

Altisource Portfolio Solutions S.A.

Form 10-Q

October 28, 2010

**Table of Contents**

**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, 2010  
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.)

**2, rue Jean Bertholet  
L-1233 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  
(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 September 30, 2010, there were 25,412,748 outstanding shares of the registrant's shares of beneficial interest.



**Table of Contents**

**Table of Contents**  
**ALTISOURCE PORTFOLIO SOLUTIONS S.A.**  
**FORM 10-Q**

	<b>Page</b>
<b><u>PART I Financial Information</u></b>	
<b><u>Item 1 Interim Condensed Consolidated Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statement of Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	
<u>Note 1 Organization and Basis of Presentation</u>	7
<u>Note 2 Transactions with Related Parties</u>	9
<u>Note 3 Acquisition of MPA</u>	10
<u>Note 4 Accounts Receivable, Net</u>	12
<u>Note 5 Prepaid Expenses and Other Current Assets</u>	13
<u>Note 6 Premises and Equipment, net</u>	13
<u>Note 7 Goodwill and Intangible Assets, net</u>	13
<u>Note 8 Accounts Payable, Accrued Expenses and Other Current Liabilities</u>	14
<u>Note 9 Equity Based Compensation</u>	15
<u>Note 10 Cost of Revenue</u>	16
<u>Note 11 Selling, General and Administrative Expenses</u>	17
<u>Note 12 Other Income (Expense), Net</u>	17
<u>Note 13 Income Taxes</u>	17
<u>Note 14 Earnings Per Share</u>	18
<u>Note 15 Segment Reporting</u>	19
<u>Note 16 Commitments and Contingencies</u>	22
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u> (see Table of Contents at front of section)	23
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	45
<u>Item 4 Controls and Procedures</u>	45
<b><u>PART II Other Information</u></b>	
<u>Item 1 Legal Proceedings</u>	46
<u>Item 1A Risk Factors</u>	46
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3 Defaults Upon Senior Securities</u>	46
<u>Item 4 (Removed and Reserved)</u>	46

<u>Item 5 Other Information</u>	46
<u>Item 6 Exhibits</u>	46
<u>SIGNATURES</u>	47

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)**

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

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 23,037	\$ 30,456
Accounts Receivable, net	46,772	30,497
Prepaid Expenses and Other Current Assets	4,689	2,904
Deferred Tax Assets, net	3,532	1,546
<b>Total Current Assets</b>	<b>78,030</b>	<b>65,403</b>
Restricted Cash	779	
Premises and Equipment, net	16,157	11,408
Intangible Assets, net	73,230	33,719
Goodwill	15,380	9,324
Other Non-current Assets	4,331	702
<b>Total Assets</b>	<b>\$ 187,907</b>	<b>\$ 120,556</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 26,960	\$ 24,192
Capital Lease Obligations - Current	804	536
Other Current Liabilities	6,718	5,939
<b>Total Current Liabilities</b>	<b>34,482</b>	<b>30,667</b>
Capital Lease Obligations - Non-current	1,008	128
Deferred Tax Liability, net	1,219	2,769
Other Non-current Liabilities	3,400	644
Commitment and Contingencies (Note 16)		
Equity:		
Common Stock (\$1.00 par value; 100,000 shares authorized; 25,413 shares issued and 25,327 outstanding in 2010; 24,145 shares issued and outstanding in 2009)	25,413	24,145
Retained Earnings	44,150	11,665

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Additional Paid-in Capital	78,321	50,538
Treasury Stock, at cost (\$1.00 par value; 86 shares in 2010)	(2,311)	
Altisource Equity	145,573	86,348
Non-controlling Interests	2,225	
Total Equity	147,798	86,348
Total Liabilities and Equity	\$ 187,907	\$ 120,556

*See accompanying notes to condensed consolidated financial statements.*

- 3 -

---

**Table of Contents**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenue	\$ 77,580	\$ 54,064	\$ 209,901	\$ 146,486
Cost of Revenue	48,647	33,453	131,749	91,805
Gross Profit	28,933	20,611	78,152	54,681
Selling, General and Administrative Expenses	14,996	11,065	40,168	27,216
Income from Operations	13,937	9,546	37,984	27,465
Other Income (Expense), net	698	2,546	666	1,155
Income Before Income Taxes and Non-controlling Interests	14,635	12,092	38,650	28,620
Income Tax Provision	(2,751)	(3,448)	(2,029)	(8,522)
Net Income	11,884	8,644	36,621	20,098
Net Income Attributable to Non-controlling Interests	(2,052)		(4,136)	
Net Income Attributable to Altisource	\$ 9,832	\$ 8,644	\$ 32,485	\$ 20,098
Earnings Per Share				
Basic	\$ 0.39	\$ 0.36	\$ 1.30	\$ 0.84
Diluted	\$ 0.37	\$ 0.36	\$ 1.24	\$ 0.83
Weighted Average Shares Outstanding				
Basic	25,318	24,050	25,080	24,050
Diluted	26,544	24,303	26,168	24,303
Transactions with Related Parties included above:				
Revenue	\$ 39,459	\$ 26,035	\$ 104,494	\$ 67,222
Selling, General and Administrative Expenses	\$ 223	\$ 522	\$ 811	\$ 4,308
Interest Expense	\$	\$ 193	\$	\$ 1,290





**Table of Contents**

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

	Common Stock		Retained Earnings	Additional Paid-in Capital	Treasury Stock, at Cost	Non-controlling Interests	Total	Comprehensive Income
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 The Mortgage Partnership of America, L.L.C.	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

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents**

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

	Nine Months Ended September 30,	
	2010	2009
Cash flows from Operating Activities:		
Net Income	\$ 36,621	\$ 20,098
Reconciling Items:		
Depreciation and Amortization	5,015	4,188
Amortization of Intangible Assets	4,089	2,004
Share-based Compensation Expense	2,134	
Deferred Income Taxes	(1,040)	(1,414)
Changes in Operating Assets and Liabilities, net of MPA Acquisition:		
Accounts Receivable	(13,031)	(8,810)
Prepaid Expenses and Other Current Assets	(1,464)	505
Other Assets	(2,594)	(579)
Accounts Payable and Accrued Expenses	1,422	2,237
Other Current and Non-current Liabilities	2,109	8,157
 Net Cash Flow from Operating Activities	 33,261	 26,386
 Cash flows from Investing Activities:		
Additions to Premises and Equipment, net	(8,135)	(3,787)
Acquisition of Business, net of Cash Acquired	(26,830)	
Change in Restricted Cash	(779)	
 Net Cash Flow from Investing Activities	 (35,744)	 (3,787)
 Cash flows from Financing Activities:		
Principal Payments on Capital Lease Obligations	(463)	(422)
Payments of Line of Credit		(1,123)
Proceeds from Stock Option Exercises	3,017	
Purchase of Treasury Stock	(2,311)	
Contributions from Non-controlling Interests	28	
Distributions to Non-controlling Interests	(5,207)	
Net Distribution to Parent		(3,332)
 Net Cash Flow from Financing Activities	 (4,936)	 (4,877)
 Net (Decrease) Increase in Cash and Cash Equivalents	 (7,419)	 17,722
Cash and Cash Equivalents at the Beginning of the Year	30,456	6,988

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Cash and Cash Equivalents at the End of the Period	\$ 23,037	\$ 24,710
Supplemental Cash Flow Information		
Interest Paid	\$	\$ 25
Income Taxes Paid	\$ 1,724	\$ 534
Non-Cash Investing and Financing Activities		
Shares Issued in Connection with MPA Acquisition	\$ 23,900	\$
Increase in Common Stock due to the Company's Conversion to a Luxembourg Société Anonyme	\$	\$ 3,283

*See accompanying notes to condensed consolidated financial statements.*

- 6 -

---

**Table of Contents****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, knowledge-based functions principally related to real estate and mortgage portfolio management, asset recovery and customer relationship management. Utilizing integrated technology that includes decision models and behavioral based scripting engines, we provide solutions that improve clients' performance and maximizes their returns.

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, see Separation below.

In February 2010, we acquired all of the outstanding membership interests of The Mortgage Partnership of America, L.L.C. (MPA). MPA was formed as a Missouri limited liability company to serve as the manager of Best Partners Mortgage Cooperative, Inc. (BPMC) doing business as Lenders One Mortgage Cooperative (Lenders One). Lenders One is a national alliance of independent mortgage bankers (Members) that provides its Members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities (see Note 3).

We conduct our operations through three reporting segments: Mortgage Services, Financial Services and Technology Products. In addition, we report our corporate related expenditures as a separate segment (see Note 15 for a description of our segments).

**Separation**

On August 10, 2009 (the Separation Date), we became a stand-alone public company in connection with our separation from Ocwen Financial Corporation (Ocwen) (the Separation). Prior to the Separation, our businesses were wholly-owned subsidiaries of Ocwen. On the Separation Date, Ocwen distributed all of the Altisource common stock to Ocwen's shareholders (the Distribution). Ocwen's shareholders received one share of Altisource common stock for every three shares of Ocwen common stock held as of August 4, 2009 (the Record Date). In addition, holders of Ocwen's 3.25% Contingent Convertible Unsecured Senior Notes due 2024 received one share of Altisource common stock deemed held on an as if converted basis. For such notes, the conversion ratio of 82.1693 shares of Ocwen common stock for every \$1,000 in aggregate principal amount of notes held on the Record Date was calculated first, and then we applied the distribution ratio of one share of Altisource common stock for every three shares of Ocwen common stock on an as converted basis to determine the number of shares each note holder received.

In connection with the Separation, we entered into various agreements with Ocwen that define our relationship after the Separation including a Separation Agreement, a Tax Matters Agreement, an Employee Matters Agreement, an Intellectual Property Agreement, a Data Center and Disaster Recovery Agreement, a Technology Products Services Agreement, a Transition Services Agreement and certain long-term servicing contracts (collectively, the Agreements).

**Basis of Presentation**

Our historical financial statements include the assets and liabilities (accounted for at the historical values carried by Ocwen prior to the Separation), revenues and expenses directly attributable to our operations. Beginning August 10, 2009, after our assets and liabilities were formally contributed by Ocwen pursuant to the terms of a Separation Agreement, our financial statements have been presented on a consolidated basis for financial reporting purposes. 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.

For periods prior to the Separation Date, these condensed consolidated financial statements include allocations of expenses from Ocwen for corporate functions including insurance, employee benefit plan expense and allocations for certain centralized administration costs for executive management, treasury, real estate, accounting, auditing, tax, risk management, internal audit, human resources and benefits administration (See Note 2).

The condensed consolidated financial statements for the three and nine months ended September 30, 2009 also do not necessarily reflect what the Company's condensed consolidated results of operations, financial position and cash flows

would have been had the Company operated as an independent company during that entire period. For instance, as an independent public company, we incur costs in excess of those allocated by Ocwen for maintaining a separate Board of Directors, obtaining a separate audit, relocating certain executive management and hiring additional personnel.

- 7 -

---

**Table of Contents**

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

Prior to our acquisition of MPA, MPA and Lenders One entered into a management agreement that ends on December 31, 2025. MPA was formed to act on behalf of Lenders One and its Members principally to provide its Members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities. For providing these services MPA receives payment from Lenders One, and in some instances the vendors, based upon the benefits achieved for the Members. The management agreement provides MPA with broad powers such as recruiting members for Lenders One, collection of fees and other obligations from Members of Lenders One, processing of all rebates owed to Lenders One, day-to-day operation of Lenders One and negotiation of contracts with vendors including signing contracts on behalf of 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 that they are the primary beneficiary of Lenders One as they have 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. 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, 2010, Lenders One had total assets of \$6.2 million and liabilities of \$0.2 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, they do not include all of the information and notes required by GAAP for complete condensed consolidated financial statements. In the opinion of management, all 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 filed with the SEC on March 17, 2010 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.

**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, Restricted Cash, Accounts Receivable, net and Accounts Payable and Accrued Expenses at September 30, 2010 and December 31, 2009, are carried at amounts that approximate their fair value due to the short-term nature of these amounts. In addition, we entered into a put option arrangement with some of the predecessor owners of MPA in conjunction with the acquisition. The arrangement allows the holders to put a portion of the Altisource shares issued as consideration to Altisource at a predetermined price. Altisource calculated the fair value of this put option arrangement on the acquisition date at \$1.3 million by utilizing a Black-Scholes option pricing model (see Note 3). The fair value calculation is deemed to be a Level 3 calculation. The fair value of the put at September 30, 2010 of \$0.8 million was valued using the following assumptions:

	Assumptions
Risk-free Interest Rate	0.19% 0.96%

Expected Stock Price Volatility	35%	58%
Expected Dividend Yield		
Expected Option Life (in years)	0.5	3.5
Contractual Life (in years)		
Fair Value	\$ 0.01	\$3.88

- 8 -

---



**Table of Contents**

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

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 with any changes in value 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 Separation, Ocwen is contractually obligated to purchase certain Mortgage Services and Technology Products from us under service agreements. These agreements extend for eight years from the Separation Date 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.

We consider certain services to be derived from Ocwen's loan servicing portfolio rather than provided to Ocwen because such services are charged to the mortgagee and/or the investor and are not expenses to Ocwen. 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 nine months ended September 30:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Mortgage Services	65%	72%	66%	73%
Technology Products	36%	41%	36%	45%
Financial Services	<1%	<1%	<1%	<1%
Consolidated Revenues	51%	48%	50%	46%

We record revenues we earn from Ocwen under the various long-term servicing contracts at rates we believe to be market rates as they are consistent with one or more of the following: the fees we charge to other customers for comparable services; the rates Ocwen pays to other service providers; fees commensurate with market surveys prepared by unaffiliated firms; and prices being charged by our competitors.

**Allocation of Corporate Costs**

The condensed consolidated financial statements for the three and nine months ended September 30, 2009 include allocations of expenses from Ocwen for corporate functions including insurance, employee benefit plan expense and allocations for certain centralized administration costs for executive management, treasury, real estate, accounting, auditing, tax, risk management, internal audit, human resources and benefits administration. Ocwen determined these allocations using proportional cost allocation methods including the use of relevant operating profit, fixed assets, sales and payroll measurements. Specifically, personnel and all associated costs, including compensation, benefits, occupancy and other costs, were allocated based on the estimated percentage of time spent by the individual in the various departments. External costs such as audit fees, legal fees, business insurance and other were allocated based on a combination of the sales, fixed assets and operating profits of the department whichever is most appropriate given the nature of the expense. Total corporate costs allocated to the Company, were \$4.3 million for the nine months ended September 30, 2009 (\$0.5 million for the 2009 third quarter). The charges for these functions are included primarily in Selling, General and Administrative Expenses in the Condensed Consolidated Statements of Operations. However, these amounts may not be representative of the costs necessary for the Company to operate as a separate standalone entity.

In addition, prior to the Separation, Ocwen had allocated interest expense to us based upon our portion of assets to Ocwen's total assets which is included in Other Income (Expense) Net in the Condensed Consolidated Statements of Operations.

**Transition Services**

In connection with the Separation, Altisource and Ocwen entered into a transition services agreement under which services in such areas as human resources, vendor management, corporate services, six sigma, quality assurance, quantitative analytics,

**Table of Contents**

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

treasury, accounting, tax, risk management, legal, strategic planning, compliance and other areas are provided to the counterparty for up to two years from the Separation Date. For the nine months ended September 30, 2010, Altisource billed Ocwen \$1.2 million (\$0.5 million for the third quarter), and Ocwen billed Altisource \$0.8 million (\$0.2 million for the third quarter) for services provided under this agreement. These amounts are reflected as a component of Selling, General and Administrative expenses in the Condensed Consolidated Statements of Operations.

**NOTE 3 ACQUISITION OF MPA**

In February 2010, we acquired all of the outstanding membership interests of MPA pursuant to a Purchase and Sale Agreement. MPA serves as the manager of Lenders One, a national alliance of independent mortgage bankers. The alliance was established in 2000 and as of September 30, 2010 consisted of more than 170 members.

Consideration for the transaction consisted of cash, common stock and put option agreements:

<i>(in thousands)</i>	Consideration
Cash	\$ 29,000
Common Stock	23,900
Put Option Agreements at Fair Value	1,289
Working Capital Adjustment	835
Total Consideration	\$ 55,024

The common stock consisted of 959,085 shares of Altisource's common stock valued at \$24.92 per share based on the closing price of Altisource common stock on February 11, 2010. A portion of which (314,135 shares) will be held in escrow two years from the closing date of the acquisition to secure MPA's indemnification obligations under the Purchase and Sale Agreement. In addition, we entered into three put option agreements with certain of the sellers whereby each seller has the right, with respect to an aggregate of 0.5 million shares of our common stock, to put up to 25% of eligible shares each year for a total of four years at a price equal to \$16.84 per share. The fair value of the put was initially established at the date of acquisition (\$1.3 million) using the following assumptions:

	Assumptions	
Risk-free Interest Rate	0.345%	1.914%
Expected Stock Price Volatility	40%	55%
Expected Dividend Yield		
Expected Option Life (in years)	1	4
Contractual Life (in years)		
Fair Value	\$ 0.74	\$3.90

**Table of Contents**

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

The preliminary allocation of the purchase price is as follows:

*(in thousands)*

Cash	\$ 2,170
Accounts Receivable	4,279
Prepaid Expenses and Other Current Assets	321
Premises and Equipment	18
Identifiable Intangible Assets	43,600
Goodwill	10,218
	60,606
Accounts Payable and Accrued Expenses	(2,176)
Other Current Liabilities	(138)
Non-controlling Interests	(3,268)
Total Purchase Price	\$ 55,024

During the second quarter of 2010, Altisource finalized its calculation of the Working Capital Adjustment within the 90 day period allocated by the purchase contract. The value was revised from \$2.1 million to \$0.8 million resulting in an offsetting decrease to Goodwill. The payment of the Working Capital Adjustment was made during the third quarter.

Management has assigned the following lives to identified assets acquired as a result of the acquisition:

	Estimated Life <i>(in Years)</i>
Premises and Equipment	2 5
Management Agreement <sup>(1)</sup>	15
Trademarks <sup>(1)</sup>	15
Non-compete <sup>(1)</sup>	4
Goodwill	Indefinite

(1) The identifiable assets are subject to amortization on a straight-line basis as this best approximates the benefit period related to these assets.

The goodwill arising from the acquisition, which was assigned to our Mortgage Services segment, consists of various components principally in-place workforce and anticipated revenue synergies given MPA's market presence and future enhancements to our services including the development of origination services. All goodwill and intangible assets related to the acquisition of MPA are expected to be amortizable and deductible for income tax purposes.

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

We entered into employee agreements with certain key employees of MPA who also received the majority of our shares issued in connection with the acquisition.

Revenue and Net Income Attributable to Altisource from the date of acquisition through September 30, 2010, included in the Company's Condensed Consolidated Statements of Operations, are as follows.

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
<i>(in thousands)</i>		
Revenue	\$ 5,585	\$ 11,412
Net Income Attributable to Altisource	1,768	1,812

Acquisition-related transaction costs are included in Selling, General and Administrative and Expenses in the Condensed Consolidated Statements of Operations.

- 11 -

---

**Table of Contents**

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

The following tables present the unaudited pro forma Revenue, Net Income Attributable to Altisource and Diluted Earnings Per Share as if the acquisition of MPA had occurred at the beginning of the period presented.

	Nine Months Ended September 30, 2010	
	As Reported	Pro Forma
<i>(in thousands, except per share amounts)</i>		
Revenue	\$ 209,901	\$ 211,545
Net Income Attributable to Altisource	32,485	32,357
Earnings Per Share Diluted	1.24	1.24

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	As Reported	Pro Forma	As Reported	Pro Forma
<i>(in thousands, except per share amounts)</i>				
Revenue	\$ 54,064	\$ 59,755	\$ 146,486	\$ 162,459
Net Income Attributable to Altisource	8,644	10,077	20,098	24,104
Earnings Per Share Diluted	0.36	0.40	0.83	0.95

**NOTE 4 ACCOUNTS RECEIVABLE, NET**

Accounts Receivable, net consists of the following:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Third-party Accounts Receivable	\$ 15,942	\$ 11,638
Unbilled Fees	28,816	9,073
Receivable from Ocwen	2,556	10,066
Other Receivables	1,100	416
	48,414	31,193
Allowance for Doubtful Accounts	(1,642)	(696)
Total	\$ 46,772	\$ 30,497

Unbilled Fees consist primarily of Asset Management and Default Management Services for which we recognize revenues over the service delivery period but bill at completion of the service.

One of our customers in the Financial Services segment accounted for 17% of consolidated revenue in the nine months ended September 30, 2010. Another customer accounted for 10% of consolidated revenue in both the Mortgage Services and Technology Products segments in the nine months ended September 30, 2010.

**Table of Contents**

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

**NOTE 5 PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid Expenses and Other Current Assets consist of the following:

<i>(in thousands)</i>	September 30, 2010	December 31, 2009
Prepaid Expenses	\$ 2,513	\$ 1,471
Other Current Assets	2,176	1,433
 Total	 \$ 4,689	 \$ 2,904

**NOTE 6 PREMISES AND EQUIPMENT, NET**

Premises and Equipment, net which include amounts recorded under capital leases, consists of the following:

<i>(in thousands)</i>	September 30, 2010	December 31, 2009
Computer Hardware and Software	\$ 30,135	\$ 23,591
Office Equipment and Other	9,411	9,203
Furniture and Fixtures	2,168	2,663
Leasehold Improvements	4,201	3,441
	45,915	38,898
Less: Accumulated Depreciation and Amortization	(29,758)	(27,490)
 Total	 \$ 16,157	 \$ 11,408

Depreciation and amortization expense, inclusive of capital lease obligations, amounted to \$5.0 million and \$4.2 million for the nine months ended September 30, 2010 and 2009 respectively (\$1.8 million and \$1.4 million for the third quarter of 2010 and 2009 respectively) and is included in Cost of Revenue for operating assets and in Selling, General and Administrative expense for non-operating assets in the accompanying Condensed Consolidated Statements of Operations.

**NOTE 7 GOODWILL AND INTANGIBLE ASSETS, NET****Goodwill**

Changes in Goodwill during the period ended September 30, 2010 are summarized below:

<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Total
Balance, December 31, 2009	\$	\$ 7,706	\$ 1,618	\$ 9,324
Acquisition of MPA	10,218			10,218
Component 2 Amortization		(4,162)		(4,162)
 Total	 \$ 10,218	 \$ 3,544	 \$ 1,618	 \$ 15,380





**Table of Contents**

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

**Intangible Assets, Net**

Intangible Assets, net consists of the following:

	Weighted Average Estimated Useful Life (Years)	Gross Carrying Amount		Accumulated Amortization		Net Book Value	
		September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<i>(dollars in thousands)</i>							
Definite-lived Intangible Assets							
Trademarks	12	\$ 10,200	\$ 2,800	\$ 2,196	\$ 1,447	\$ 8,004	\$ 1,353
Customer Lists	19	37,700	37,700	6,919	5,334	30,781	32,366
Operating Agreement Non-compete Agreements	15 4	35,000 1,200		1,555 200		33,445 1,000	
<b>Total Intangible Assets</b>		<b>\$ 84,100</b>	<b>\$ 40,500</b>	<b>\$ 10,870</b>	<b>\$ 6,781</b>	<b>\$ 73,230</b>	<b>\$ 33,719</b>

Amortization expense for definite lived intangible assets was \$4.1 million and \$2.0 million for the nine months ended September 30, 2010 and 2009, respectively (\$1.4 million and \$0.7 million for the third quarter ended 2010 and 2009 respectively). Amortization expense is expected to be \$5.4 million, \$5.6 million, \$5.3 million, \$5.1 million and \$4.8 million for the years 2010 through 2014.

**NOTE 8 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses consists of the following:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Accounts Payable	\$ 2,821	\$ 1,114
Income Taxes Payable, Net	4,762	4,853
Payable to Ocwen	805	2,716
Accrued Expenses General	9,317	8,373
Accrued Salaries and Benefits	9,255	7,136
<b>Total</b>	<b>\$ 26,960</b>	<b>\$ 24,192</b>

Other Current Liabilities consists of the following:

	September 30, 2010	December 31, 2009
<i>(in thousands)</i>		
Mortgage Charge-Off and Deficiency Collections	\$ 18	\$ 2,458
Deferred Revenue	3,125	989

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Facility Closure Cost Accrual, Current Portion	209	272
Other	3,366	2,220
Total	\$ 6,718	\$ 5,939

- 14 -

---

**Table of Contents**

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

**Facility Closure Costs**

During 2009, we accrued facility closure costs (included in other current and other non-current liabilities in the Condensed Consolidated Balance Sheet) primarily consisting of lease exit costs (expected to be paid through 2014) and severance for the closure of two facilities. The following table summarizes the activity, all recorded in our Financial Services segment, for the nine months ended September 30, 2010:

<i>(in thousands)</i>	Lease Costs
Balance, December 31, 2009	\$ 916
Payments	(204)
Balance, September 30, 2010	712
Less: Long-Term Portion	503
Facility Closure Cost Accrual, Current Portion	\$ 209

We do not expect additional significant costs related to the closure of these facilities.

**NOTE 9 EQUITY BASED COMPENSATION**

We provide stock-based awards as a form of compensation for certain employees and officers. We have issued stock-based awards in the form of stock options and restricted stock units. We recorded total stock compensation expense of \$2.1 million for the nine months ended September 30, 2010 (\$1.2 million for the quarter). The compensation expense is included in Selling, General and Administrative Expenses in the accompany Condensed Consolidated Statements of Operations.

During the nine months ended September 30, 2010, the Company granted 0.9 million stock options with exercise prices ranging between \$22.00 and \$25.00 per share depending on the grant date. The vesting schedule for the options has a time-based component, in which 25% of the options vest in equal increments over four years, and a market-based component, in which up to 75% of the options could vest in equal increments over three years commencing upon the achievement of certain performance criteria related to our stock price and the annualized rate of return to investors. Two-thirds of the market-based options would begin to vest over three years if the stock price realizes a compounded annual gain of at least 20% over the exercise price, so long as the stock price is at least double the exercise price. The remaining third of the market-based options would begin to vest over three years if the stock price realizes a 25% gain, so long as the stock price is at least triple the exercise price.

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

	Black-Scholes	Binomial
Risk-free Interest Rate	2.82% 3.20%	0.02% 3.66%
Expected Stock Price Volatility		48% 52%
Expected Dividend Yield		
Expected Option Life (in years)	7	
Contractual Life (in years)		10
Fair Value	\$ 11.71 \$13.00	\$10.05 and \$12.35

As of September 30, 2010, estimated unrecognized compensation costs related to share-based payments amounted to \$9.4 million which we expect to recognize over a weighted-average remaining requisite service period of

approximately 3.5 years.

**Table of Contents**

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

The following table summarizes activity of our stock options:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2009	3,190,639	\$ 9.90		
Granted	907,500	23.54		
Exercised	(298,166)	10.08		
Forfeited	(209,042)	12.24		
Outstanding at September 30, 2010	3,590,931	13.21	7.4	\$ 64,401
Exercisable at September 30, 2010	1,175,296	\$ 9.79	5.3	\$ 25,087

**Restricted Shares**

The following table summarizes activity of our restricted shares

	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	3,236	\$ 18.00
Granted		
Forfeited		
Vested	(3,236)	\$ 18.00
Outstanding at September 30, 2010		

**Stock Repurchase Authorization**

On May 19, 2010, our shareholders authorized us to purchase up to 3,784,618 shares of our common stock in the open market. During the third quarter of 2010, we purchased 86,098 shares of our common stock on the open market at an average price of \$26.81, leaving 3,698,520 shares still available for purchase. Subsequently, during October 2010, we purchased an additional 65,317 shares. As of October 25, 2010, we have repurchased a total of 151,415 shares at an average share price of \$26.39.

**NOTE 10 COST OF REVENUE**

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to provision of services, reimbursable expenses, technology and telephony expenses as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows for the periods ended September 30, 2010 and 2009:

**Table of Contents**

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

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Compensation and Benefits	\$ 15,828	\$ 13,735	\$ 45,518	\$ 39,612
Outside Fees and Services	15,311	10,550	41,092	31,502
Reimbursable Expenses	13,369	5,680	33,040	9,009
Technology and Communications	4,139	3,488	12,099	11,682
 Total	 \$ 48,647	 \$ 33,453	 \$ 131,749	 \$ 91,805

**NOTE 11 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses include payroll, employee benefits, occupancy and other costs associated with personnel employed in executive, sales, marketing, human resources, consumer behavior, internal audit and finance roles. This category also includes professional fees, depreciation and amortization on non-operating assets. The components of selling, general and administrative expenses were as follows for the periods ended September 30, 2010 and 2009:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Compensation and Benefits	\$ 5,251	\$ 521	\$ 13,256	\$ 4,307
Professional Services	1,812	4,158	5,869	7,514
Occupancy Related Costs	4,733	1,976	10,845	6,086
Amortization of Intangible Assets	1,450	668	4,089	2,004
Other	1,750	3,742	6,109	7,305
 Total	 \$ 14,996	 \$ 11,065	 \$ 40,168	 \$ 27,216

**NOTE 12 OTHER INCOME (EXPENSE), NET**

Other Income (Expense), net consists of the following:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest Expense, net	\$ (26)	\$ (192)	\$ (65)	\$ (1,601)
Other, net	724	2,738	731	2,756
 Total	 \$ 698	 \$ 2,546	 \$ 666	 \$ 1,155

Through the date of Separation, Interest Expense (net) included an interest charge from Ocwen which represented an allocation of Ocwen's total interest expense calculated based on our assets in comparison to Ocwen's total assets. This charge was \$1.3 million for the nine months ending September 30, 2009 (\$0.2 million for the third quarter).

Subsequent to the date of Separation, we are no longer subject to the interest charge from Ocwen.

**NOTE 13 INCOME TAXES**

For periods prior to the Separation Date, we are included in Ocwen's tax returns. Our responsibility with respect to these periods is governed by a tax sharing agreement. In accordance with this agreement, U.S. income taxes were allocated as if they had been calculated on a separate company basis except that benefits for any net operating losses will be provided to the extent such loss is

- 17 -

---

**Table of Contents**

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

utilized in the consolidated U.S. federal tax return. The provision for income taxes prior to the Separation Date has been determined on a pro-forma basis as if we had filed separate income taxes under our current structure for the periods presented.

The Company revised its estimated effective tax rate related to 2010 operations for the full year to 12.5% in the second quarter of 2010. The revised estimate was due to the receipt of a favorable ruling in June 2010 regarding the treatment of certain intangibles that exist for purposes of determining the Company's taxable income. The ruling is retroactive to the Separation Date. As a result of the ruling, the Company recognized a \$3.4 million credit attributable to 2009 in the second quarter 2010 which is not included in the estimate of the full year effective tax rate. Income tax provision on income before income tax differs from amounts that would be computed by applying the Luxembourg federal corporate income tax rate of 28.6% primarily because of the effect of enacted tax statutes in multiple jurisdictions, the treatment of intangibles for tax purposes and differing tax rates outside of Luxembourg. This ruling did not have a material impact on our deferred tax assets or liabilities.

The Distribution was intended to be a tax-free transaction under Section 355 of the Internal Revenue Code (the Code). To the extent Ocwen recognizes tax under Section 355 of the Code, Altisource has agreed to indemnify Ocwen. We do not believe we have a material obligation under this indemnity as separately Ocwen recognized substantially all of the gain it has in the assets that comprise Altisource as a result of the restructuring in accordance with other provisions of the Code.

**NOTE 14 EARNINGS PER SHARE**

Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities. On August 10, 2009, the Distribution by Ocwen was completed to the Ocwen stockholders of one share of Altisource common stock for every 3 shares of Ocwen common stock held as of August 4, 2009. In addition, holders of Ocwen's 3.25% Contingent Convertible Unsecured Senior Notes due 2024 received one share of Altisource common stock deemed held on an as if converted basis. For such notes, the conversion ratio of 82.1693 shares of Ocwen common stock for every \$1,000 in aggregate principal amount of notes held on August 4, 2009 was calculated first, and then we applied the distribution ratio of one share of Altisource common stock for every three shares of Ocwen common stock on an as converted basis to determine the number of shares each note holder received. Basic and diluted earnings per share for the three and nine months ended September 30, 2010 and 2009 are calculated as follows:

		Three Months Ended September 30, 2010 Weighted Ave.	Per Share		Three Months Ended September 30, 2009 Weighted Ave.	Per Share
<i>(in thousands, except per share amounts)</i>	Income	Shares		Income	Shares	
Basic	\$ 9,832	25,318	\$ 0.39	\$ 8,644	24,050	\$ 0.36
Effect of Dilutive Securities:						
Stock Options		1,226			253	
Diluted	\$ 9,832	26,544	\$ 0.37	\$ 8,644	24,303	\$ 0.36



		Nine Months Ended September 30, 2010 Weighted Ave.		Nine Months Ended September 30, 2009 Weighted Ave.		
<i>(in thousands, except per share amounts)</i>	Income	Shares	Per Share	Income	Shares	Per Share
Basic	\$ 32,485	25,080	\$ 1.30	\$ 20,098	24,050	\$ 0.84
Effect of Dilutive Securities:						
Stock Options		1,085			253	
Restricted Stock		3				
Diluted	\$ 32,485	26,168	\$ 1.24	\$ 20,098	24,303	\$ 0.83

- 18 -

**Table of Contents**

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

A total of 0.2 million options that were anti-dilutive have been excluded from the computation of diluted EPS for the three and nine months ended September 30, 2010. These options were anti-dilutive because their exercise price was greater than the average market price of our stock. Also, excluded from the computation of diluted EPS in both 2010 periods are 0.7 million options granted for shares that are issuable upon the achievement of certain market and performance criteria related to our stock price and an annualized rate of return to investors that have not been met at this point.

**NOTE 15 SEGMENT REPORTING**

Our business segments reflect the internal reporting that we use to evaluate operating performance and to assess the allocation of our resources by our Chief Executive Officer.

Our segments are based upon our organizational structure which focuses primarily on the services offered.

We classify our businesses into three reportable segments. *Mortgage Services* consists of mortgage portfolio management services that span the mortgage lifecycle. *Financial Services* principally consists of unsecured asset recovery and customer relationship management. *Technology Products* consists of modular, comprehensive integrated technological solutions for loan servicing, vendor management and invoice presentment as well as providing infrastructure support. In addition, our *Corporate Items and Eliminations* segment prior to the Separation Date includes eliminations of transactions between the reporting segments as well as expenditures recognized by us related to the Separation. Subsequent to the Separation Date, in addition to the previously mentioned items, this segment also includes costs recognized by us related to corporate support functions such as finance, legal, human resources and consumer behavior.

- 19 -

---

**Table of Contents**

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

Financial information for our segments is as follows:

	Three Months Ended September 30, 2010					
				Corporate Items and		Consolidated
<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Eliminations <sup>(1)</sup>		Altisource
Revenue	\$ 53,933	\$ 14,529	\$ 12,963	\$ (3,845)		\$ 77,580
Cost of Revenue	33,119	12,134	7,239	(3,845)		48,647
Gross Profit	20,814	2,395	5,724			28,933
Selling, General and Administrative Expenses	4,187	4,404	1,610	4,795		14,996
Income (Loss) from Operations	16,627	(2,009)	4,114	(4,795)		13,937
Other Income (Expense), net	687	(9)	(24)	44		698
Income (Loss) Before Income Taxes	\$ 17,314	\$ (2,018)	\$ 4,090	\$ (4,751)		\$ 14,635
Transactions with Related Parties Included Above:						
Revenue	\$ 34,765	\$ 34	\$ 4,660	\$		\$ 39,459
Selling, General and Administrative Expenses	\$	\$	\$	\$ 223		\$ 223

	Nine Months Ended September 30, 2010					
				Corporate Items and		Consolidated
<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Eliminations <sup>(1)</sup>		Altisource
Revenue	\$ 137,803	\$ 45,642	\$ 37,422	\$ (10,966)		\$ 209,901
Cost of Revenue	84,622	37,538	20,555	(10,966)		131,749
Gross Profit	53,181	8,104	16,867			78,152
Selling, General and Administrative Expenses	10,683	11,997	4,040	13,448		40,168
Income (Loss) from Operations	42,498	(3,893)	12,827	(13,448)		37,984
Other Income (Expense), net	649	(38)	(45)	100		666
	\$ 43,147	\$ (3,931)	\$ 12,782	\$ (13,348)		\$ 38,650

Income (Loss) Before Income  
Taxes

Transactions with Related  
Parties Included Above:

Revenue	\$ 90,749	\$ 110	\$ 13,635	\$ 104,494
---------	-----------	--------	-----------	------------

Selling, General and Administrative Expenses	\$	\$	\$	\$ 811	\$ 811
---	----	----	----	--------	--------

- 20 -

---

**Table of Contents**

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

Three Months Ended September 30, 2009

	Mortgage Services	Financial Services	Technology Products	Corporate Items and Eliminations <sup>(1)</sup>	Consolidated Altisource
<i>(in thousands)</i>					
Revenue	\$ 29,141	\$ 15,837	\$ 12,451	\$ (3,365)	\$ 54,064
Cost of Revenue	17,262	12,635	5,582	(2,026)	33,453
Gross Profit	11,879	3,202	6,869	(1,339)	20,611
Selling, General and Administrative Expenses	1,238	6,802	1,084	1,941	11,065
Income (Loss) from Operations	10,641	(3,600)	5,785	(3,280)	9,546
Other Income (Expense), net	52	2,469	(51)	76	2,546
Income (Loss) Before Income Taxes	\$ 10,693	\$ (1,131)	\$ 5,734	\$ (3,204)	\$ 12,092
Transactions with Related Parties Included Above:					
Revenue	\$ 20,963	\$ 28	\$ 5,044	\$	\$ 26,035
Selling, General and Administrative Expenses	\$ 531	\$ 85	\$ 294	\$ (388)	\$ 522
Interest Expense	\$ 7	\$ 147	\$ 39	\$	\$ 193

Nine Months Ended September 30, 2009

	Mortgage Services	Financial Services	Technology Products	Corporate Items and Eliminations <sup>(1)</sup>	Consolidated Altisource
<i>(in thousands)</i>					
Revenue	\$ 70,861	\$ 49,624	\$ 35,133	\$ (9,132)	\$ 146,486
Cost of Revenue	41,042	40,514	18,042	(7,793)	91,805
Gross Profit	29,819	9,110	17,091	(1,339)	54,681
Selling, General and Administrative Expenses	4,913	14,632	3,880	3,791	27,216
Income (Loss) from Operations	24,906	(5,522)	13,211	(5,130)	27,465
Other Income (Expense), net	29	1,354	(304)	76	1,155
	\$ 24,935	\$ (4,168)	\$ 12,907	\$ (5,054)	\$ 28,620

Income (Loss) Before Income  
TaxesTransactions with Related  
Parties Included Above:

Revenue	\$ 51,355	\$ 66	\$ 15,801	\$ 67,222
Selling, General and Administrative Expenses	\$ 2,712	\$ 467	\$ 1,517	\$ (388) 4,308
Interest Expense	\$ 30	\$ 1,029	\$ 231	\$ 1,290

(1) Intercompany transactions primarily consist of information technology infrastructure services and charges for the use of certain REAL products from our Technology Products segment to our other two segments. Generally, we reflect these charges within technology and communication in the segment receiving the services, except for consulting services, which we reflect in professional services.

**Table of Contents**

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

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

*Litigation*

The Company is from time to time involved in legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the outcome of any such current matters will not have a material impact on the Company's financial condition, results of operations or cash flows.

- 22 -

---

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help the reader understand the results of operations and financial condition of Altisource. MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes and with our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2010.

This MD&A contains forward-looking statements; please see Section 7 of this Item 2 for more information. Significant components of the MD&A section include:

	<b>Page</b>
<u>SECTION 1 Overview</u>	24
The overview section provides a summary of Altisource and our reportable business segments. We also include a discussion of factors affecting our consolidated results of operations as well as items specific to each business group. In addition, we provide a brief description of our basis of presentation for our financial results.	
<u>SECTION 2 Consolidated Results of Operations</u>	25
The consolidated results of operations section provides an analysis of our results on a consolidated basis for the three and nine months ending September 30, 2010 and 2009. When helpful in explaining trends, we also discuss sequential results. Significant subsections within this section are as follows:	
<u>Summary Consolidated Results</u>	25
<u>Revenue</u>	26
<u>Cost of Revenue</u>	27
<u>Selling, General and Administrative Expenses</u>	28
<u>EBITDA</u>	28
<u>Income Taxes</u>	29
<u>SECTION 3 Segment Results of Operations</u>	29
The segment results of operations section provides an analysis of our results on a reportable operating segment basis for the three and nine months ending September 30, 2010 and 2009. We discuss known trends and uncertainties. When helpful in explaining trends, we also discuss sequential results. Significant subsections within this section are as follows:	
<u>Mortgage Services</u>	34
<u>Financial Services</u>	37
<u>Technology Products</u>	40
<u>SECTION 4 Liquidity and Capital Resources</u>	42
The liquidity and capital resources section provides discussion of our ability to generate adequate amounts of cash to meet our current and future needs. Significant subsections within this section are as follows:	
<u>Liquidity</u>	42
<u>Cash Flows</u>	42
<u>Liquidity Requirements after September 30, 2010</u>	43
<u>Capital Resources</u>	43
<u>Commitments and Contingencies</u>	43
<u>SECTION 5 Critical Accounting Policies</u>	43



SECTION 6 *Other Matters*

43

The other matters section provides a discussion of related party transactions and provisions of the various separation related agreements with Ocwen.

SECTION 7 *Forward Looking Statements*

44

EX-31.1

EX-31.2

EX-32.1

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

*(continued)*

**SECTION 1 OVERVIEW**

Altisource is a provider of services focused on high value, knowledge-based functions principally related to real estate and mortgage portfolio management, asset recovery and customer relationship management. Utilizing integrated technology that includes decision models and behavioral based scripting engines, we provide solutions that improve clients' performance and maximize their returns.

Our objective is to become a global knowledge process provider initially focused on the entire mortgage services lifecycle and credit to cash lifecycle management spaces. We intend to achieve this objective by executing on our strategies of penetrating existing customers, acquiring new customers, increasing quality and reducing costs and investing in new service offerings.

*A. Separation*

On August 10, 2009, Altisource became a stand-alone public company in connection with our Separation from Ocwen. In connection with the Separation, Altisource and Ocwen entered into Agreements that address the allocation of assets and liabilities between them and that define their relationship after the Separation. Additional information may be found in Note 1 to the condensed consolidated financial statements.

*B. Basis of Presentation*

The accompanying condensed consolidated financial statements present the historical results of operations, assets and liabilities attributable to the Altisource businesses. For periods prior to the Separation Date, these condensed consolidated financial statements include allocations of expenses from Ocwen for certain corporate functions. Total corporate costs allocated to the Company were \$4.3 million for the nine months ended September 30, 2009 (\$0.5 million in 2009 for the third quarter). The charges for these functions are included primarily in Selling, General and Administrative Expenses in the Condensed Consolidated Statements of Operations. In addition, Ocwen had allocated interest expense to us based upon our portion of assets to Ocwen's total assets which is reflected as Interest Expense in the Condensed Consolidated Statements of Operations. Other than transition services, there have been no allocations of Ocwen expenses charged to us since the Separation Date.

In February 2010, we acquired all of the outstanding membership interests of MPA. MPA was formed with the purpose of managing BPMC which operates as Lenders One. Lenders One is a national alliance of independent mortgage bankers that provides its Members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities. The results of operations of BPMC are consolidated under the variable interest model since the acquisition date.

For periods prior to the Separation, the condensed consolidated financial statements also do not necessarily reflect what the Company's consolidated results of operations, financial position and cash flows would have been had the Company operated as an independent company during the entirety of the periods presented. For instance, as an independent public company, Altisource incurs costs in excess of those previously allocated by Ocwen for maintaining a separate Board of Directors, obtaining a separate audit, relocating certain executive management and hiring additional personnel.

**Factors Affecting Comparability**

In addition to the items noted within the *Basis of Presentation* section presented above, the following additional item may impact the comparability of our results:

During 2010, to further align the interests of management with shareholders, we expanded our use of equity compensation. For the nine months ended September 30, 2010, we have recognized \$2.1 million (\$1.2 million in the third quarter) of equity compensation expense as compared to \$0.3 million for the full year ending December 31, 2009. As a result of the share price doubling as compared to the grant price during June 2010, performance criteria were met for certain option grants which triggered vesting of the award and acceleration in the expense recognition of these grants. This contributed to the increase in equity compensation expense in the third quarter of 2010;

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

During the nine months ended September 30, 2009, we recognized \$3.4 million (\$1.5 million during the third quarter) of one-time costs in anticipation of the Separation from Ocwen; and

During the nine months ended September 30, 2009, we recognized \$2.3 million in facility closure costs in Selling, General and Administrative Expenses and a \$2.3 million litigation settlement gain in Other Income (both of which were recorded in the third quarter) in our Financial Services segment.

- 24 -

---

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)***SECTION 2 CONSOLIDATED RESULTS OF OPERATIONS****Summary Consolidated Results**

Following is a discussion of our consolidated results of operations for the periods indicated.

The following table sets forth information regarding our results of operations for the periods ended September 30, 2010 and 2009:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$	%	2010	2009	\$	%
<i>(in thousands, except per share amounts)</i>			Change	Change			Change	Change
Service Revenue	\$ 62,159	\$ 48,384	13,775	28	\$ 172,725	\$ 137,477	35,248	26
Reimbursable Expenses	13,369	5,680	7,689	135	33,040	9,009	24,031	N/M
Cooperative Non-controlling Interest	2,052		2,052	N/M	4,136		4,136	N/M
Total Revenue	77,580	54,064	23,516	44	209,901	146,486	63,415	43
Cost of Revenue	35,278	27,773	7,505	27	98,709	82,796	15,913	19
Reimbursable Expenses	13,369	5,680	7,689	135	33,040	9,009	24,031	N/M
Gross Profit	28,933	20,611	8,322	40	78,152	54,681	23,471	43
Selling, General and Administrative Expenses	14,996	11,065	3,931	36	40,168	27,216	12,952	48
Income from Operations	13,937	9,546	4,391	46	37,984	27,465	10,519	38
Other Income (Expense), net	698	2,546	(1,848)	(73)	666	1,155	(489)	(42)
Income Before Income Taxes and Non-controlling Interests	14,635	12,092	2,543	21	38,650	28,620	10,030	35
Income Tax Benefit (Provision)	(2,751)	(3,448)	697	20	(2,029)	(8,522)	6,493	76
Net Income	11,884	8,644	3,240	37	36,621	20,098	16,523	82
Net Income Attributable to Non-controlling Interests	(2,052)		(2,052)	N/M	(4,136)		(4,136)	N/M
Net Income Attributable to Altisource	\$ 9,832	\$ 8,644	1,188	14	\$ 32,485	\$ 20,098	12,387	62
Earnings Per Share								
Basic	\$ 0.39	\$ 0.36			\$ 1.30	\$ 0.84		

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

Diluted	\$ 0.37	\$ 0.36			\$ 1.24	\$ 0.83		
Transactions with Related Parties:								
Revenue	\$ 39,459	\$ 26,035	13,424	52	\$ 104,494	\$ 67,222	37,272	55
Selling, General and Administrative Expenses	\$ 223	\$ 522	(299)	(57)	\$ 811	\$ 4,308	(3,497)	(81)
Interest Expense	\$	\$ 193	(193)	(100)	\$	\$ 1,290	(1,290)	(100)

N/M not meaningful.

- 25 -

---

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**  
(continued)

*Revenue*

The following table presents our revenues for the periods ended September 30, 2010 and 2009:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Mortgage Services:								
Service Revenue:	\$ 39,319	\$ 23,461	15,858	68	\$ 102,856	\$ 61,852	41,004	66
Reimbursable Expenses	12,562	5,680	6,882	121	30,811	9,009	21,802	242
Cooperative Non-controlling Interest	2,052		2,052	N/M	4,136		4,136	N/M
Mortgage Services Total Revenue	53,933	29,141	24,792	85	137,803	70,861	66,942	95
Financial Services:								
Service Revenue:	13,722	15,837	(2,115)	(13)	43,413	49,624	(6,211)	(13)
Reimbursable Expenses	807		807	N/M	2,229		2,229	N/M
Financial Services Total Revenue	14,529	15,837	(1,308)	(8)	45,642	49,624	(3,982)	(8)
Technology Products	12,963	12,451	512	4	37,422	35,133	2,289	7
Eliminations	(3,845)	(3,365)	(480)	(14)	(10,966)	(9,132)	(1,834)	(20)
Total Revenue	\$ 77,580	\$ 54,064	23,516	44	\$ 209,901	\$ 146,486	63,415	43
Transactions with Related Parties:								
Mortgage Services	\$ 34,765	\$ 20,963	13,802	66	\$ 90,749	\$ 51,355	39,394	77
Financial Services	\$ 34	\$ 28	6	22	\$ 110	\$ 66	44	67
Technology Products	\$ 4,660	\$ 5,044	(384)	(8)	\$ 13,635	\$ 15,801	(2,166)	(14)

N/M not meaningful.

Service Revenue consists of amounts attributable to our fee based services. Reimbursable Expenses consists of amounts that we incur on behalf of our customers in performing our fee based services, but we pass such costs directly on to our customers without any additional markup. Cooperative Non-controlling Interests is attributable to the Members of Lenders One.

We have continued to grow both Total Revenue and Service Revenue in our Mortgage Services segment primarily driven by the development and execution of default oriented mortgage services over an expanding national delivery platform. Our acquisition of MPA has also contributed to the increase from the prior year. Our largest customer, Ocwen, recently expanded its residential loan portfolio to almost 500,000 loans as of September 30, 2010 with its acquisition of the HomeEq residential loan portfolio of approximately 130,000 loans. Due to the timing of the HomeEq referrals received from Ocwen, the impact of Ocwen's acquisition had a limited impact to Altisource's revenues for the third quarter.

With respect to our Financial Services segment, contributing factors to the general decline in revenues include reduced placements from our largest customer for this segment partially offset by placements from other customers. In addition, we continue to build out a global delivery platform for collections which sometimes results in lower revenues per account although at higher margins.

Technology Products revenues have generally increased as Ocwen has increased its residential loan portfolio and headcount resulting in additional fees.

Our revenues are seasonal. More specifically, Financial Services revenue tends to be higher in the first half of the year, particularly the first quarter, as borrowers may utilize tax refunds to pay debts. Mortgage Services revenue is impacted by Real Estate Owned ( REO ) sales which tend to be at their lowest level during winter months and highest during summer months.

- 26 -

---

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)**Cost of Revenue*

Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to provision of services, reimbursable expenses, technology and telephony expenses as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows for the periods ended September 30, 2010 and 2009:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Compensation and Benefits	\$ 15,828	\$ 13,735	2,093	15	\$ 45,518	\$ 39,612	5,906	15
Outside Fees and Services	15,311	10,550	4,761	45	41,092	31,502	9,590	30
Reimbursable Expenses	13,369	5,680	7,689	135	33,040	9,009	24,031	N/M
Technology and Communications	4,139	3,488	651	19	12,099	11,682	417	4
Cost of Revenue	\$ 48,647	\$ 33,453	15,194	45	\$ 131,749	\$ 91,805	39,944	44

Gross Margin  
Percentage:

Cost of Revenue / Total Revenue	37%	38%		37%	37%
------------------------------------	-----	-----	--	-----	-----

Cost of Revenue less Reimbursable Expenses / Service Revenue	47%	43%		45%	40%
---	-----	-----	--	-----	-----

N/M not meaningful.

In evaluating the performance of our segments, we generally neutralize the impact of pass-through items for which we earn no margin by excluding reimbursable expenses from Cost of Revenue and computing gross margin based upon Service Revenue.

On a consolidated basis, our gross margins based on Service Revenue for the nine months ended September 30, 2010 increased as a result of the composition of revenues being more weighted towards the higher margin Mortgage Services segment, the recent acquisition of MPA and our ability to efficiently scale our operations as our referral base grows.

Compensation and benefits costs have grown year to date as we scaled to support the national rollout of services and in anticipation of the growth in Ocwen's residential loan portfolio. Sequentially, compensation and benefit costs have remained relatively flat. In addition, for periods subsequent to the Separation Date, we treat compensation costs



associated with segment executive management and segment marketing activities as a component of Selling, General and Administrative Expenses.

Outside fees and services primarily increased in our Mortgage Services segment consistent with greater revenues.

Outside fees and services also increased when compared to the prior year in our Financial Services segment as we increased our use of external collectors. In the third quarter, outside fees and services for Financial Services began to decline slightly as we transitioned more work from external collectors to employees.

Technology and communication costs increased in both periods related to costs associated with the new data center. In addition, in the third quarter technology and communications costs increased as a result of the addition of new facilities and the expansion of bandwidth at existing facilities to handle the increased demands expected in the fourth quarter.

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)**Selling, General and Administrative Expenses*

Selling, general and administrative expenses include payroll, employee benefits, occupancy and other costs associated with personnel employed in executive, sales, marketing, human resources, consumer behavior, internal audit and finance roles. This category also includes professional fees, depreciation and amortization on non-operating assets. The components of Selling, General and Administrative Expenses were as follows for the periods ended September 30, 2010 and 2009:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Compensation and Benefits	\$ 5,251	\$ 521	4,730	N/M	\$ 13,256	\$ 4,307	8,949	208
Professional Services	1,812	4,158	(2,346)	(56)	5,869	7,514	(1,645)	(22)
Occupancy Related Costs	4,733	1,976	2,757	140	10,845	6,086	4,759	78
Amortization of Intangible Assets	1,450	668	782	117	4,089	2,004	2,085	104
Other	1,750	3,742	(1,992)	(53)	6,109	7,305	(1,196)	(16)
<b>Total Selling, General and Administrative Expenses</b>	<b>\$ 14,996</b>	<b>\$ 11,065</b>	<b>3,931</b>	<b>36</b>	<b>\$ 40,168</b>	<b>\$ 27,216</b>	<b>12,952</b>	<b>48</b>

Operating  
Percentage:

Operating Income / Total Revenue	18%	18%			18%	19%
----------------------------------	-----	-----	--	--	-----	-----

Operating Income / Service Revenue	22%	20%			22%	20%
------------------------------------	-----	-----	--	--	-----	-----

N/M not meaningful.

Similar to gross margins, we evaluate operating margins by comparing Operating Income over Service Revenue to neutralize the impact of pass-through items for which we earn no margin.

When calculated based on Service Revenue, our operating margins for the three and nine months ended September 30, 2010 improved slightly when compared to the similar prior year period.

Compensation and Benefits has increased from the prior year primarily as a result of the cost of being a separate public company and the need to have separate support functions such as accounting, legal and human resources as well as to the previously mentioned reclassification of certain executive and marketing related compensation costs

from cost of revenues. In addition, equity compensation for senior executives is recognized within Selling, General and Administrative Expenses.

Costs associated with Professional Services have increased over the prior year after we consider the impact of 2009 one-time costs of \$3.4 million year to date (\$1.5 million for the third quarter) related to the Separation and \$2.3 million year to date (all recorded in the third quarter) related to facility closure costs in our Financial Services segment. The increase in Professional Services is primarily attributable to costs associated with being a separate public company including increased audit and legal fees as well as insurance.

Occupancy Related Costs increased in 2010 primarily as a result of our expansion of services which led to new leased facilities in India and the United States. The year to date increase was partially offset by decreases associated with lease facility closures in Financial Services in the third quarter of 2009.

Amortization of Intangible Assets increased as a result of the intangibles acquired in connection with the acquisition of MPA (see Notes 3 and 7 to the condensed consolidated financial statements).

*EBITDA*

Altisource evaluates performance based on several factors of which a primary financial measure is income before interest, tax, depreciation and amortization ( *EBITDA* ). We believe that this non-GAAP financial measure is useful to investors and analysts

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)*

in analyzing and assessing our overall business performance since we utilize this information for making operating decisions, for compensation decisions and for forecasting and planning future periods. While the Company uses non-GAAP financial measures as a tool to enhance its understanding of certain aspects of its financial performance and to provide incremental insight into the underlying factors and trends affecting both the Company's performance and its cash-generating potential, the Company does not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial measures. Consistent with this approach, the Company believes that disclosing non-GAAP financial measures to the readers of its financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial measures, allows for greater transparency in the review of its financial and operational performance and enables investors to more fully understand trends in its current and future performance.

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Income Before Income Taxes	\$ 14,635	\$ 12,092	2,543	21	\$ 38,650	\$ 28,620	10,030	35
Interest, net	26	191	(165)	(86)	65	1,601	(1,536)	(96)
Depreciation and Amortization	1,804	1,395	409	29	5,015	4,188	827	20
Amortization of Intangibles	1,450	668	782	117	4,089	2,004	2,085	104
Net Income Attributable to Non-controlling Interests	(2,052)		(2,052)	N/M	(4,136)		(4,136)	N/M
EBITDA <sup>(1)</sup>	\$ 15,863	\$ 14,346	1,517	11	\$ 43,683	\$ 36,413	7,270	20
EBITDA Margin: EBITDA / Total Revenue	20%	27%			21%	25%		
EBITDA / Service Revenue	26%	30%			25%	26%		

<sup>(1)</sup> See *SECTION 3  
SEGMENT  
RESULTS OF  
OPERATIONS*  
below for a  
reconciliation of  
the most

directly  
comparable  
GAAP measure  
to EBITDA.

N/M not meaningful.

We evaluate EBITDA margins against Service Revenue internally to neutralize the impact of pass-through items for which we earn no margin.

EBITDA margins based on Service Revenue declined year to date principally due to a decline in performance of Financial Services and scaling our operations to support the national rollout of services and the anticipated growth in Ocwen's residential loan portfolio. In addition, during 2010, to further align the interests of management with shareholders, we expanded our use of equity compensation. For the nine months ended September 30, 2010, we have recognized \$2.2 million (\$1.2 million in the third quarter) of equity compensation expense as compared to \$0.3 million for the full year ending December 31, 2009. We expect EBITDA as a percent of service revenue to improve in the fourth quarter as we begin to more fully realize the benefit of Ocwen's acquisition of the residential loan portfolio of HomEq and leverage our larger operational structure.

#### **Income Taxes**

For the third quarter Altisource's effective tax rate was 18.8%, which is higher than our estimated effective tax rate for the full year due to permanent differences recognized in the quarter. The year to date effective tax rate is 5.2% which includes the impact of credits recognized in the second quarter associated with 2009. Income tax provision on income before income tax differs from amounts that would be computed by applying the Luxembourg federal corporate income tax rate of 28.6% primarily because of the effect of enacted tax statutes in multiple jurisdictions, the treatment of intangibles for tax purposes and differing tax rates outside of Luxembourg.

#### **SECTION 3 SEGMENT RESULTS OF OPERATIONS**

The following section provides a discussion of pre-tax results of operations of our business segments for the periods ended September 30, 2010 and 2009. Transactions between segments are accounted for as third-party arrangements for purposes of presenting segment results of operations. Intercompany transactions primarily consist of information technology infrastructure services and charges for the use of certain REAL products from our Technology Products segment to our other two segments. Generally, we reflect these charges within technology and communication in the segment receiving the services, except for consulting services, which we reflect in professional services.

- 29 -

---

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)*

Financial information for our segments is as follows:

	Three Months Ended September 30, 2010				
	Mortgage	Financial	Technology	Corporate	Consolidated
<i>(in thousands)</i>	Services	Services	Products	Items and Eliminations <sup>(1)</sup>	Altisource
Revenue	\$ 53,933	\$ 14,529	\$ 12,963	\$ (3,845)	\$ 77,580
Cost of Revenue	33,119	12,134	7,239	(3,845)	48,647
Gross Profit	20,814	2,395	5,724		28,933
Selling, General and Administrative Expenses	4,187	4,404	1,610	4,795	14,996
Income (Loss) from Operations	16,627	(2,009)	4,114	(4,795)	13,937
Other Income (Expense), net	687	(9)	(24)	44	698
Income (Loss) Before Income Taxes and Non-Controlling Interests	\$ 17,314	\$ (2,018)	\$ 4,090	\$ (4,751)	\$ 14,635
Reconciliation to EBITDA					
Income (Loss) Before Income Taxes and Non-Controlling Interests	\$ 17,314	\$ (2,018)	\$ 4,090	\$ (4,751)	\$ 14,635
Interest, net	(3)	13	23	(7)	26
Depreciation and Amortization <sup>(2)</sup>	74	478	1,140	112	1,804
Amortization of Intangibles	781	669			1,450
Net Income Attributable to Non-controlling Interests	(2,052)				(2,052)
EBITDA	\$ 16,114	\$ (858)	\$ 5,253	\$ (4,646)	\$ 15,863
Transactions with Related Parties:					
Revenue	\$ 34,765	\$ 34	\$ 4,660	\$	\$ 39,459
Selling, General and Administrative Expenses	\$	\$	\$	\$ 223	\$ 223

- 30 -

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**  
(continued)

	Three Months Ended September 30, 2009					
<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Corporate Items and Eliminations <sup>(1)</sup>		Consolidated Altisource
Revenue	\$ 29,141	\$ 15,837	\$ 12,451	\$ (3,365)		\$ 54,064
Cost of Revenue	17,262	12,635	5,582	(2,026)		33,453
Gross Profit	11,879	3,202	6,869	(1,339)		20,611
Selling, General and Administrative Expenses	1,238	6,802	1,084	1,941		11,065
Income (Loss) from Operations	10,641	(3,600)	5,785	(3,280)		9,546
Other Income (Expense), net	52	2,469	(51)	76		2,546
Income (Loss) Before Income Taxes and Non-Controlling Interests	\$ 10,693	\$ (1,131)	\$ 5,734	\$ (3,204)		\$ 12,092
<b>Reconciliation to EBITDA</b>						
Income (Loss) Before Income Taxes and Non-Controlling Interests	\$ 10,693	\$ (1,131)	\$ 5,734	\$ (3,204)		\$ 12,092
Interest, net	7	146	53	(15)		191
Depreciation and Amortization <sup>(2)</sup>	19	609	758	9		1,395
Amortization of Intangibles		668				668
EBITDA	\$ 10,719	\$ 292	\$ 6,545	\$ (3,210)		\$ 14,346
<b>Transactions with Related Parties:</b>						
Revenue	\$ 20,963	\$ 28	\$ 5,044	\$		\$ 26,035
Selling, General and Administrative Expenses	\$ 531	\$ 85	\$ 294	\$ (388)		\$ 522
Interest Expense	\$ 7	\$ 147	\$ 39	\$		\$ 193

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**  
(continued)

	Nine Months Ended September 30, 2010				
<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Corporate Items and Eliminations <sup>(1)</sup>	Consolidated Altisource
Revenue	\$ 137,803	\$ 45,642	\$ 37,422	\$ (10,966)	\$ 209,901
Cost of Revenue	84,622	37,538	20,555	(10,966)	131,749
Gross Profit	53,181	8,104	16,867		78,152
Selling, General and Administrative Expenses	10,683	11,997	4,040	13,448	40,168
Income (Loss) from Operations	42,498	(3,893)	12,827	(13,448)	37,984
Other Income (Expense), net	649	(38)	(45)	100	666
Income (Loss) Before Income Taxes and Non-controlling Interests	\$ 43,147	\$ (3,931)	\$ 12,782	\$ (13,348)	\$ 38,650
Reconciliation to EBITDA					
Income (Loss) Before Income Taxes and Non-controlling Interests	\$ 43,147	\$ (3,931)	\$ 12,782	\$ (13,348)	\$ 38,650
Interest, net	(8)	43	44	(14)	65
Depreciation and Amortization <sup>(2)</sup>	193	1,479	3,043	300	5,015
Amortization of Intangibles	2,084	2,005			4,089
Net Income Attributable to Non-controlling Interests	(4,136)				(4,136)
EBITDA	\$ 41,280	\$ (404)	\$ 15,869	\$ (13,062)	\$ 43,683
Transactions with Related Parties:					
Revenue	\$ 90,749	\$ 110	\$ 13,635	\$	\$ 104,494
Selling, General and Administrative Expenses	\$	\$	\$	\$ 811	\$ 811
Interest Expense	\$	\$	\$	\$	\$



**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**  
(continued)

	Nine Months Ended September 30, 2009				
<i>(in thousands)</i>	Mortgage Services	Financial Services	Technology Products	Corporate Items and Eliminations <sup>(1)</sup>	Consolidated Altisource
Revenue	\$ 70,861	\$ 49,624	\$ 35,133	\$ (9,132)	\$ 146,486
Cost of Revenue	41,042	40,514	18,042	(7,793)	91,805
Gross Profit	29,819	9,110	17,091	(1,339)	54,681
Selling, General and Administrative Expenses	4,913	14,632	3,880	3,791	27,216
Income (Loss) from Operations	24,906	(5,522)	13,211	(5,130)	27,465
Other Income (Expense), net	29	1,354	(304)	76	1,155
Income (Loss) Before Income Taxes and Non-controlling Interests	\$ 24,935	\$ (4,168)	\$ 12,907	\$ (5,054)	\$ 28,620
Reconciliation to EBITDA					
Income (Loss) Before Income Taxes and Non-controlling Interests	\$ 24,935	\$ (4,168)	\$ 12,907	\$ (5,054)	\$ 28,620
Interest, net	28	1,286	302	(15)	1,601
Depreciation and Amortization <sup>(2)</sup>	22	1,898	2,259	9	4,188
Amortization of Intangibles		2,004			2,004
EBITDA	\$ 24,985	\$ 1,020	\$ 15,468	\$ (5,060)	\$ 36,413
Transactions with Related Parties:					
Revenue	\$ 51,355	\$ 66	\$ 15,801	\$	\$ 67,222
Selling, General and Administrative Expenses	\$ 2,712	\$ 467	\$ 1,517	\$ (388)	\$ 4,308
Interest Expense	\$ 30	\$ 1,029	\$ 231	\$	\$ 1,290

(1) Intercompany transactions primarily consist of information technology infrastructure services and

charges for the use of certain REAL products from our Technology Products segment to our other two segments.

Generally, we reflect these charges within technology and communication in the segment receiving the services, except for consulting services which we reflect in professional services.

- (2) Includes depreciation and amortization of \$1.0 million and \$1.6 million for the nine months ended September 30, 2010 and 2009 (\$0.5 million for the quarter ended September 30, 2009), for assets reflected in the Technology Products segment but utilized by the Financial Services segment.

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)***Mortgage Services**

The following table presents our results of operations for our Mortgage Services segment for the three and nine months ending September 30:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Service Revenue	\$ 39,319	\$ 23,461	15,858	68	\$ 102,856	\$ 61,852	41,004	66
Reimbursable Expenses	12,562	5,680	6,882	121	30,811	9,009	21,802	242
Cooperative Non-controlling Interest	2,052		2,052	N/M	4,136		4,136	N/M
Total Revenue	53,933	29,141	24,792	85	137,803	70,861	66,942	95
Cost of Revenue	33,119	17,262	15,857	92	84,622	41,042	43,580	106
Gross Profit	20,814	11,879	8,935	75	53,181	29,819	23,362	78
Selling, General and Administrative Expenses	4,187	1,238	2,949	238	10,683	4,913	5,770	117
Income from Operations	\$ 16,627	\$ 10,641	5,986	56	\$ 42,498	\$ 24,906	17,592	71
EBITDA <sup>(1)</sup>	\$ 16,114	\$ 10,719	5,395	50	\$ 41,280	\$ 24,985	16,295	65
Transactions with Related Parties Above:								
Revenue	\$ 34,765	\$ 20,963	13,802	66	\$ 90,749	\$ 51,355	39,394	77
Selling, General and Administrative Expenses		531	(531)	N/M		2,712	(2,712)	N/M
Interest Expense	\$	\$ 7	(7)	N/M	\$	\$ 30	(30)	N/M

(1)

See above for a reconciliation of the most directly comparable GAAP measure to EBITDA.

N/M not meaningful.

Service Revenue for our Mortgage Services segment has consistently grown for the periods presented primarily as a result of our development and rollout of default oriented Mortgage Services over our expanding national delivery platform, the growth in Ocwen's residential loan portfolio and the acquisition of MPA in February 2010. Ocwen's acquisition of the HomeEq residential loan portfolio had limited impact to our revenues for the third quarter since we generally did not receive referrals until very late in September.

Altisource continues to expand its default services. As of September 30, 2010, we:

Provide REO brokerage disposition services on over 8,500 properties (compared to approximately 5,700 properties as of June 30, 2010); and

Managed property preservation services nationally for over 13,500 properties (compared to over 10,200 properties as of June 30, 2010).

In addition, we announced during the first quarter call that we had finalized a confidential agreement to provide asset management services to a potentially significant customer. We began performing services for this client in September and expect to begin revenue recognition in the fourth quarter.

#### *Members United and Acquisition MPA*

We are committed to providing a full suite of mortgage services in 2011 to assist mortgage originators including valuation, title, fulfillment and flood certification services. Through our acquisition of MPA and the recently signed agreement with Members United Corporate Federal Credit Union (Members United), we have preferred access to over 2,000 diverse financial institutions which we believe constitutes 7% of the total origination market. In addition, for members of MPA we believe that over time we can work with Ocwen and other partners to provide additional avenues to sell loans beyond the current preferred investor

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)*

arrangements resulting in improved capital markets execution. We expect this will facilitate the sale of our services to the members.

MPA and its consolidated subsidiary contributed \$11.4 million of revenue, including \$4.1 million attributable to non-controlling interests, and \$3.9 million of EBITDA since the February 2010 acquisition date. This revenue and EBITDA was a sequential improvement and was substantially in line with our internal projections which included a forecasted decline in origination volumes during 2010. We expect this decline to be somewhat mitigated given the accelerated pace of new members joining the cooperative. Through September 30, 2010, MPA has over 170 Members.

**Revenue**

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
<b>Revenue:</b>								
Asset Management Services	\$ 22,349	\$ 10,570	11,779	111	\$ 54,198	\$ 19,417	34,781	179
Component Services and Other Residential	11,264	5,198	6,066	117	28,057	13,601	14,456	106
Property Valuation Closing and Title Services	8,796	6,233	2,563	41	22,952	20,268	2,684	13
Default Management Services	6,461	4,334	2,127	49	17,878	12,924	4,954	38
Services	5,063	2,806	2,257	80	14,718	4,651	10,067	216
Total Revenue	\$ 53,933	\$ 29,141	24,792	85	\$ 137,803	\$ 70,861	66,942	95

**Transactions with  
Related Parties:**

Asset Management Services	21,250	10,570	10,680	101	53,099	19,417	33,682	174
Residential Property Valuation Closing and Title Services	8,729	6,000	2,729	46	22,182	19,613	2,569	13
Default Management Services	3,428	3,235	193	6	10,818	10,370	448	4
Services	1,358	1,158	200	17	4,650	1,955	2,695	138
Total	\$ 34,765	\$ 20,963	13,802	66	\$ 90,749	\$ 51,355	39,394	77

**Reimbursable  
Expenses:**

Asset Management Services	11,899	5,191	6,708	129	29,027	8,337	20,690	248
---------------------------	--------	-------	-------	-----	--------	-------	--------	-----

Default Management Services	561	489	72	15	1,609	672	937	139
Closing and Title Services	102		102	N/M	175		175	N/M
Total	\$ 12,562	\$ 5,680	6,882	121	\$ 30,811	\$ 9,009	21,802	242

N/M not meaningful

In our Mortgage Services segment, we generate the majority of our revenue by providing outsourced services that span the lifecycle of a mortgage loan primarily for Ocwen or with respect to the residential loan portfolio serviced by Ocwen. In addition to our relationship with Ocwen, we have relationships with some of the leading capital markets firms, commercial banks, hedge funds, insurance companies, credit unions and lending institutions. We provide products that enhance their ability to make informed investment decisions and manage their core operations. With the acquisition of MPA in February 2010 and our strategic marketing agreement with Members United, we took a significant step in our evolution to become a full service provider in the mortgage services vertical and gained increased access to a growing group of mid-tier mortgage bankers and credit unions.

*Asset Management Services.* Asset management services principally include property preservation, property inspection, REO asset management and REO brokerage. In the first quarter of 2010, we completed our national network for property preservation services and, including our real estate broker referral network, have national coverage for REO dispositions. The increase in revenue has mostly been driven by our property preservation services to date; however, the increase in REO brokerage referrals should ultimately drive additional revenues as we dispose of these properties on behalf of our clients.

*Component Services and Other.* The increase in component services year over year is due to an expanded relationship with an existing customer beginning in the second quarter of 2009 and the inclusion of MPA's results.

*Residential Property Valuation.* As one of the more mature services in our portfolio, residential property valuations are subject to market conditions. During the third quarter of 2010, we saw a sequential increase in revenues as a result of Ocwen's residential loan portfolio growth, including the HomEq portfolio, resulting in the ordering of more valuations, particularly broker price opinions. We expect to see this increased level of referrals to continue during the fourth quarter.

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)*

*Closing and Title Services.* This business includes legacy services such as pre-foreclosure title services as well as an expanded array of title services that were rolled out during 2010 and 2009 principally around REO purchase transactions. During 2010, we are focused on rolling out our title agency business in key markets which we believe will drive significant revenue growth in 2011 at attractive margins. We expect to obtain agency status in California in the fourth quarter.

*Default Management Services.* This group includes support services whereby we provide non-legal back-office support for foreclosure, bankruptcy and eviction attorneys as well as non-judicial foreclosure services in California and Nevada through our trustee company Western Progressive, LLC. We do not execute or notarize any foreclosure affidavits. During the third quarter, we experienced a slight sequential decline in revenue. This decline since the second quarter was principally caused by the timing of referrals which were more heavily weighted towards the end of September (resulting in less revenue being recognized in the quarter) and the elongation of the time it takes to process foreclosures which resulted in us extending the period over which we recognize revenue for some states.

*Cost of Revenue*

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
<i>(in thousands)</i>								
Expenditures	\$ 20,557	11,582	8,975	77	53,811	32,033	21,778	68
Reimbursable Expenses	12,562	5,680	6,882	121	30,811	9,009	21,802	242
Cost of Revenue	\$ 33,119	\$ 17,262	15,857	92	\$ 84,622	\$ 41,042	43,580	106

Gross Margin  
Percentage:

Cost of Revenue / Total Revenue	39%	41%			39%	42%		
Cost of Revenue less Reimbursable Expenses / Service Revenue	48%	51%			48%	48%		

Primarily during the second and third quarter, we began scaling our operations to support the national rollout of services and in anticipation of the growth in Ocwen's residential loan portfolio. These costs have principally included increased compensation and benefit and technology costs. Due to the number of persons we were hiring as well as training time, it was necessary to hire these resources several months prior to the completion of Ocwen's acquisition of the HomeEq residential loan portfolio. We expect to begin utilizing these expanded operations to generate additional revenue in the fourth quarter and throughout 2011.

*Selling, General and Administrative Expenses*

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

			\$ Change	% Change			\$ Change	% Change
Total Selling, General and Administrative Expenses	\$ 4,187	\$ 1,238	2,949	238	\$ 10,683	\$ 4,913	5,770	117
Operating Percentage: Operating Income / Total Revenue	31%	37%			31%	35%		
Operating Income / Service Revenue	42%	45%			41%	40%		

Selling, General and Administrative Expenses increased principally as a result of the classification of certain compensation and benefit costs related to segment management and marketing previously being captured either in Cost of Revenue or as a component of the Corporate segment now being captured in Selling, General and Administrative Expenses. In addition, professional services fees such as those associated with the external audit have increased as a result of being a public company. Such costs are allocated to the segments based upon expected hours to be incurred per segment by the vendor.

Our operating margins for the nine months ended September 30, 2010 based on Service Revenue remained relatively flat as the significant additional facility costs as a result of scaling our operations were substantially offset by revenue growth.



**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)**EBITDA*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
EBITDA	\$ 16,114	\$ 10,719	5,395	50	\$ 41,280	\$ 24,985	16,295	65

## EBITDA Margin:

EBITDA / Total

Revenue

30%	37%	30%	35%
-----	-----	-----	-----

EBITDA / Service

Revenue

41%	46%	40%	40%
-----	-----	-----	-----

Mortgage Services EBITDA growth in both periods was predominantly driven by the expansion of our national footprint and the increase in Ocwen's residential loan portfolio in November 2009 and May 2010. Mortgage Services EBITDA margins calculated based upon Service Revenue remained consistent with the second quarter.

**Financial Services**

The following table presents our results of operations for our Financial Services segment for the three and nine months ending September 30:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Service Revenue	\$ 13,722	15,837	(2,115)	(13)	\$ 43,413	49,624	(6,211)	(13)
Reimbursable Expenses	807		807		2,229		2,229	
Total Revenue	14,529	15,837	(1,308)	(8)	45,642	49,624	(3,982)	(8)
Cost of Revenue	12,134	12,635	(501)	(4)	37,538	40,514	(2,976)	(7)
Gross Profit	2,395	3,202	(807)	(25)	8,104	9,110	(1,006)	(11)
Selling, General and Administrative Expenses	4,404	6,802	(2,398)	(35)	11,997	14,632	(2,635)	(18)
Loss from Operations	(2,009)	(3,600)	1,591	44	(3,893)	(5,522)	1,629	30

EBITDA <sup>(1)</sup>	\$ (858)	\$ 292	(1,150)	N/M	\$ (404)	\$ 1,020	(1,424)	(140)
Transactions with Related Parties Above:								
Revenue	\$ 34	\$ 28	6	21	\$ 110	\$ 66	44	67
Selling, General and Administrative Expenses	\$	\$ 85	(85)	N/M	\$	\$ 467	(467)	N/M
Interest Expense	\$	\$ 147	(147)	N/M	\$	\$ 1,029	(1,029)	N/M

(1) See above for a reconciliation of the most directly comparable GAAP measure to EBITDA.

N/M not meaningful.

Financial Services revenue declined both for the quarter and year to date when compared to the prior year.

Sequentially, revenues declined \$1.0 million due to decreased placements from our largest customer. We were able to partially offset this decline by increased placements from a customer we began servicing in 2009 as well as growth in revenue from other customers.

Our strategy for 2010 continues to be focused on improving margins principally via improving revenue per collector, expanding our quality initiatives and investing in new technology. In addition, in the fourth quarter of 2010, we named a new President for the segment.

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**  
(continued)

*Revenue*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
<b>Revenue:</b>								
Asset Recovery Management	\$ 11,542	\$ 12,180	(638)	(5)	\$ 36,937	\$ 39,419	(2,482)	(6)
Customer Relationship Management	2,987	3,657	(670)	(18)	8,705	10,205	(1,500)	(15)
Total Revenue	\$ 14,529	\$ 15,837	(1,308)	(8)	\$ 45,642	\$ 49,624	(3,982)	(8)

**Transactions with Related Parties:**

Asset Recovery Management	\$ 34	\$ 28	6	21	\$ 110	\$ 66	44	67
---------------------------	-------	-------	---	----	--------	-------	----	----

In our Financial Services segment, we generate the majority of our revenue from asset recovery management fees we earn for collecting amounts due to our customers and from fees we earn for performing customer relationship management for our customers.

*Asset Recovery Management.* Our revenues associated with contingency collections declined in both periods principally due to lower placements and a shift in placements to operations that provide lower per collector revenue, but higher margin.

*Customer Relationship Management.* Our revenues associated with customer relationship management declined over both periods as we sought to wind down our relationship with one customer due to unsatisfactory margins as well as due to the seasonal nature of the business. In the third quarter, we expanded our relationship with another customer.

*Cost of Revenue*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Expenditures Reimbursable Expenses	\$ 11,327	\$ 12,635	(1,308)	(104)	\$ 35,309	\$ 40,514	(5,205)	(13)
	807		807	N/M	2,229		2,229	N/M
Cost of Revenue	\$ 12,134	\$ 12,635	(501)	(4)	\$ 37,538	\$ 40,514	(2,976)	(7)

Gross Margin  
Percentage:

Cost of Revenue / Total Revenue	16%	20%	18%	18%
------------------------------------	-----	-----	-----	-----

Cost of Revenue less Reimbursable Expenses / Service Revenue	17%	20%	19%	18%
---	-----	-----	-----	-----

N/M not meaningful.

Our Cost of Revenues, net of reimbursable expenses, decreased principally due to a reduction in compensation and benefits as a result of a lower number of collectors and reduced commissions. In addition, we continue to seek ways to reduce technology and communication costs for this segment.

- 38 -

---

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)**Selling, General and Administrative Expenses*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Total Selling, General and Administrative Expenses	\$ 4,404	\$ 6,802	(2,398)	(35)	\$ 11,997	\$ 14,632	(2,635)	(18)

Operating  
Percentage:

Operating Income / Total Revenue	(14)%	(23)%		(9)%	(11)%
-------------------------------------	-------	-------	--	------	-------

Operating Income / Service Revenue	(15)%	(23)%		(9)%	(11)%
---------------------------------------	-------	-------	--	------	-------

During the nine months ended September 30, 2009, we recognized \$2.3 million (all recorded in the third quarter) in facility closure costs. Excluding these costs, Selling, General and Administrative Expenses in both 2010 periods were consistent with the comparative 2009 periods.

**EBITDA**

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
EBITDA	\$ (858)	\$ 292	(1,150)	N/M	\$ (404)	\$ 1,020	(1,424)	(140)

## EBITDA Margin:

EBITDA / Total Revenue	(6)%	2%		(1)%	2%
---------------------------	------	----	--	------	----

Financial Services EBITDA declined \$1.2 million year over year despite a revenue decline of \$4.0 million which reflects the cost savings initiatives we undertook in the second half of 2009 and the wind-down of business from a lower margin customer relationship management client in 2010. Sequentially EBITDA declined in part due to the seasonality of the business as well as the previously mentioned decline in placements. The facility closure costs discussed above were offset by a litigation settlement of \$2.3 million awarded to us during the third quarter of 2009.

- 39 -

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)***Technology Products**

The following table presents our results of operations for our Technology Products segment for the three and nine months ending September 30:

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Revenue	\$ 12,963	\$ 12,451	512	4	\$ 37,422	\$ 35,133	2,289	7
Cost of Revenue	7,239	5,582	1,657	30	20,555	18,042	2,513	14
Gross Profit	5,724	6,869	(1,145)	(17)	16,867	17,091	(224)	(1)
Selling, General and Administrative Expenses	1,610	1,084	526	49	4,040	3,880	160	4
Income from Operations	\$ 4,114	\$ 5,785	(1,671)	(29)	\$ 12,827	\$ 13,211	(384)	(3)
EBITDA <sup>(1)</sup>	\$ 5,253	\$ 6,545	(1,292)	(20)	\$ 15,869	\$ 15,468	401	3
Transactions with Related Parties Above:								
Revenue	\$ 4,660	\$ 5,044	(384)	(8)	\$ 13,635	\$ 15,801	(2,166)	(14)
Selling, General and Administrative Expenses	\$	\$ 294	(294)	N/M	\$	\$ 1,517	(1,517)	N/M
Interest Expense	\$	\$ 39	(39)	N/M	\$	\$ 231	(231)	N/M

(1) See above for a reconciliation of the most directly comparable GAAP measure to EBITDA.

N/M not meaningful.

Edgar Filing: Altisource Portfolio Solutions S.A. - Form 10-Q

The primary focus of the Technology Products segment continues to be supporting the growth of Mortgage Services and Ocwen as well as the cost reduction and quality initiatives on-going within the Financial Services segment. During the first quarter, we re-organized the management team of Technology Products by naming a new President for the segment. We are focused on enhancing our development and infrastructure capabilities to support both our expansion efforts and those of Ocwen. In addition, we remain focused on the longer-term commercialization of our service offerings to expand their applicability to a broader audience.

*Revenue*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
<b>Revenue:</b>								
REALSuite	\$ 7,864	\$ 6,822	1,042	15	\$ 22,415	\$ 18,478	3,937	21
IT Infrastructure Services	5,099	5,629	(530)	(9)	15,007	16,655	(1,648)	(10)
Total Revenue	\$ 12,963	\$ 12,451	512	4	\$ 37,422	\$ 35,133	2,289	7
<b>Transactions with Related Parties:</b>								
REALSuite	\$ 2,744	\$ 2,445	299	12	\$ 7,952	\$ 7,281	671	9
IT Infrastructure Services	1,916	2,599	(683)	(26)	5,683	8,520	(2,837)	(33)
Total	\$ 4,660	\$ 5,044	(384)	(8)	\$ 13,635	\$ 15,801	(2,166)	(14)

Beginning with the second quarter of 2009, we began generating the majority of our revenue within this segment from our REALSuite of services, and we expect this trend to continue for the foreseeable future.

*REALSuite*. Our REALSuite revenue is primarily driven by REALServicing® which is our comprehensive residential loan servicing platform. Increases in both year-to-date and quarterly revenues were driven by increases in REALServicing

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)*

attributable to an expanded agreement with a non-related third party customer and the growth in Ocwen's residential loan portfolio.

*IT Infrastructure Services.* Our IT infrastructure services revenues declined when compared to the comparable periods in 2009 primarily due to lower intercompany billings (which we eliminate in consolidation but include in our segment presentation) and reduced charges to Ocwen. Sequentially, Revenue increased slightly as Ocwen expanded their operations to support the acquisition of the HomeEq residential loan portfolio.

*Cost of Revenue*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Cost of Revenue	\$ 7,239	\$ 5,582	1,657	30	\$ 20,555	\$ 18,042	2,513	14

Gross Margin  
Percentage:

Cost of Revenue / Total Revenue	44%	55%	45%	49%
------------------------------------	-----	-----	-----	-----

Cost of Revenue margins decreased both year to date and in the third quarter as a result of an increase in compensation and benefits as we added personnel to enhance our service capabilities, support our growth and commercialize our products. In addition, in the third quarter, technology and communications costs increased both as a result of the addition of new facilities and the expansion of bandwidth at existing facilities to handle the increased demands expected in the fourth quarter.

*Selling, General and Administrative Expenses*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
Total Selling, General and Administrative Expenses	\$ 1,610	\$ 1,084	526	49	\$ 4,040	\$ 3,880	160	4

Operating  
Percentage:

Operating Income / Total Revenue	32%	46%	34%	38%
-------------------------------------	-----	-----	-----	-----

Selling, General and Administrative Expenses increased both year to date and in the third quarter as a result of increased occupancy charges associated with the new data center. Sequentially, Selling, General and Administrative Expenses increased primarily as a result of costs incurred in preparing for the HomeEq transaction.



*EBITDA*

<i>(in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	\$ Change	% Change	2010	2009	\$ Change	% Change
EBITDA	\$ 5,253	\$ 6,545	(1,292)	(20)	\$ 15,869	\$ 15,468	401	3

## EBITDA Margin:

EBITDA / Total

Revenue

41%

53%

42%

44%

Technology Products EBITDA increased year over year but declined quarter over quarter. Sequentially, margins decreased as higher revenues were more than offset by increased compensation and occupancy costs associated with the new data center as described above. The Company is increasing expenditures in technology software and hardware to support its commercialization efforts, Ocwen's growing servicing portfolio and Altisource's growth.

- 41 -

**Table of Contents****Management's Discussion and Analysis of  
Financial Condition and Results of Operations***(continued)***SECTION 4 LIQUIDITY AND CAPITAL RESOURCES*****Liquidity***

We believe that we have the ability to generate more than sufficient cash from our current operations for the next twelve months to meet anticipated cash requirements. Anticipated cash requirements principally include operational expenditures such as compensation and benefits, working capital requirements and spending for capital expenditures. We generate significant excess cash that we will seek to deploy in a disciplined manner. Principally, we will continue to invest in compelling services that we believe will generate high margins. In addition, we may seek to acquire a limited number of companies that fit our strategic objectives. Finally, given the tax inefficiency of dividends, the low returns earned on cash held and our desire to only perform a limited number of acquisitions, we believe one of the best ways to return value to shareholders is a share repurchase program. On May 19, 2010, our shareholders authorized us to purchase up to 3,784,618 shares of our common stock in the open market. During the third quarter of 2010, we purchased 86,098 shares of our common stock on the open market at an average price of \$26.81, leaving 3,698,520 shares still available for purchase. Subsequently, during October, we purchased an additional 65,317 shares. As of October 25, 2010, we have repurchased a total of 151,415 shares at an average share price of \$26.39.

***Cash Flows***

The following table presents our cash flows for the nine months ended September 30:

<i>(in thousands)</i>	Nine Months Ended September 30,			% Change
	2010	2009	\$ Change	
Net Income Adjusted for Non-cash Items	\$ 46,819	\$ 24,876	21,943	88
Working Capital	(13,558)	1,510	(15,068)	N/M
Cash Flow from Operating Activities	33,261	26,386	6,875	26
Cash Flow from Investing Activities	(35,744)	(3,787)	(31,957)	N/M
Cash Flow from Financing Activities	(4,936)	(4,877)	(59)	(1)
Net Change in Cash	(7,419)	17,722	(25,141)	(142)
Cash at Beginning of Period	30,456	6,988	23,468	N/M
Cash at End of Period	\$ 23,037	\$ 24,710	(1,673)	(7)

N/M not meaningful.

***Cash Flow from Operating Activities***

Cash flow from operating activities consists of two components: (i) net income adjusted for depreciation, amortization and certain other non-cash items and (ii) working capital. For the nine months ended September 30, 2010, we generated \$33.3 million in positive cash flow from operations which reflects our increased profitability adjusted for non-cash items as our businesses have expanded. Our working capital requirements increased significantly during the third quarter as a result of our expanded Asset Management and Default Management services within our Mortgage Services segment and the increase in associated referrals.

***Cash Flow from Investing Activities***

The largest use of cash flow for investing activities was the acquisition of MPA in February 2010 for which the purchase consideration included \$29.0 million in cash. In addition, we saw an increase in purchases of premises and equipment and technology to support our expansion of operations and in anticipated growth in Ocwen's residential loan portfolio.

*Cash Flow from Financing Activities*

During 2010, cash flow from financing activities primarily includes activity associated with stock option exercises, share repurchases and payments to non-controlling interest owners as a result of the acquisition of MPA. Prior to our Separation from Ocwen, we participated in a centralized cash management program with Ocwen. We made a significant amount of our cash disbursements through centralized payable systems which were operated by Ocwen, and a significant amount of our cash receipts

- 42 -

---

**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

*(continued)*

were received by us and transferred to centralized accounts maintained by Ocwen. There were no formal financing arrangements with Ocwen. Prior to the Separation we recorded all cash receipts and disbursement activity between Ocwen and us through invested equity in the Condensed Consolidated Balance Sheets and as net distributions in the Condensed Consolidated Statements of Equity and Cash Flows because we considered such amounts to have been distributed to Ocwen.

***Liquidity Requirements after September 30, 2010***

Between October 1 and October 25, 2010, we repurchased 65,317 shares at a total cost of \$1.7 million.

During the fourth quarter 2010, we expect to distribute \$2.1 million to non-controlling interests.

Management is not aware of any other trends or events, commitments or uncertainties which have not otherwise been disclosed that will or are likely to impact liquidity in a material way.

***Capital Resources***

Given our ability to generate cash flow which is sufficient to fund both current operations as well as expansion activities, we require very limited capital. Were we to need additional capital, we believe we have adequate access to both debt and equity capital markets.

***Commitments and Contingencies***

For details of these transactions, see Note 16 to the condensed consolidated financial statements.

**SECTION 5 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States. In applying many of these accounting principles, we need to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective. Actual results may be affected negatively based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Our critical accounting policies are described in the MD&A section in our 2009 Form 10-K. Such policies have not changed during 2010.

**SECTION 6 OTHER MATTERS**

***Related Party - Ocwen***

For the nine months ended September 30, 2010, approximately \$90.7 million of the Mortgage Services, \$0.1 million of the Financial Services and \$13.6 million of the Technology Products segment revenues were from services provided to Ocwen or sales derived from Ocwen's loan servicing portfolio. Services provided to Ocwen included residential property valuation, real estate asset management and sales, trustee management services, property inspection and preservation, closing and title services, charge-off second mortgage collections, core technology back office support and multiple business technologies including our REALSuite of products. We provided all services at rates we believe to be comparable to market rates.

In connection with the Separation, Altisource and Ocwen entered into various agreements that address the allocation of assets and liabilities between them and that define their relationship after the Separation including a Separation Agreement, a Tax Matters Agreement, an Employee Matters Agreement, an Intellectual Property Agreement, a Data Center and Disaster Recovery Agreement, a Technology Products Services Agreement, a Transition Services Agreement and certain long-term servicing contracts (collectively, the Agreements) (see Note 4 to our 2009 Form 10-K). For the nine months ended September 30, 2010, Altisource billed Ocwen \$1.2 million (\$0.5 million for the third quarter), and Ocwen billed Altisource \$0.8 million (\$0.2 million for the third quarter) for services provided under the Transition Services Agreement. These amounts are reflected as a component of Selling, General and Administrative expenses in the accompanying Condensed Consolidated Statements of Operations.



**Table of Contents**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

*(continued)*

**SECTION 7 FORWARD LOOKING STATEMENTS**

This Quarterly Report contains forward-looking statements that relate to, among other things, our future financial and operating results. In many cases, you can identify forward-looking statements by terminology such as *may*, *will*, *should*, *expect*, *intend*, *plan*, *anticipate*, *believe*, *estimate*, *predict*, *potential* or *continue* or the negative and other comparable terminology including, but not limited to, the following:

assumptions related to the sources of liquidity and the adequacy of financial resources;

assumptions about our ability to grow our business;

assumptions about our ability to reduce our cost structure;

expectations regarding collection rates and placements in our Financial Services segment;

estimates regarding the calculation of our effective tax rate; and

estimates regarding our reserves and valuations.

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 *Risk Factors* in our Registration Statement on Form 10 and the following:

our ability to retain existing customers and attract new customers;

general economic and market conditions;

governmental regulations, taxes and policies; and

availability of adequate and timely sources of liquidity.

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.

- 44 -

---

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our financial market risk consists primarily of foreign currency exchange risk.

**Foreign Currency Exchange Risk**

We consider the US Dollar to be our functional currency worldwide and the majority of our servicing agreements are denominated in US Dollars. Where required locally, we incur certain costs, primarily lease and payroll costs, in local currencies which include the Euro and Indian Rupee. Costs incurred in local currencies expose us to foreign exchange rate fluctuations to the extent our foreign positions remain un-hedged.

**Item 4. Controls and Procedures.**

*a) Evaluation of Disclosure Controls and Procedures*

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this quarterly report. Based on such evaluation, such officers have concluded that our disclosure controls and procedures as of the end of the period covered by this quarterly report were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*b) Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ending September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

We are subject to routine litigation and administrative proceedings arising in the ordinary course of business.

**Item 1A. Risk Factors.**

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our 2009 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Equity Securities purchased by us

The following table presents information related to our repurchases of our equity securities during the three months ended September 30, 2010:

Period	Total number of shares purchased	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(1)</sup>	Maximum number of shares that may yet be purchased under the plans or programs
Common shares <sup>(1)</sup> :				
July 1 - 31, 2010		\$		3,784,618
August 1 - 31, 2010				3,784,618
September 1 - 30, 2010	86,098	26.81	86,098	3,698,520
Total common shares	86,098	\$ 26.81	86,098	3,698,520

<sup>(1)</sup> In the second quarter of 2010, our shareholders authorized us to purchase up to 3,784,618 shares of our common stock in the open market.

**Item 3. Defaults upon Senior Securities.** None**Item 4. (Removed and Reserved)****Item 5. Other Information.** None**Item 6. Exhibits.**

31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)



32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

- 46 -

---

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALTISOURCE PORTFOLIO SOLUTIONS  
S.A.

(Registrant)

Date: October 28, 2010

By: /s/ Robert D. Stiles  
Robert D. Stiles  
Chief Financial Officer  
(On behalf of the Registrant and as its  
principal financial officer)

- 47 -