

Altisource Portfolio Solutions S.A.

Form 10-Q

July 25, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

OR

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission File Number 1-34354

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

(Exact name of Registrant as specified in its Charter)

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Luxembourg

(State or other jurisdiction of incorporation or organization)

Not applicable

(I.R.S. Employer Identification No.)

291, Route d Arlon

L-1150 Luxembourg

Grand Duchy of Luxembourg

(Address of principal executive offices) (Zip Code)

+352 2469 7900

Registrant's telephone number

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

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

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

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

As of July 19, 2013, there were 22,994,405 outstanding shares of the registrant's shares of beneficial interest (excluding 2,418,343 shares held as treasury stock).

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

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

	June 30, 2013		December 31, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 177,805	\$	105,502
Accounts receivable, net	99,316		88,955
Prepaid expenses and other current assets	20,185		7,618
Deferred tax assets, net	1,775		1,775
Total current assets	299,081		203,850
Premises and equipment, net	57,204		50,399
Deferred tax assets, net	4,073		4,073
Intangible assets, net	252,747		56,586
Goodwill	14,915		14,915
Investment in Correspondent One			12,729
Loan to Ocwen			75,000
Other assets	15,113		11,674
Total assets	\$ 643,133	\$	429,226
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	\$ 63,789	\$	58,976
Current portion of long-term debt	4,000		2,000
Current portion of capital lease obligations			233
Other current liabilities	8,915		10,423
Total current liabilities	76,704		71,632
Long-term debt, less current portion	393,679		196,027
Other non-current liabilities	1,340		1,738
Commitments and contingencies (Note 17)			
Equity:			
Common stock (\$1.00 par value; 100,000 shares authorized; 25,413 issued and 22,995 outstanding as of June 30, 2013; 25,413 issued and 23,427 outstanding as of December 31, 2012)	25,413		25,413
Additional paid-in-capital	88,392		86,873
Retained earnings	178,937		124,127
	(122,974)		(77,954)

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Treasury stock, at cost (2,418 shares as of June 30, 2013 and
1,986 shares as of December 31, 2012)

Altisource equity	169,768	158,459
Non-controlling interests	1,642	1,370
Total equity	171,410	159,829
Total liabilities and equity	\$ 643,133	\$ 429,226

See accompanying notes to condensed consolidated financial statements.

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

Revenue	\$	186,110	\$	144,205	\$	334,937	\$	283,271
Cost of revenue		116,972		92,738		213,934		184,498
Gross profit		69,138		51,467		121,003		98,773
Selling, general and administrative expenses		29,828		19,018		48,508		36,033
Income from operations		39,310		32,449		72,495		62,740
Other income (expense), net:								
Interest expense		(4,902)		(14)		(8,114)		(29)
Other income (expense), net		77		(307)		782		(643)
Total other income (expense), net		(4,825)		(321)		(7,332)		(672)
Income before income taxes and non-controlling interests		34,485		32,128		65,163		62,068
Income tax provision		(2,417)		(2,776)		(4,568)		(5,595)
Net income		32,068		29,352		60,595		56,473
Net income attributable to non-controlling interests		(1,137)		(1,271)		(2,146)		(3,163)
Net income attributable to Altisource	\$	30,931	\$	28,081	\$	58,449	\$	53,310
Earnings per share:								
Basic	\$	1.34	\$	1.20	\$	2.51	\$	2.28
Diluted	\$	1.25	\$	1.13	\$	2.34	\$	2.15
Weighted average shares outstanding:								
Basic		23,161		23,316		23,267		23,353
Diluted		24,823		24,846		24,940		24,850
Transactions with related parties included above:								
Revenue	\$	121,234	\$	88,153	\$	211,332	\$	170,933
Selling, general and administrative expenses		740		606		1,413		1,180
Other income						773		

See accompanying notes to condensed consolidated financial statements.

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

	Common stock		Altisource Equity Additional paid-in capital		Retained earnings	Treasury stock, at cost	Non- controlling interests	Total
Balance, December 31, 2011	25,413	\$ 25,413	\$ 83,229	\$ 126,161	\$ (72,048)	\$ 3,188	\$ 165,943	
Net income				53,310		3,163	56,473	
Contributions from non-controlling interest holders						24	24	
Distributions to non-controlling interest holders						(4,830)	(4,830)	
Share-based compensation expense			892				892	
Exercise of stock options				(4,397)	6,415		2,018	
Repurchase of shares					(16,781)		(16,781)	
Balance, June 30, 2012	25,413	\$ 25,413	\$ 84,121	\$ 175,074	\$ (82,414)	\$ 1,545	\$ 203,739	
Balance, December 31, 2012	25,413	\$ 25,413	\$ 86,873	\$ 124,127	\$ (77,954)	\$ 1,370	\$ 159,829	
Net income				58,449		2,146	60,595	
Contributions from non-controlling interest holders						15	15	
Distributions to non-controlling interest holders						(1,889)	(1,889)	
Share-based compensation expense			1,519				1,519	
Exercise of stock options				(3,639)	6,553		2,914	
Repurchase of shares					(51,573)		(51,573)	
Balance, June 30, 2013	25,413	\$ 25,413	\$ 88,392	\$ 178,937	\$ (122,974)	\$ 1,642	\$ 171,410	

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 60,595	\$ 56,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,306	5,200
Amortization of intangible assets	10,237	2,632
Share-based compensation expense	1,519	892
Equity in losses of affiliate	122	579
Bad debt expense	452	852
Amortization of debt discount	152	
Amortization of debt issuance costs	451	
Loss on sale or disposal of fixed assets	926	366
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(10,813)	(19,168)
Prepaid expenses and other current assets	(3,009)	(743)
Other assets	(1,440)	876
Accounts payable and accrued expenses	917	5,873
Other current and non-current liabilities	(1,947)	217
Net cash provided by operating activities	67,468	54,049
Cash flows from investing activities:		
Additions to premises and equipment	(13,397)	(21,128)
Acquisition of business, net of cash acquired	(215,700)	
Investment in equity affiliate	(50)	
Proceeds from sale of equity affiliate	12,648	
Proceeds from loan to Ocwen	75,000	
Net cash used in investing activities	(141,499)	(21,128)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	201,000	
Repayment of long-term debt	(1,500)	
Debt issuance costs	(2,400)	
Principal payments on capital lease obligations	(233)	(318)
Proceeds from stock option exercises	2,914	2,018
Purchase of treasury stock	(51,573)	(16,781)
Contributions from non-controlling interests	15	24
Distributions to non-controlling interests	(1,889)	(4,830)
Net cash provided by (used in) financing activities	146,334	(19,887)
Increase in cash and cash equivalents	72,303	13,034
Cash and cash equivalents at the beginning of the period	105,502	32,125
Cash and cash equivalents at the end of the period	\$ 177,805	\$ 45,159
Supplemental cash flow information		
Interest paid	\$ 7,562	\$ 28
Income taxes paid, net	1,165	1,255
Non-cash investing and financing activities		

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Amortization of tax-deductible goodwill	\$	\$	1,684
Premises and equipment purchased on account		891	

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

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

We are incorporated under the laws of Luxembourg and are publicly traded on the NASDAQ Global Select market under the symbol ASPS.

We conduct our operations through three reporting segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures and eliminations as a separate segment (see Note 18 for a description of our business segments).

Basis of Presentation

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

The Mortgage Partnership of America, L.L.C. (MPA), a wholly-owned subsidiary of Altisource®, is the manager of a national alliance of community mortgage bankers, correspondent lenders and suppliers of mortgage products and services that is referred to as the Lenders One® Mortgage Cooperative (Lenders One). The management agreement between MPA and Lenders One, pursuant to which MPA is the management company of Lenders One, represents a variable interest in a variable interest entity. MPA is the primary beneficiary of Lenders One as it has the power to direct the activities that most significantly impact Lenders One's economic performance and the obligation to absorb losses or the right to receive benefits from Lenders One. As a result, Lenders One is presented in the accompanying interim condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of June 30, 2013, Lenders One had total assets of \$3.1 million and liabilities of \$1.4 million. As of December 31, 2012, Lenders One had total assets of

\$2.3 million and liabilities of \$1.0 million.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K for the year ended December 31, 2012, filed with the SEC on February 13, 2013, which contains a summary of our significant accounting policies. Certain footnote detail in the Form 10-K is omitted from the information included herein.

Fair Value of Financial Instruments

Our financial instruments primarily include cash and cash equivalents, restricted cash and long-term debt. The carrying amount of cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments. The fair value was determined by level 1 of the three level hierarchy established by the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, using quoted prices in active markets for identical assets. The carrying amount of the long-term debt approximates fair value due to the variable interest rate. The fair value was determined by level 2 of the three level hierarchy in ASC Topic 820 using inputs other than quoted prices that are observable, either directly or indirectly.

Table of Contents**NOTE 2 TRANSACTIONS WITH RELATED PARTIES****Ocwen®**

Ocwen Financial Corporation, together with its subsidiaries (Ocwen), is our largest customer. Ocwen is contractually obligated to purchase certain mortgage services and technology services from us through August 2025 under the terms of a master services agreement and amendments to the master services agreement (collectively, the Service Agreements) in connection with our acquisition from Ocwen of the fee-based businesses of Homeward Residential, Inc. (Homeward) that closed on March 29, 2013 and the acquisition from Ocwen related to the fee-based businesses of Residential Capital, LLC (ResCap) that closed on April 12, 2013 (see Note 3), our Service Agreements with Ocwen were amended to extend the term from 2020 to 2025. Further, as part of the amendments, we are the exclusive provider of services to Ocwen with respect to the Homeward and ResCap servicing portfolios, and Ocwen agreed not to establish similar fee-based businesses that would directly or indirectly compete with Altisource s services with respect to the Homeward and ResCap businesses. We settle amounts with Ocwen on a daily, weekly or monthly basis depending upon the nature of the service and when the service is provided.

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

	Three months ended		Six months ended		
	2013	June 30, 2012	2013	June 30, 2012	
Mortgage Services	70%	70%	69%	70%	
Technology Services	54%	40%	52%	40%	
Financial Services	29%	<1%	17%	<1%	
Consolidated revenue	65%	61%	63%	60%	

We record revenue we earn from Ocwen under 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 fees Ocwen pays to other service providers, fees commensurate with market surveys prepared by unaffiliated firms and fees charged by our competitors.

Support Services

We have support services agreements with Ocwen. These services include such areas as human resources, vendor management, corporate services, six sigma, quality assurance, quantitative analytics, treasury, accounting, risk management, legal, strategic planning and compliance. Payment for the services provided is on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service. For the six months ended June 30, 2013 and 2012, we billed Ocwen \$1.2 million and \$1.4 million, respectively (\$0.6 million for the second quarter of 2013 and 2012), and Ocwen billed us \$1.4 million and \$1.2 million, respectively (\$0.7 million and \$0.6 million for the second quarter of 2013 and 2012, respectively) for services provided under these agreements. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

Unsecured Term Loan

On December 27, 2012, we entered into a senior unsecured term loan agreement with Ocwen under which we loaned \$75.0 million to Ocwen. Payments of interest were due quarterly at a rate per annum equal to the Eurodollar Rate (as defined in the agreement) plus 6.75%, provided that the Eurodollar Rate shall at no time be less than 1.50%. On February 15, 2013, Ocwen repaid the outstanding principal amount of \$75.0 million, plus all accrued and unpaid interest and the term loan was terminated. Interest income related to this loan was \$0.8 million for the six months ended June 30, 2013 (no comparative amounts for 2012).

Transactions Related to Fee-Based Businesses

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

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Correspondent One® and HLSS

In July 2011, we acquired an equity interest in Correspondent One S.A. (Correspondent One) (see Note 8). Correspondent One purchases closed conforming and government guaranteed residential mortgages from approved mortgage bankers. On March 31, 2013, we sold our 49% interest in Correspondent One to Ocwen for \$12.6 million. Under a support services agreement, we provided Correspondent One certain finance, human resources, legal support, facilities, technology, vendor management and risk management services. For the six months ended June 30, 2013 and 2012, we billed Correspondent One less than \$0.1 million for each period. We also provided certain origination related services to Correspondent One. We earned revenue of \$0.1 million for the six months ended June 30, 2013 for these services (no comparative amount in 2012).

Home Loan Servicing Solutions, Ltd. (HLSS) is a publicly traded company whose primary objective is the acquisition of mortgage servicing rights and advances. In connection with the February 2012 HLSS initial public offering and subsequent thereto, HLSS acquired mortgage servicing related assets from Ocwen. Our Chairman is also the Chairman of HLSS. Under a support services agreement, we provide HLSS certain finance, human resources and legal support services. For the six months ended June 30, 2013 and 2012, we billed HLSS \$0.3 million and \$0.2 million, respectively (\$0.1 million for the second quarter of 2013 and 2012).

These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

Residential and AAMC

Altisource Residential Corporation (Residential) and Altisource Asset Management Corporation (AAMC) were established, capitalized and their equity was distributed to our shareholders on December 21, 2012 and are each separate publicly traded companies (the Separation of the Residential Asset Businesses). Residential is focused on the single family rental market, acquiring single family properties through the purchase of distressed mortgage loan portfolios. AAMC is an asset management company providing portfolio management and corporate governance services to Residential. Our Chairman is also the Chairman of Residential and AAMC. For purposes of governing certain ongoing relationships between Altisource, Residential and AAMC after the Separation of the Residential Asset Businesses, and to provide for an orderly transition, we entered into certain agreements with Residential and AAMC.

We have agreements to provide Residential with renovation management, lease management and property management services. In addition, we have agreements with Residential and AAMC to provide support services such as finance, human resources, legal support, facilities, technology, vendor management and risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services. For the six months ended June 30, 2013, we billed Residential \$0.2 million, and we billed AAMC \$0.2 million (\$0.2 million for Residential and less than \$0.1 million for AAMC for the second quarter of 2013 and no comparative amounts in 2012), under these agreements.

NOTE 3 ACQUISITIONS

Homeward Fee-Based Businesses

On March 29, 2013, we acquired certain fee-based businesses associated with Ocwen's acquisition of Homeward. As part of the acquisition, Ocwen agreed not to develop similar fee-based businesses that would directly or indirectly compete with services provided by Altisource relative to the Homeward servicing portfolio. Additionally, the terms of the Service Agreements were amended to extend the term from 2020 to 2025 (see Note 2). We paid \$87.0 million, subject to a working capital and net income adjustment within 90 days, subsequently extended for an additional 60 days, for the Homeward fee-based businesses. From the acquisition date through June 30, 2013, we have recorded revenue of \$33.9 million and pre-tax income of \$8.9 million related to these businesses.

Management has adjusted the preliminary purchase price allocation and assigned associated asset lives based upon information that has become available since the acquisition date. The purchase price allocation and assessment of asset lives will continue to be revised as additional information about the fair value of assets and liabilities becomes available. Such assessment must be completed within 12 months from the acquisition date.

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The preliminary adjusted allocation of the purchase price is estimated as follows:

(in thousands)

Due from Ocwen	\$	9,558
Premises and equipment		2,749
Customer relationship		77,648
		89,955
Accounts payable and accrued expenses		(3,005)
Purchase price	\$	86,950

	Estimated life (in years)
Premises and equipment	2 - 5
Customer relationship	7

ResCap Fee-Based Businesses

On April 12, 2013, we entered into an agreement with Ocwen to establish additional terms related to the existing servicing arrangements between Altisource and Ocwen in connection with certain mortgage servicing platform assets of ResCap (the "ResCap Business"). The Service Agreements provide that (i) Altisource will be the exclusive provider, except as prohibited by applicable law, to Ocwen of certain services related to the ResCap Business, (ii) Ocwen will not establish similar fee-based businesses that would directly or indirectly compete with Altisource's services as they relate to the ResCap Business and (iii) Ocwen will market and promote the utilization of Altisource's services to their various third party relationships. Additionally, the parties agreed to use commercially reasonable best efforts to ensure that the loans associated with the ResCap Business are boarded onto Altisource's mortgage servicing platform. We paid \$128.8 million (\$80.0 million on April 12, 2013 and \$48.8 million on May 10, 2013) for the ResCap fee-based businesses. From the acquisition date through June 30, 2013, we have recorded revenue of \$7.8 million and pre-tax income of \$1.8 million related to these businesses.

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

Management has prepared a preliminary purchase price allocation and assigned associated asset lives based upon available information at the time of the agreement and through the date of filing. This preliminary allocation and assessment of asset lives will be revised as additional information about the fair value of assets and liabilities becomes available. Such assessment must be completed within 12 months from the acquisition date. The agreement consideration of \$128.8 million was fully allocated to the customer relationship intangible asset with an estimated average useful life of 7 years.

The following tables present the unaudited pro forma condensed consolidated results of operations as if the Homeward and ResCap Business transactions had occurred at the beginning of the periods presented.

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(in thousands, except per share amounts)	Six months ended	
	June 30, 2013	
	As reported	Pro forma
Revenue	\$ 334,937	\$ 368,428
Net income attributable to Altisource	58,449	64,980
Earnings per share diluted	2.34	2.61

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(in thousands, except per share amounts)	Six months ended June 30, 2012	
	As reported	Pro forma
Revenue	\$ 283,271	\$ 356,196
Net income attributable to Altisource	53,310	67,963
Earnings per share diluted	2.15	2.73

(in thousands, except per share amounts)	Three months ended June 30, 2012	
	As reported	Pro forma
Revenue	\$ 144,205	\$ 180,668
Net income attributable to Altisource	28,081	35,437
Earnings per share diluted	1.13	1.43

The unaudited pro forma information presents the combined operating results of Altisource and the Homeward and ResCap Business transactions. The Homeward and ResCap Business operating results were derived from their historical financial statements for the most comparable periods available. The results prior to the acquisition dates have been adjusted to include the pro forma impact of the adjustment of amortization of the acquired intangible assets based on the preliminary purchase price allocations, the adjustment of interest expense reflecting the portion of our \$200 million senior secured term loan, increased to \$400 million on May 7, 2013, used in the Homeward and ResCap Business transactions (i.e., the pro forma impact of borrowing \$215.7 million for the six months ended June 30, 2012) and to reflect the impact of income taxes on the pro forma adjustments utilizing Altisource's effective income tax rate in each period presented.

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

NOTE 4 ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2013	December 31, 2012
Billed		
Non-related parties	\$ 29,274	\$ 25,950
Ocwen	18,909	19,817
Correspondent One		27
HLSS	66	163
AAMC	546	14
Residential	75	
Other receivables	1,908	353
	50,778	46,324
Unbilled		

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Non-related parties	38,330	39,496
Ocwen	13,940	6,377
Correspondent One		32
	103,048	92,229
Allowance for doubtful accounts	(3,732)	(3,274)
Total	\$ 99,316	\$ 88,955

Unbilled fees consist primarily of asset management and default management services for which we recognize revenues over the service delivery period but bill following completion of the service.

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Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2013	December 31, 2012
Maintenance agreements, current portion	\$ 4,833	\$ 3,636
Income taxes receivable	2,970	1,814
Prepaid expenses	2,674	1,640
Due from Ocwen	9,558	
Other current assets	150	528
Total	\$ 20,185	\$ 7,618

NOTE 6 PREMISES AND EQUIPMENT, NET

Premises and equipment, net, which includes amounts recorded under capital leases, consists of the following:

(in thousands)	June 30, 2013	December 31, 2012
Computer hardware and software	\$ 77,766	\$ 68,329
Office equipment and other	18,391	15,592
Furniture and fixtures	6,086	5,344
Leasehold improvements	16,034	12,982
	118,277	102,247
Less: Accumulated depreciation and amortization	(61,073)	(51,848)
Total	\$ 57,204	\$ 50,399

Depreciation and amortization expense, inclusive of capital leases, amounted to \$9.3 million and \$5.2 million for the six months ended June 30, 2013 and 2012, respectively (\$4.6 million and \$2.9 million for the second quarter of 2013 and 2012, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations.

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

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There were no changes in goodwill during the six months ended June 30, 2013. The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance, June 30, 2013 and December 31, 2012	\$ 10,919	\$ 2,378	\$ 1,618	\$ 14,915

Table of Contents**Intangible Assets, Net**

Intangible assets, net consist of the following:

Definite-lived intangible assets													
Trademarks	16	\$	10,614	\$	10,614	\$	(4,298)	\$	(4,060)	\$	6,316	\$	6,554
Customer-related intangible assets													
Operating agreement	9		244,764		38,366		(27,529)		(18,567)		217,235		19,799
Non-compete agreement	20		35,000		35,000		(5,979)		(5,104)		29,021		29,896
	4		1,300		1,300		(1,125)		(963)		175		337
Total		\$	291,678	\$	85,280	\$	(38,931)	\$	(28,694)	\$	252,747	\$	56,586

Amortization expense for definite lived intangible assets was \$10.2 million and \$2.6 million for the six months ended June 30, 2013 and 2012, respectively (\$9.0 million and \$1.3 million for the second quarter of 2013 and 2012, respectively). Expected annual definite lived intangible asset amortization for 2013 through 2017 is \$28.3 million, \$44.8 million, \$40.7 million, \$33.4 million and \$26.6 million, respectively, including preliminary amounts associated with the Homeward and ResCap fee-based business transactions (see Note 3).

NOTE 8 INVESTMENT IN EQUITY AFFILIATE

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

Our net loss on this investment using the equity method was \$0.1 million and \$0.6 million for the six months ended June 30, 2013 and 2012, respectively (\$0.1 million gain and \$0.3 million loss for the second quarter of 2013 and 2012, respectively).

NOTE 9 OTHER ASSETS

Other assets consist of the following:

(in thousands)	June 30, 2013	December 31, 2012
Security deposits, net	\$ 6,289	\$ 5,019
Debt issuance costs, net	6,394	4,260
Maintenance agreements, non-current portion	2,093	1,614
Restricted cash	158	158
Other	179	623
Total	\$ 15,113	\$ 11,674

Table of Contents**NOTE 10 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2013	December 31, 2012
Accounts payable	\$ 6,518	\$ 5,079
Accrued expenses - general	18,969	16,528
Accrued salaries and benefits	20,750	19,613
Income taxes payable	13,135	8,750
Payable to Ocwen	4,414	8,865
Payable to AAMC	3	141
Total	\$ 63,789	\$ 58,976

Other current liabilities consist of the following:

(in thousands)	June 30, 2013	December 31, 2012
Deferred revenue	\$ 1,694	\$ 2,482
Facility closure cost accrual, current portion	125	138
Book overdrafts	5,213	5,229
Other	1,883	2,574
Total	\$ 8,915	\$ 10,423

Facility Closure Costs

During 2009, we accrued facility closure costs (included in other current and other non-current liabilities in the condensed consolidated balance sheets) primarily consisting of lease exit costs (expected to be paid through 2014) and severance related to the closure of two facilities. The following table summarizes the activity, all recorded in our Financial Services segment, for the six months ended June 30, 2013:

(in thousands)	Lease Costs
Balance, December 31, 2012	\$ 294
Payments	(112)
Balance, June 30, 2013	182
Less: Long-term portion	(57)
Facility closure cost accrual, current portion	\$ 125

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

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Long-term debt consists of the following:

(in thousands)	June 30, 2013	December 31, 2012
Senior secured term loan	\$ 398,500	\$ 200,000
Less: Unamortized discount, net	(821)	(1,973)
Net long-term debt	397,679	198,027
Less: Current portion	(4,000)	(2,000)
Long-term debt, less current portion	\$ 393,679	\$ 196,027

On November 27, 2012, we entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders, pursuant to which we borrowed \$200 million. The senior secured term loan was issued with a 1.0% original issue discount (\$2.0 million), resulting in net proceeds of \$198.0 million (the Initial Proceeds), with the Company and certain wholly-owned subsidiaries acting as guarantors (collectively, the Guarantors).

On May 7, 2013, we amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan by \$200 million (the Incremental Term Loan), which was issued with a \$1.0 million original issue premium, resulting in gross proceeds to the Company of \$201.0 million.

The Incremental Term Loan must be repaid in equal consecutive quarterly principal installments of 0.25% of the initial principal amount, with the balance due at maturity, commencing on June 28, 2013. The aggregate amount of each quarterly scheduled principal installment of the term loans, including the Incremental Term Loan, is equal to approximately \$1.0 million. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) November 27, 2019, being the seventh anniversary of the closing date of the senior secured term loan agreement or (ii) the date on which the loans are declared to be due and owed by the administrative agent at the request (or with the consent) of the lenders upon the occurrence of any event of default under the senior secured term loan agreement.

The Incremental Term Loan was used to fund the remainder of the Company's previously announced transaction with Ocwen related to the ResCap servicing portfolio (see Note 3), with the remainder to be used for stock repurchases and for general corporate purposes, including potential acquisitions. Additionally, the Incremental Term Loan was used to pay certain fees, commissions and expenses in connection with the Incremental Term Loan. The Company paid legal fees and other costs associated with the Incremental Term Loan of \$2.4 million, which were recorded as debt issuance costs in other assets in the accompanying condensed consolidated balance sheets.

Additionally, the Incremental Term Loan modified the senior secured term loan agreement to, among other changes, provide for an additional \$200 million incremental term loan facility accordion and increase the maximum amount of Restricted Payments (as defined in the senior secured term loan) that may be made by us, including increasing the amount of Company share repurchases permitted.

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All of the term loans outstanding bear interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate (each as defined in the senior secured term loan agreement). Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.25% plus (ii) a 4.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.25% plus (ii) a 3.50% margin. The interest rate at June 30, 2013 was 5.75%.

Payments under the senior secured term loan agreement are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries, as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource, and the Guarantors, subject to certain exceptions.

At June 30, 2013, debt issuance costs were \$6.4 million, net of \$0.5 million of accumulated amortization. At December 31, 2012, debt issuance costs were \$4.3 million, net of \$0.1 million of accumulated amortization. Debt issuance costs are included in other assets in the accompanying condensed consolidated balance sheets.

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NOTE 12 EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

In May 2012, our shareholders approved a stock repurchase program, which replaced the previous stock repurchase program. Under the plan, we are authorized to purchase up to 3.5 million shares of our common stock in the open market in addition to amounts previously purchased under the prior plan. From authorization of the prior plan in May 2010 through June 30, 2013, we have purchased approximately 3.1 million shares of our common stock in the open market at an average price of \$47.04 per share. We purchased 0.6 million shares of common stock (at an average price of \$89.01 per share) and 0.3 million shares of common stock (at an average price of \$63.25 per share) during the six months ended June 30, 2013 and 2012, respectively (0.3 million shares at an average price of \$94.49 per share for the second quarter of 2013 and no comparative amounts in the second quarter of 2012). 2.9 million shares of common stock remain available for repurchase under the plan. Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings less shares repurchased. As of June 30, 2013, approximately \$40 million was available to repurchase our common stock under Luxembourg law. Our \$200 million senior secured term loan, increased to \$400 million on May 7, 2013, also limits our ability to repurchase our common stock, which will limit the amount we can spend on share repurchases in any year and may prevent repurchases in certain circumstances. As of June 30, 2013, approximately \$80 million was available to repurchase our common stock under our senior secured term loan.

Share-Based Compensation

We issue share-based awards in the form of stock options and certain other equity-based awards for certain employees and officers. We recorded share-based compensation expense of \$1.5 million and \$0.9 million for the six months ended June 30, 2013 and 2012, respectively (\$0.1 million and \$1.1 million for the second quarter of 2013 and 2012, respectively). The amount for the six months ended June 30, 2012 includes the reversal of \$0.8 million of share-based compensation expense related to the departure of an executive officer in March 2012.

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

Service-based Options. These options are granted at fair value on the date of grant. The options generally vest over four years with equal annual cliff-vesting and expire on the earlier of 10 years after the date of grant or following termination of service. A total of 0.9 million service-based awards were outstanding at June 30, 2013.

Market-based Options. These option grants have two components each of which vest only upon the achievement of certain criteria. The first component, which we refer to internally as ordinary performance grants, consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to internally as extraordinary performance grants, begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. The vesting schedule for all market-based awards is 25% upon achievement of the criteria and the remaining 75% in three equal annual installments. A total of 2.0 million market-based awards were outstanding at June 30, 2013.

The Company granted less than 0.1 million stock options (at a weighted average exercise price of \$90.75 per share) and 0.2 million stock options (at a weighted average exercise price of \$63.14 per share) during the six months ended June 30, 2013 and 2012, respectively.

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

	Six months ended June 30, 2013				Six months ended June 30, 2012			
	Black-Scholes		Binomial		Black-Scholes		Binomial	
Risk-free interest rate	1.02%	1.13%	0.01%	2.02%	0.97%	1.17%	0.08%	2.04%
Expected stock price volatility	36.35%	36.76%	36.40%	36.80%	34.22%	34.65%	34.20%	34.60%
Expected dividend yield								
Expected option life (in years)	6.25				6.25			
Contractual life (in years)					14			
Fair value	\$31.33	\$35.77	\$16.12	\$31.15	\$19.25	\$22.80	\$11.65	\$17.27

The following table summarizes the weighted-average fair value of stock options granted, the total intrinsic value of stock options exercised and the fair value of options vested:

(in thousands, except per share amounts)	Six months ended June 30,	
	2013	2012
Weighted-average fair value at grant date per share	\$ 25.83	\$ 16.86
Intrinsic value of options exercised	9,625	8,339
Fair value of options vested	1,475	973

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

As of June 30, 2013, estimated unrecognized compensation costs related to share-based payments amounted to \$2.7 million, which we expect to recognize over a weighted-average remaining requisite service period of approximately 2.6 years.

The following table summarizes the activity related to our stock options:

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2012	3,058,309	\$ 17.69	6.1	\$ 211,072
Granted	45,000	90.75		
Exercised	(142,977)	20.38		
Forfeited	(102,875)	62.27		

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Outstanding at June 30, 2013	2,857,457	17.09	5.5	220,622
Exercisable at June 30, 2013	2,320,557	11.89	5.1	191,243

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Compensation and benefits	\$ 36,744	\$ 27,989	\$ 69,323	\$ 55,474
Outside fees and services	46,345	31,757	81,240	60,410
Reimbursable expenses	23,299	24,814	43,565	53,520
Technology and telecommunications	7,060	5,866	12,551	10,990
Depreciation and amortization	3,524	2,312	7,255	4,104
Total	\$ 116,972	\$ 92,738	\$ 213,934	\$ 184,498

NOTE 14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Compensation and benefits	\$ 6,609	\$ 6,400	\$ 12,066	\$ 10,783
Professional services	1,384	1,806	3,016	3,461
Occupancy related costs	7,957	6,158	14,533	12,667
Amortization of intangible assets	9,037	1,292	10,237	2,632
Depreciation and amortization	1,058	609	2,051	1,096
Other	3,783	2,753	6,605	5,394
Total	\$ 29,828	\$ 19,018	\$ 48,508	\$ 36,033

NOTE 15 OTHER INCOME (EXPENSE), NET

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

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(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Equity gain (loss) in affiliate	\$ 54	\$ (255)	\$ (122)	\$ (579)
Interest expense	(4,902)	(14)	(8,114)	(29)
Interest income	11	10	867	26
Other, net	12	(62)	37	(90)
Total	\$ (4,825)	\$ (321)	\$ (7,332)	\$ (672)

Equity loss in affiliate represents our proportional share of the losses in Correspondent One (see Note 8). The equity gain in affiliate represents the gain on sale of Correspondent One (see Note 2).

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Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities using the treasury stock method.

Basic and diluted EPS are calculated as follows:

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income attributable to Altisource	\$ 30,931	\$ 28,081	\$ 58,449	\$ 53,310
Weighted-average common shares outstanding, basic	23,161	23,316	23,267	23,353
Dilutive effect of stock options	1,662	1,530	1,673	1,497
Weighted-average common shares outstanding, diluted	24,823	24,846	24,940	24,850
Earnings per share				
Basic	\$ 1.34	\$ 1.20	\$ 2.51	\$ 2.28
Diluted	\$ 1.25	\$ 1.13	\$ 2.34	\$ 2.15

For the six months ended June 30, 2013 and 2012, 0.1 million and less than 0.1 million options, respectively (less than 0.1 million for the second quarter of 2013 and 2012), that were anti-dilutive have been excluded from the computation of diluted EPS. These options were anti-dilutive because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS for the six months ended June 30, 2013 and 2012 are 0.1 million and 0.3 million options, respectively (0.1 million and 0.3 million for the second quarter of 2013 and 2012, respectively), granted for shares that are issuable upon the achievement of certain market and performance criteria related to our common stock price and an annualized rate of return to investors that have not been met.

NOTE 17 COMMITMENTS AND CONTINGENCIES*Litigation*

From time to time, we are involved in legal proceedings arising in the ordinary course of business. We record a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where a range of loss is determined, we record a best estimate of loss within the range.

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When legal proceedings are material, we disclose the nature of the litigation, and to the extent possible, the estimate of loss or range of loss. In the opinion of management, after consultation with legal counsel and considering insurance coverage where applicable, the outcome of current legal proceedings, both individually and in the aggregate, will not have a material impact on our financial condition, results of operations or cash flows.

