Expense	684	706
Deferred Income Taxes	634	1,065
Changes in Operating Assets and Liabilities, net of Acquisitions:		
Accounts Receivable	424	(4,514)
Prepaid Expenses and Other Current Assets	6,590	(211)
Other Assets	(2,288)	(2,643)
Accounts Payable and Accrued Expenses	(4,172)	(3,488)
Other Current and Non-current Liabilities	(2,630)	1,867
 Net Cash Flow from Operating Activities	 38,162	 24,342
Cash flows from Investing Activities:		
Additions to Premises and Equipment	(3,419)	(5,234)
Acquisition of Business, net of Cash Acquired	(1,785)	(25,462)
Investment in Equity Affiliate	(3,328)	
Change in Restricted Cash	(177)	(355)
 Net Cash Flow from Investing Activities	 (8,709)	 (31,051)
Cash flows from Financing Activities:		
Principal Payments on Capital Lease Obligations	(340)	(306)
Proceeds from Stock Option Exercises	510	1,277
Purchase of Treasury Stock	(12,546)	
Contributions from Non-controlling Interests	14	18
Distributions to Non-controlling Interests	(4,193)	(3,896)
 Net Cash Flow from Financing Activities	 (16,555)	 (2,907)

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Net Increase (Decrease) in Cash and Cash Equivalents	12,898	(9,616)
Cash and Cash Equivalents at the Beginning of the Year	22,134	30,456
Cash and Cash Equivalents at the End of the Period	\$ 35,032	\$ 20,840
Supplemental Cash Flow Information		
Interest Paid	\$ 46	\$
Income Taxes (Received) Paid, net	\$ (3,342)	\$ 31
Non-Cash Investing and Financing Activities		
Shares issued in Connection with Acquisition	\$	\$ 23,900
Reduction in Income Tax Payable from Tax Amortizable Goodwill	\$ 1,076	\$
<i>See accompanying notes to condensed consolidated financial statements.</i>		

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Altisource Portfolio Solutions S.A. (which may be referred to as Altisource, the Company, we, us or our) together with its subsidiaries is a provider of services focused on high-value, technology-enabled, knowledge-based solutions principally related to real estate and mortgage portfolio management, asset recovery and customer relationship management.

We are publicly traded on the NASDAQ Global Select market under the symbol ASPS. We were incorporated under the laws of Luxembourg on November 4, 1999 as Ocwen Luxembourg S.à r.l., renamed Altisource Portfolio Solutions S.à r.l. on May 12, 2009 and converted into Altisource Portfolio Solutions S.A. on June 5, 2009. We became a publicly traded company as of August 10, 2009 (the Separation). Prior to the Separation, our businesses were wholly-owned subsidiaries of Ocwen Financial Corporation (Ocwen).

We conduct our operations through three reporting segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures as a separate segment (see Note 14 for a description of our business segments).

Basis of Presentation

Our condensed consolidated financial statements include the assets and liabilities, revenues and expenses directly attributable to our operations. All significant inter-company and inter-segment transactions and accounts have been eliminated upon consolidation. Certain amounts disclosed in prior period statements have been reclassified to conform to the current period presentation.

In February 2010, we acquired the Mortgage Partnership of American, L.L.C. (MPA), the manager of a national alliance of community mortgage bankers, correspondent lenders and suppliers of mortgage products and services that does business as Lenders One Mortgage Cooperative (Lenders One). The Management Agreement between MPA and Lenders One, pursuant to which MPA is the management company of Lenders One, represents a variable interest in a variable interest entity. MPA determined it is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact Lenders One's economic performance and the obligation to absorb losses or the right to receive benefits from Lenders One. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as Non-controlling Interest on the Condensed Consolidated Balance Sheets. At June 30, 2011, Lenders One had total assets of \$5.4 million and liabilities of \$0.1 million.

We have prepared our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, these financial statements do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented have been included. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2010, filed with the SEC on February 18, 2011, which contains a summary of our significant accounting policies. Certain footnote detail is also omitted from the condensed consolidated financial statements unless there is a material change from the information included in the Form 10-K.

Investment in Equity Affiliate

We utilize the equity method to account for investments in equity securities where we have the ability to exercise significant influence over operating and financial policies of the investee. We include a proportionate share of earnings and/or losses of equity method investees in equity income (loss), net in the condensed consolidated

statements of operations.

As of June 30, 2011 our only significant equity investment was a 50% stake in Correspondent One S.A. (Correspondent One) which was still in the formation process. Correspondent One facilitates the purchase of conforming and government guaranteed residential mortgages from approved mortgage originators. In July, we fulfilled our committed funding obligations and have provided a total of \$15.0 million to Correspondent One. Our ownership was reduced below 50% due to investments by certain Lenders One members. For the six months ended June 30, 2011, Correspondent One has minimal impact to our Condensed Consolidated Statements of Operations. Beginning in the third quarter of 2011, Correspondent One will partner with Ocwen and members of Lenders One to provide additional avenues for members to sell loans beyond Lenders One s preferred investor arrangements and the members own network of loan buyers.

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

Acquisitions

In April 2011, we acquired Springhouse, LLC (Springhouse) an appraisal management company that utilizes a nationwide panel of appraisers to provide real estate appraisals principally to mortgage originators, including the members of Lenders One, and real estate asset managers. See Note 6 for additional information.

Foreign Currency Translation

Our reporting currency is the U.S. dollar. Other foreign currency assets and liabilities that are considered monetary items are translated at exchange rates in effect at the balance sheet date. Foreign currency revenues and expenses are translated at transaction date exchange rates. These exchange gains and losses are included in the determination of net income.

Fair Value of Financial Instruments

The fair value of financial instruments, which primarily include Cash and Cash Equivalents, Accounts Receivable, net, Restricted Cash and Accounts Payable and Accrued Expenses at June 30, 2011 and December 31, 2010, are carried at amounts that approximate their fair value due to the short-term nature of these amounts.

Additionally, a put option arrangement was issued to the predecessor owners of MPA. The arrangement, which expires in February 2014, allows the holders to put a portion of the Altisource shares issued as consideration to Altisource at a predetermined price. The fair value calculation is deemed to be a Level 3 calculation. The fair value of the put option at June 30, 2011 of \$0.2 million was valued using the following assumptions:

	Assumptions	
Risk-free Interest Rate	0.19%	0.810%
Expected Stock Price Volatility	23%	44%
Expected Dividend Yield		
Expected Option Life (in years)	0.75	2.75
Contractual Life (in years)		
Fair Value	\$0.0	\$1.14

The put option agreement is a written derivative valued similar to stock options and is included within Other Non-current Liabilities on the Condensed Consolidated Balance Sheet. The fair value of the put option agreements will be determined each quarter until such puts are either exercised or forfeited. Any changes in value are included as a component of Other Income (Expense), net in the Condensed Consolidated Statements of Operations.

NOTE 2 TRANSACTIONS WITH RELATED PARTIES

Ocwen remains our largest customer. Following the date of Separation, Ocwen is contractually obligated to purchase certain Mortgage Services and Technology Services from us under service agreements. These agreements extend for eight years from the Separation, subject to termination under certain provisions. Ocwen is not restricted from redeveloping these services. We settle amounts with Ocwen on a daily, weekly or monthly basis based upon the nature of the services and when the service is completed.

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

Ocwen, or services derived from Ocwen's loan servicing portfolio, as a percentage of each of our segment revenues and as a percentage of consolidated revenues was as follows for the three and six months ended June 30: