Altisource Portfolio Solutions S.A.
Form 10-Q
July 28, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

Commission File Number 1-34354

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

Luxembourg	**Not applicable**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

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 þ No o

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

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

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

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FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

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

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, Except Per Share Data)

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

Transactions with Related Parties Included Above:

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

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

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

See accompanying notes to condensed consolidated financial statements.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

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

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

See accompanying notes to condensed consolidated financial statements.

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

Basis of Presentation

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

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

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

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

Investment in Equity Affiliate

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

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

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

(continued)

Acquisitions

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

Foreign Currency Translation

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

Fair Value of Financial Instruments

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

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

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

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

NOTE 2 TRANSACTIONS WITH RELATED PARTIES

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Mortgage Services	74%	73%	74%	75%
Technology Products	38%	36%	38%	37%
Financial Services	1%	<1%	<1%	<1%
Consolidated Revenue	58%	50%	56%	49%

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 charged by our competitors. As of January 1, 2011, we modified our pricing for IT Infrastructure Services within our Technology Services segment from a rate card model primarily based on headcount to a fully loaded costs plus mark-up methodology.

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, treasury, accounting, risk management, legal, strategic planning, compliance and other areas are provided to the counterparty for up to two years from the date of Separation. For the six months ended June 30, 2011 and 2010, Altisource billed Ocwen $0.9 million and $0.8 million respectively ($0.5 million and $0.4 million for the second quarter of 2011 and 2010, respectively), and Ocwen billed Altisource $0.8 million and $0.6 respectively ($0.5 million and $0.3 million for the second quarter of 2011 and 2010, respectively) 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 ACCOUNTS RECEIVABLE, NET

Accounts Receivable, net consists of the following:

(in thousands)	June 30, 2011	December 31, 2010
Third-party Accounts Receivable	$ 15,371	$ 19,039
Unbilled Fees	35,791	32,055
Receivable from Ocwen	2,941	3,950
Other Receivables	919	583
	55,022	55,627
Allowance for Doubtful Accounts	(2,527)	(2,132)
Total	$ 52,495	$ 53,495

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

NOTE 4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets consist of the following:

(in thousands)	June 30, 2011	December 31, 2010
Prepaid Expenses	$ 3,463	$ 5,134
Income Tax Receivable		7,327
Other Current Assets	942	615
Total	$ 4,405	$ 13,076

NOTE 5 PREMISES AND EQUIPMENT, NET

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

(in thousands)	June 30, 2011	December 31, 2010
Computer Hardware and Software	$ 34,492	$ 32,931
Office Equipment and Other	10,477	9,717
Furniture and Fixtures	2,346	2,226
Leasehold Improvements	5,495	4,501
	$ 52,810	$ 49,375
Less: Accumulated Depreciation and Amortization	(35,996)	(31,882)
Total	$ 16,814	$ 17,493

Depreciation and amortization expense, inclusive of capital lease obligations, amounted to $4.1 million and $3.2 million for the six months ended June 30, 2011 and 2010, respectively ($2.2 million and $1.7 million for the second quarter of 2011 and 2010, 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 6 GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following is a summary showing the balance of goodwill by segment:

(in thousands)	Mortgage Services	Technology Services	Total
Balance, December 31, 2010	$ 10,218	$ 1,618	$ 11,836
Acquisition of Springhouse	701		701

Balance, June 30, 2011	$ 10,919	$ 1,618	$ 12,537

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

Springhouse Acquisition

In April 2011, we acquired Springhouse an appraisal management company that utilizes a nationwide panel of appraisers to provide real estate appraisals principally to mortgage originators, including the members of Lenders One, and real estate asset managers.

Consideration for the transaction consisted of the amounts provided in the table below. The working capital amount is subject to additional revision in the third quarter which is not expected to be material:

(in thousands)	Consideration
Cash	$ 1,900
Non-compete agreement	100
Working Capital Adjustment	(215)
Total Consideration	$ 1,785

A summary of the preliminary allocation of the purchase consideration based on estimates of fair value of the assets acquired and the liabilities assumed is follows:

(in thousands)	
Accounts Receivable	$ 108
Premises and Equipment	16
Identifiable Intangible Assets	1,180
Goodwill	701
	2,005
Accounts Payable and Accrued Expenses	(220)
Total Purchase Price	$ 1,785

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

	Estimated Life (in Years)
Premises and Equipment	2 5
Trademarks[1]	4
Customer Lists[1]	6
Non-compete[1]	2
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 Springhouse acquisition assigned to our Mortgage Services segment relates principally to in-place workforce and our ability to go to market more quickly with a retail origination appraisal business. All goodwill and intangible assets related to the acquisition are expected to be amortizable and deductible for income tax

purposes.
The results of operations of Springhouse has been included in our consolidated results from the acquisition date. The acquisition did not have a material effect on our financial position, results of operations or cash flows.

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

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

Intangible Assets, Net

Intangible Assets, net consists of the following:

(dollars in thousands)	Weighted Average Estimated Useful Life (Years)	Gross Carrying Amount June 30, 2011	Gross Carrying Amount December 31, 2010	Accumulated Amortization June 30, 2011	Accumulated Amortization December 31, 2010	Net Book Value June 30, 2011	Net Book Value December 31, 2010
Definite-lived Intangible Assets							
Trademarks	16	$ 10,614	$ 10,200	$ 2,836	$ 2,346	$ 7,778	$ 7,854
Customer Lists	19	38,366	37,700	10,202(a)	7,447	28,164	30,253
Operating Agreement	20	35,000	35,000	2,535	1,604	32,465	33,396
Non-compete Agreement	4	1,300	1,200	438	275	862	925
Total Intangible Assets		$ 85,280	$ 84,100	$ 16,011	$ 11,672	$ 69,269	$ 72,428

(a) Prior to our acquisition of Nationwide Credit, Inc. (NCI) in 2007, NCI completed an acquisition which created tax-deductible goodwill that amortizes for tax purposes over time. When we acquired NCI in 2007, we recorded a lesser amount of goodwill for financial reporting purposes than what had previously been recorded at NCI for tax purposes. This difference between the amount of goodwill recorded for financial reporting purposes and the amount recorded for taxes is referred to as Component 2 goodwill and it resulted in our recording periodic reductions first to our book goodwill balance in our consolidated financial statements. As our book goodwill balance was fully written off at December 31, 2010, we continue to amortize the remaining Component 2 goodwill for U.S. tax purposes by reducing certain intangible assets by the remaining tax benefits of the Component 2 goodwill as they are realized in our tax returns. The amount amortized was $1.7 million for the six months ended June 30, 2011. The balance of Component 2 goodwill remaining was $8.5 million as of June 30, 2011 which should generate $5.1 million of reductions of intangible assets when the benefit can be realized for U.S. tax purposes.

Amortization expense for definite lived intangible assets was $2.6 million and $2.6 million for the six months ended June 30, 2011 and 2010, respectively ($1.3 million and $1.5 million for the second quarter of 2011 and 2010, respectively). Amortization expense is estimated to be $5.3 million for 2011, $5.0 million for 2012, $4.8 million for 2013, $4.5 million for 2014 and $4.4 million for 2015.

NOTE 7 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts Payable and Accrued Expenses consists of the following:

(in thousands)	June 30, 2011	December 31, 2010

Accounts Payable	$	2,840	$	5,960
Accrued Expenses General		10,206		11,189
Accrued Salaries and Benefits		11,267		12,010
Income Taxes Payable		733		3,807
Payable to Ocwen		2,579		2,418
Total	$	27,625	$	35,384

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

(continued)

Other Current Liabilities consists of the following:

(in thousands)	June 30, 2011	December 31, 2010
Deferred Revenue	$ 1,637	$ 2,542
Facility Closure Cost Accrual, Current Portion	127	253
Other	1,810	2,821
Total	$ 3,574	$ 5,616

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 six months ended June 30, 2011:

(in thousands)	Lease Costs
Balance, December 31, 2010	$ 672
Payments	(138)
Balance, June 30, 2011	534
Less: Long-Term Portion	407
Facility Closure Cost Accrual, Current Portion	$ 127

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

NOTE 8 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. We recorded total stock compensation expense of $1.4 million and $1.0 million for the six months ended June 30, 2011 and 2010, respectively ($0.6 million and $0.7 million for the second quarter of 2011 and 2010, respectively). The compensation expense is principally included in Selling, General and Administrative Expenses in the accompany Condensed Consolidated Statements of Operations.