Escrow Balances

We hold customers' assets in escrow at various financial institutions pending completion of certain real estate activities. These amounts are held in escrow for limited periods of time, generally consisting of a few days and are not included in the condensed consolidated balance sheets. Amounts held in escrow were \$48.7 million and \$47.2 million as of June 30, 2013 and December 31, 2012, respectively.

NOTE 18 SEGMENT REPORTING

Our business segments are based upon our organizational structure, which focuses primarily on the services offered, and are consistent with the internal reporting used by our Chief Executive Officer to evaluate operating performance and to assess the allocation of our resources.

We classify our businesses into three reportable segments. The *Mortgage Services* segment provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators and investors in single family

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homes. The *Financial Services* segment provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility and insurance industries. The *Technology Services* segment principally consists of our REALSuite software applications as well as our information technology infrastructure services. The REALSuite platform provides a fully integrated set of software applications and technologies that manage the end-to-end lifecycle for residential and commercial mortgage loan servicing including the automated management and payment of a distributed network of vendors. In addition, our *Corporate Items and Eliminations* segment includes eliminations of transactions between the reporting segments and costs related to corporate support functions including executive, finance, legal, human resources, vendor management, risk and six sigma.

Financial information for our segments is as follows:

(in thousands)	Three months ended June 30, 2013					Consolidated Altisource
	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations		
Revenue	\$ 144,210	\$ 23,072	\$ 24,783	\$ (5,955)	\$ 186,110	
Cost of revenue	89,078	13,807	19,407	(5,320)	116,972	
Gross profit	55,132	9,265	5,376	(635)	69,138	
Selling, general and administrative expenses	12,590	3,534	3,028	10,676	29,828	
Income from operations	42,542	5,731	2,348	(11,311)	39,310	
Other income (expense), net	61	(5)	(1)	(4,880)	(4,825)	
Income before income taxes and non-controlling interests	\$ 42,603	\$ 5,726	\$ 2,347	\$ (16,191)	\$ 34,485	

(in thousands)	Three months ended June 30, 2012					Consolidated Altisource
	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations		
Revenue	\$ 115,903	\$ 16,239	\$ 17,886	\$ (5,823)	\$ 144,205	
Cost of revenue	73,156	11,663	13,214	(5,295)	92,738	
Gross profit	42,747	4,576	4,672	(528)	51,467	
Selling, general and administrative expenses	5,612	3,604	1,819	7,983	19,018	
Income from operations	37,135	972	2,853	(8,511)	32,449	
Other expense, net	(246)	(2)	(6)	(67)	(321)	
Income before income taxes and non-controlling interests	\$ 36,889	\$ 970	\$ 2,847	\$ (8,578)	\$ 32,128	

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Six months ended June 30, 2013

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	\$ 261,658	\$ 39,408	\$ 45,014	\$ (11,143)	\$ 334,937
Cost of revenue	161,447	25,833	36,519	(9,865)	213,934
Gross profit	100,211	13,575	8,495	(1,278)	121,003
Selling, general and administrative expenses	18,048	6,384	4,893	19,183	48,508
Income from operations	82,163	7,191	3,602	(20,461)	72,495
Other income (expense), net	(112)	(8)	3	(7,215)	(7,332)
Income before income taxes and non-controlling interests	\$ 82,051	\$ 7,183	\$ 3,605	\$ (27,676)	\$ 65,163

Six months ended June 30, 2012

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	\$ 225,564	\$ 34,255	\$ 34,908	\$ (11,456)	\$ 283,271
Cost of revenue	146,195	23,996	24,680	(10,373)	184,498
Gross profit	79,369	10,259	10,228	(1,083)	98,773
Selling, general and administrative expenses	11,303	7,434	3,668	13,628	36,033
Income from operations	68,066	2,825	6,560	(14,711)	62,740
Other expense, net	(567)	(16)	(17)	(72)	(672)
Income before income taxes and non-controlling interests	\$ 67,499	\$ 2,809	\$ 6,543	\$ (14,783)	\$ 62,068

(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Total assets:					
June 30, 2013	\$ 316,648	\$ 56,322	\$ 113,794	\$ 156,369	\$ 643,133
December 31, 2012	132,924	37,782	64,570	193,950	429,226

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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 provide a reader of our financial statements with a narrative from the perspective of management on our businesses, current developments, financial condition, results of operations and liquidity. Our MD&A should be read in conjunction with our Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (SEC) on February 13, 2013.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q regarding anticipated financial outcomes, business and market conditions, outlook and other similar statements related to Altisource's future financial and operational performance are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of terminology such as anticipate, intend, expect, may, could, should, would, plan, estimate, believe, predict, potential or of these terms and other comparable terminology. 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. The following are examples of such items and are not intended to be all inclusive:

- 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 improve margins;
- expectations regarding collection rates and placements in our Financial Services segment;
- assumptions regarding the impact of seasonality;
- estimates regarding the calculation of our effective tax rate; and
- estimates regarding our reserves and valuations.

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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 the Risk Factors section of our Form 10-K for the year ended December 31, 2012 and include the following:

- our ability to retain our existing customers, expand relationships and attract new customers;
- the level of loan delinquencies;
- the level of origination volume;
- technology failures;
- the trend toward outsourcing;
- our ability to raise debt;
- our ability to retain our directors, executive officers and key personnel; and
- our ability to comply with and burdens imposed by changes in governmental regulations, taxes and policies.

We caution you not to place undue reliance on these forward-looking statements as they 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 any change in events, conditions or circumstances on which any such statement is based.

OVERVIEW

Our business

When we refer to we, us, our, the Company or Altisource we mean Altisource Portfolio Solutions S.A., a public limited company, and its wholly-owned subsidiaries.

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We, through our subsidiaries, are a global provider of outsourcing and services focused on high-value, technology-enabled solutions principally related to mortgage and real estate portfolio management, asset recovery and customer relationship management.

We classify our business into the following three reportable segments:

Mortgage Services: Provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, originators and investors in single family homes. We provide these services primarily for loan portfolios serviced by Ocwen Financial Corporation and its subsidiaries (Ocwen). We also have longstanding relationships with some of the leading capital markets firms, commercial banks, hedge funds, insurance companies and mortgage bankers. Within the Mortgage Services segment, we provide the following services:

Asset management Asset management services principally include property preservation, property inspection, real estate owned (REO) asset management, our consumer real estate portal and REO brokerage services. In connection with the spin-off of Altisource Residential Corporation (Residential) and Altisource Asset Management Corporation (AAMC), we also provide property management, lease management and renovation management services for single family rental properties.

Residential property valuation Residential property valuation services principally include traditional appraisal products through our licensed appraisal management company and alternative valuation products primarily through our network of real estate professionals. We generally provide these services for loan servicers, mortgage bankers and investors in single family homes.

Closing and insurance services Closing and insurance services principally include an array of title search, closing, title agency and insurance related services, including document preparation, pre-foreclosure and REO title searches, escrow and title insurance, program management and insurance brokerage services applicable to residential loan servicers. We also provide closing and title agency services for loan originations.

