

Altisource Portfolio Solutions S.A.

Form 10-Q

October 27, 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 September 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 October 15, 2011, there were 23,850,249 outstanding shares of the registrant's shares of beneficial interest (excluding 1,562,499 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)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 21,250	\$ 22,134
Accounts Receivable, net	50,239	53,495
Prepaid Expenses and Other Current Assets	6,793	13,076
Deferred Tax Asset, net	2,328	551
Total Current Assets	80,610	89,256
Restricted Cash	1,222	1,045
Premises and Equipment, net	22,626	17,493
Deferred Tax Asset, net		1,206
Intangible Assets, net	67,066	72,428
Goodwill	14,915	11,836
Investment in Equity Affiliate	14,645	
Other Non-current Assets	8,645	4,536
Total Assets	\$ 209,729	\$ 197,800
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 33,697	\$ 35,384
Capital Lease Obligations - Current	643	680
Other Current Liabilities	8,151	5,616
Total Current Liabilities	42,491	41,680
Capital Lease Obligations - Non-current	345	852
Deferred Tax Liability, net	539	
Other Non-current Liabilities	2,679	3,370
Commitment and Contingencies		
Equity:		
Common Stock (\$1.00 par value; 100,000 shares authorized; 25,413 shares issued and 23,979 outstanding in 2011; 25,413 shares issued and 24,881 outstanding in 2010)	25,413	25,413
Retained Earnings	100,984	58,546
Additional Paid-in-Capital	81,406	79,297

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Treasury Stock, at cost (\$1.00 par value; 1,434 and 532 shares in 2011 2010, respectively)	(46,171)	(14,418)
Altisource Equity	161,632	148,838
Non-controlling Interests	2,043	3,060
Total Equity	163,675	151,898
Total Liabilities and Equity	\$ 209,729	\$ 197,800

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	\$ 109,793	\$ 77,580	\$ 291,731	\$ 209,901
Cost of Revenue	73,339	48,913	191,385	132,642
Gross Profit	36,454	28,667	100,346	77,259
Selling, General and Administrative Expenses	15,329	14,730	45,487	39,275
Income from Operations	21,125	13,937	54,859	37,984
Other Income (Expense), net	(320)	698	294	666
Income Before Income Taxes and Non-controlling Interests	20,805	14,635	55,153	38,650
Income Tax Provision	(1,843)	(2,751)	(5,377)	(2,029)
Net Income	18,962	11,884	49,776	36,621
Net Income Attributable to Non-controlling Interests	(1,791)	(2,052)	(4,395)	(4,136)
Net Income Attributable to Altisource	\$ 17,171	\$ 9,832	\$ 45,381	\$ 32,485
Earnings Per Share:				
Basic	\$ 0.71	\$ 0.39	\$ 1.84	\$ 1.30
Diluted	\$ 0.67	\$ 0.37	\$ 1.76	\$ 1.24
Weighted Average Shares Outstanding:				
Basic	24,341	25,318	24,602	25,080
Diluted	25,489	26,544	25,720	26,168
Transactions with Related Parties Included Above:				
Revenue	\$ 63,827	\$ 39,459	\$ 166,311	\$ 104,494

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Selling, General and Administrative Expenses \$ 506 \$ 223 \$ 1,352 \$ 811