Default management services Default management services principally include foreclosure trustee services for loan servicers and non-legal processing and related services for and under the supervision of foreclosure, bankruptcy and eviction attorneys.

Origination management services Origination management services principally include the operations of Mortgage Partnership of America, L.L.C. (MPA) and our contract underwriting and quality control businesses. MPA serves as the manager of Best Partners Mortgage Cooperative, Inc. (BPMC), which is referred to as the Lenders One Mortgage Cooperative (Lenders One), 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. We provide other origination related services in the residential property valuation and closing and insurance services businesses. In addition, some of the origination related reseller businesses, including the flood certification business, are included in the Technology Services REALSuite business.

Financial Services: Provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility and insurance industries. Within the Financial Services segment, we provide the

following services:

Asset recovery management Asset recovery management principally includes post-charge-off debt collection services on a contingency fee basis.

Customer relationship management Customer relationship management includes customer care and early stage collections services as well as insurance and claims processing, call center services and analytical support.

Technology Services: Comprises our REALSuite of software applications as well as our information technology (IT) infrastructure services. We currently provide our IT infrastructure services to Ocwen, Home Loan Servicing Solutions (HLSS), Correspondent One S.A. (Correspondent One), Residential, AAMC and ourselves. The REALSuite platform provides a fully integrated set of software applications and technologies that manage the end-to-end lifecycle for residential and commercial mortgage loan servicing including the automated management and payment of a distributed network of vendors. A brief description of the key REALSuite software products is below:

REALServicing® An enterprise residential mortgage loan servicing product that offers an efficient and effective platform for loan servicing including default administration. This technology solution features automated workflows, a dialogue engine and robust reporting capabilities. The solution spans the loan servicing lifecycle from loan boarding to satisfaction including all collections, payment processing and reporting. We also offer our REALSynergy® enterprise commercial loan servicing system.

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REALTrans® A patented electronic business-to-business exchange that automates and simplifies the ordering, tracking and fulfilling of vendor provided services principally related to mortgages. This technology solution, whether web-based or integrated into a servicing system, connects multiple service providers through a single platform and forms an efficient method for managing a large scale network of vendors.

REALRemit® A patented electronic invoicing and payment system that provides vendors with the ability to submit invoices electronically for payment and to have invoice payments deposited directly to their respective bank accounts.

REALDoc® A correspondence management platform that automates document generation, distribution, archival and retrieval. It is capable of integrating with all commercially available servicing, origination and process management applications.

Corporate Items and Eliminations: Includes costs related to corporate support functions including executive, finance, legal, human resources, vendor management, risk and six sigma and also includes eliminations of transactions between the reporting segments. Corporate items and eliminations also include the cost of facilities until 40% of the facilities are occupied by the business units.

We classify revenue in three categories: (i) service revenue, (ii) revenue from reimbursable expenses and (iii) non-controlling interests. In evaluating our performance, we focus on service revenue, which consists of amounts attributable to our fee-based services. Reimbursable expenses and non-controlling interests are pass-through items for which we earn no margin. Reimbursable expenses consist of amounts we incur on behalf of our customers in performing our fee-based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource.

Stock repurchase plan

In May 2012, our shareholders approved a stock repurchase program, which replaced the previous stock repurchase program. Under the plan, we are authorized to purchase up to 3.5 million shares of our common stock in the open market in addition to amounts previously purchased under the prior plan. From authorization of the prior plan in May 2010 through June 30, 2013, we have purchased approximately 3.1 million shares of our common stock in the open market at an average price of \$47.04 per share. We purchased 0.6 million shares of common stock (at an average price of \$89.01 per share) and 0.3 million shares of common stock (at an average price of \$63.25 per share) during the six months ended June 30, 2013 and 2012, respectively (0.3 million shares at an average price of \$94.49 per share for the second quarter of 2013 and no comparative amounts in the second quarter of 2012). 2.9 million shares of common stock remain available for repurchase under the plan. Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. (unconsolidated parent company) retained earnings less shares repurchased. As of June 30, 2013, approximately \$40 million was available to repurchase our common stock under Luxembourg law. Our \$200 million senior secured term loan, increased to \$400 million on May 7, 2013, also limits our ability to repurchase our common stock, which will limit the amount we can spend on share repurchases in any year and may prevent repurchases in certain circumstances. As of June 30, 2013, approximately \$80 million was available to repurchase our common stock under our senior secured term loan.

Growth initiatives

We believe there are significant growth opportunities for Altisource. Our 2013 strategic growth initiatives are:

- maintaining and growing our services provided to Ocwen as it continues to grow its residential loan servicing portfolio;
- growing our origination related services by providing services to the members of Lenders One and Ocwen's origination platform;
- deploying the Hubzu® consumer real estate portal to the distressed and non-distressed home sales market;
- providing property management, lease management and renovation management services for single family home rentals; and
- growing the Financial Services segment's revenue and earnings.

Services provided to Ocwen - On June 13, 2013, Ocwen entered into a mortgage servicing rights purchase and sale agreement with OneWest Bank, FSB (OneWest) to purchase mortgage servicing rights with approximately \$78 billion in unpaid principal balance, representing approximately 307,000 loans as of June 30, 2013. As of June 30, 2013, between 25% and 30% of the non-Government-

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Sponsored Enterprise (non-GSE) loans and between 20% and 25% of the Government-Sponsored Enterprise (GSE) loans in the portfolio were delinquent. We expect this acquisition will drive meaningful default and technology related revenue growth to Altisource.

We believe Ocwen's servicing portfolio growth will continue to provide a meaningful contribution to our revenue even as delinquency rates decline. In time, delinquencies and the opportunities for Ocwen to acquire the servicing on large non-performing loan portfolios should return to a more normal level. The expansion of our other services, and the redeployment of the operating cash generated from our businesses, should provide for on-going growth.

We continue to develop new services to complement our current offerings. In our Mortgage Services segment, we recently developed short sale offerings. Our initial rollout of the short sale program is complete and was limited to non-Home Affordable Foreclosure Alternatives (HAFA) program short sales in seven states. In July 2013, we added 28 additional states and expect to expand over the next month our services to include both HAFA and non-HAFA short sales. We expect our short sale revenue stream to grow throughout the second half of the year as we gain a greater share of Ocwen approved short sales. During the first half of 2013, Ocwen processed approximately 1,150 first lien short sales on average per month.

With respect to Ocwen's servicing portfolio growth, the Mortgage Services segment is almost fully staffed to support the anticipated 65% increase in the number of non-GSE loans on REALServicing by the fourth quarter of 2013 compared to the second quarter of 2013. This growth is expected based on Ocwen's acquisitions of the Homeward Residential, Inc. (Homeward), ResCap, Ally Financial Inc. (Ally) and OneWest servicing rights. We expect Ocwen to board 619,000 non-GSE loans on REALServicing in the second half of 2013. Of the 619,000 non-GSE loans, approximately 470,000 ResCap loans will be boarded in the third quarter of 2013 and 149,000 OneWest loans will be boarded in the fourth quarter of 2013. With respect to the GSE loans, we anticipate Ocwen will board 1.2 million GSE loans, which are between 5% and 10% delinquent, from the Homeward, ResCap, OneWest and Ally portfolios through the first half of 2014.

Mortgage origination related services To grow our mortgage origination related services, we are focused on expanding the mortgage services platform to provide the services typically outsourced by a mortgage loan originator. We intend to do this by providing services to Ocwen's origination platform and by providing services to the Lenders One members and their estimated 11% share of the year-to-date 2013 residential loan origination market. We believe we can enhance the profitability and competitive position of the Lenders One members and Ocwen's origination platform through the retention of Altisource as their service provider.

Our service revenue from origination related services was \$21.9 million for the six months ended June 30, 2013 (\$16.4 million for the six months ended June 30, 2012), an increase of 34% over the six months ended June 30, 2012. During the second quarter of 2013, we signed an additional 15 master services agreements with the members of Lenders One. As a result, over 72% of the members have now signed master service agreements with Altisource.

Hubzu - We continue to focus on expanding the Hubzu online real estate transaction website to the distressed and non-distressed home sales market as we believe there are opportunities to benefit from a shifting consumer preference for online transacting. Hubzu provides an automated, transparent and integrated online solution for buying and selling real estate and, eventually, related services. We have demonstrated that homeowners will purchase their homes on Hubzu. We believe over 50% of homes acquired through Hubzu in 2012 were purchased for personal use.

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Our efforts to grow Hubzu in 2013 are centered on two key growth efforts. The first effort is focused on marketing Hubzu to other servicers and financial institutions to sell their REO and short sale properties. In this regard, we are in contract negotiations with 4 prospects and are engaged in dialogue with others.

Our second effort is focused on attracting real estate agents and brokers to list non-distressed homes for sale on Hubzu. In the first quarter of 2013, we completed a successful pilot of Hubzu's direct-to-broker program. During the second quarter, we made technology enhancements based on the feedback we received from the pilot. These enhancements included providing brokers and agents with easier capacity to upload both individual and bulk home listings to Hubzu and robust dashboard and reporting functionality. The technology went live in early July 2013. The early signs point to strong market acceptance of our direct-to-broker product. Since the launch of the program in early July 2013, over 700 properties have been listed on Hubzu by independent agents and brokers – the vast majority of which are non-distressed.

Property management, lease management and renovation management services We have a 15-year agreement through 2027 to act as the exclusive provider of property management, lease management and renovation management services to Residential. In time, we also intend to offer our services to other single family property owners. Altisource's property management, lease management and renovation management business is fully operational and prepared to scale as Residential continues to grow. During the second quarter, Residential raised \$309.5 million of equity and entered into agreements to acquire two pools of non-performing loans with a total unpaid principal balance of \$470 million. Currently, substantially all of Residential's assets are non-performing loans. As these non-performing loans move through the resolution process and as Residential continues to acquire assets, we expect the number of rental assets and our revenue to grow accordingly.

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Financial Services segment This segment includes our receivables management and customer relationship management businesses. We are focused on growing the profitability of the Financial Services business by expanding our higher margin customer relationship management and charge-off mortgage businesses. In this regard, we began providing services for a new customer relationship business management client in the second quarter of 2013 and continued providing services to the new customer relationship management client we added in the first quarter of 2013. With respect to the charge-off mortgage business, we expanded our capabilities with the ResCap fee-based business and in the second quarter of 2013 began providing these services to the ResCap loans and a greater portion of the other loans in the Ocwen portfolio. Compared to the first quarter of 2013, service revenue grew 42% in the second quarter of 2013 and operating income as a percentage of service revenue improved from 9% to 25%. Income before taxes and non-controlling interests was \$5.7 million for the second quarter of 2013, an increase of 293% from the first quarter of 2013.

Factors affecting comparability

The following additional items may impact the comparability of our results:

- The average number of loans serviced by Ocwen on REALServicing totaled 0.9 million loans for the six months ended June 30, 2013 compared to 0.7 million loans for the six months ended June 30, 2012 (1.0 million loans for the three months ended June 30, 2013 and 0.8 million loans for the three months ended June 30, 2012). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing totaled 263,000 loans for the six months ended June 30, 2013, compared to 203,000 loans for the six months ended June 30, 2012. During the six months ended June 30, 2013, Ocwen boarded all of the Homeward non-GSE loans on REALServicing and none of the ResCap loans were boarded. We anticipate Ocwen to board the ResCap non-GSE loans on REALServicing before the end of the third quarter of 2013. We also expect Ocwen to board the Homeward, ResCap, OneWest and Ally GSE loans on REALServicing during the first half of 2014;
- In November 2012, we borrowed \$200 million under a senior secured term loan agreement, increased to \$400 million on May 7, 2013. Interest expense, including amortization of debt issuance costs and debt discount, totaled \$8.1 million for the six months ended June 30, 2013 and \$4.9 million in the second quarter of 2013 (no comparative amounts in 2012);
- We repurchased 0.6 million shares of our common stock under our stock repurchase program for the six months ended June 30, 2013 compared to 0.3 million shares for the six months ended June 30, 2012 (0.3 million shares for the second quarter of 2013 and none for the second quarter of 2012);
- In connection with our 2013 fee-based business transactions with Ocwen related to Homeward and ResCap, we recorded customer relationship intangible assets of \$206.4 million. Intangible asset amortization expense relating to these transactions totaled \$7.9 million for the second quarter and six months ended June 30, 2013 (no comparative amounts in 2012); and
- On December 27, 2012, we loaned Ocwen \$75.0 million that earned interest at 6.75%. The loan was repaid on February 15, 2013.

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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:

(dollars in thousands, except per share data)	Three months ended June 30,			Six months ended June 30,		
	2013	2012	% Increase (decrease)	2013	2012	% Increase (decrease)
Service revenue						
Mortgage Services	\$ 119,887	\$ 89,999	33	\$ 216,264	\$ 169,319	28
Financial Services	22,959	16,057	43	39,091	33,817	16
Technology Services	24,783	17,886	39	45,014	34,908	29
Eliminations	(5,955)	(5,823)	(2)	(11,143)	(11,456)	3
	161,674	118,119	37	289,226	226,588	28
Reimbursable expenses	23,299	24,815	(6)	43,565	53,520	(19)
Non-controlling interests	1,137	1,271	(11)	2,146	3,163	(32)
Total revenue	186,110	144,205	29	334,937	283,271	18
Cost of revenue						