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			32,485			4,136	36,621	\$ 36,621
Acquisition of MPA	959	959		22,941		3,268	27,168	
Contributions from Non-controlling Interest Holders						28	28	
Distributions to Non-controlling Interest Holders						(5,207)	(5,207)	
Share-based Compensation Expense				2,134			2,134	
Exercise of Stock Options	298	298		2,708			3,006	
Delivery of Vested Restricted Stock	11	11					11	
Repurchase of Shares					(2,311)		(2,311)	
Balance, September 30, 2010	25,413	\$ 25,413	\$ 44,150	\$ 78,321	\$ (2,311)	\$ 2,225	\$ 147,798	\$ 36,621
Balance, December 31, 2010	25,413	\$ 25,413	\$ 58,546	\$ 79,297	\$ (14,418)	\$ 3,060	\$ 151,898	
Net Income			45,381			4,395	49,776	\$ 49,776
Contributions from Non-controlling Interest Holders						31	31	
Distributions to Non-controlling Interest Holders						(5,443)	(5,443)	
Share-based Compensation Expense				2,109			2,109	
Exercise of Stock Options			(2,943)		3,718		775	
Repurchase of Shares					(35,471)		(35,471)	
Balance, September 30, 2011	25,413	\$ 25,413	\$ 100,984	\$ 81,406	\$ (46,171)	\$ 2,043	\$ 163,675	\$ 49,776

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net Income	\$ 49,776	\$ 36,621
Reconciling Items:		
Depreciation and Amortization	6,174	5,015
Amortization of Intangible Assets	3,952	4,089
Share-based Compensation Expense	2,109	2,134
Equity in Losses of Affiliate	355	
Bad Debt Expense	999	988
Deferred Income Taxes	(32)	(1,040)
Changes in Operating Assets and Liabilities, net of Acquisitions:		
Accounts Receivable	2,546	(14,019)
Prepaid Expenses and Other Current Assets	5,066	(1,464)
Other Assets	(4,109)	(2,594)
Accounts Payable and Accrued Expenses	71	1,422
Other Current and Non-current Liabilities	1,844	2,109
 Net Cash Flows from Operating Activities	 68,751	 33,261
Cash Flows from Investing Activities:		
Additions to Premises and Equipment	(11,291)	(8,135)
Acquisition of Business, net of Cash Acquired	(2,515)	(26,830)
Investment in Equity Affiliate	(15,000)	
Change in Restricted Cash	(177)	(779)
 Net Cash Flows from Investing Activities	 (28,983)	 (35,744)
Cash Flows from Financing Activities:		
Principal Payments on Capital Lease Obligations	(544)	(463)
Proceeds from Stock Option Exercises	775	3,017
Purchase of Treasury Stock	(35,471)	(2,311)
Contributions from Non-controlling Interests	31	28
Distributions to Non-controlling Interests	(5,443)	(5,207)
 Net Cash Flows from Financing Activities	 (40,652)	 (4,936)
 Net Increase (Decrease) in Cash and Cash Equivalents	 (884)	 (7,419)

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Cash and Cash Equivalents at the Beginning of the Year	22,134	30,456
Cash and Cash Equivalents at the End of the Period	\$ 21,250	\$ 23,037
Supplemental Cash Flow Information		
Interest Paid	\$ 65	\$
Income Taxes (Received) Paid, net	\$ (2,684)	\$ 1,724
Non-Cash Investing and Financing Activities		
Shares issued in Connection with Acquisition	\$	\$ 23,900
Reduction in Income Tax Payable from Tax Amortizable Goodwill	\$	\$

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Altisource Portfolio Solutions S.A., together with its subsidiaries, (which may be referred to as Altisource, the Company, we, us or our) 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 by 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 17 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 America, 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 September 30, 2011, Lenders One had total assets of \$3.6 million and liabilities of less than \$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) in Affiliates, net which is included in Other

Income (Expense), net in the Condensed Consolidated Statements of Operations. See Note 8 for additional information.

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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 for \$1.8 million.

In July 2011, we acquired the assembled workforce of a sub-contractor (Tracmail) in India that performed asset recovery services for \$2.4 million.

See Note 3 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 September 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 September 30, 2011 of \$0.1 million was valued using the following assumptions:

	Assumptions	
Risk-free Interest Rate	0.110%	0.430%
Expected Stock Price Volatility	25%	37%
Expected Dividend Yield		
Expected Option Life (in years)	0.5	2.5
Contractual Life (in years)		
Fair Value	\$0.0	\$0.63