Below is a summary of the different types of stock-based awards issued under our stock plans:

Stock Options

Service-based Options. These options are granted at fair market 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 1.1 million service-based awards were outstanding at June 30, 2011.

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 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, which we refer to internally as extraordinary performance grants, begins to vest if the stock price realizes a compounded annual gain of at least 25% over the exercise price, so long as it is at least triple 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 2.2 million market-based awards were outstanding at June 30, 2011.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

(continued)

During the six months ended June 30, 2011, the Company granted 0.1 million stock options. The options have an average exercise price of $29.99 per share.

The fair value of the service-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:

	June 30, 2011		June 30, 2010	
	Black-Scholes	Binominal	Black-Scholes	Binominal
Risk-free Interest Rate	2.20%	0.03% 3.18%	2.82%	0.17% 3.36%
Expected Stock Price Volatility	48%	55.9%	48%	51.5%
Expected Dividend Yield				
Expected Option Life (in years)	6.25		7	
Contractual Life (in years)		14		14
Fair Value	$ 16.55	$18.09 and $18.76	$ 13.00	$10.50 and $12.35

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

	June 30	
(in thousands, except per share amounts)	2011	2010
Weighted-Average Fair Value at Date of Grant Per Share	$ 16.03	$ 11.58
Intrinsic Value of Options Exercised	$ 2,855	$ 1,827
Fair Value of Options Vested	$ 788	$ 131

Stock-based compensation expense is recorded net of estimated forfeiture rates ranging from 1% to 3%.

As of June 30, 2011, estimated unrecognized compensation costs related to share-based payments amounted to $7.0 million which we expect to recognize over a weighted-average remaining requisite service period of approximately 3.1 years.

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, 2010	3,451,613	$ 13.46	7.3	$ 52,641
Granted	85,000	29.99		
Exercised	(157,256)	12.76		
Forfeited	(138,750)	24.92		
Outstanding at June 30, 2011	3,240,607	$ 13.44	7.1	$ 75,715

Exercisable at June 30, 2011	1,373,219	$	10.21	6.0	$	36,509

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Notes to Condensed Consolidated Financial Statements
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Stock Repurchase Authorization

On May 19, 2010, our shareholders authorized us to purchase up to 3.8 million shares of our common stock in the open market. From authorization through June 30, 2011, we have purchased 1.0 million shares of our common stock on the open market at an average price of $28.51, leaving 2.8 million shares still available for purchase.

NOTE 9 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 June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2011	2010	2011	2010
Compensation and Benefits	$ 19,959	$ 15,691	$ 36,799	$ 29,690
Outside Fees and Services	17,532	13,321	35,693	25,781
Expense Reimbursements	19,459	11,141	35,100	19,671
Technology and Communications	4,557	2,692	7,535	5,647
Depreciation and Amortization	1,590	1,530	2,919	2,940
Total	$ 63,097	$ 44,375	$ 118,046	$ 83,729

NOTE 10 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, General and Administrative Expenses include payroll for personnel employed in executive, sales, marketing, human resources and finance roles. This category also includes occupancy costs, professional fees, depreciation and amortization on non-operating assets. The components of Selling, General and Administrative Expenses were as follows for the periods ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2011	2010	2011	2010
Compensation and Benefits	$ 5,825	$ 3,965	$ 11,745	$ 8,005
Professional Services	1,055	1,761	3,157	4,057
Occupancy Related Costs	4,062	3,600	7,559	5,841
Amortization of Intangible Assets	1,340	1,450	2,613	2,639
Depreciation and Amortization	586	159	1,196	271
Other	1,036	1,541	3,888	3,732
Total	$ 13,904	$ 12,476	$ 30,158	$ 24,545

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

NOTE 11 OTHER INCOME (EXPENSE), NET

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2011	2010	2011	2010
Interest Income	$ 17	$ 3	$ 22	$ 12
Interest Expense	(24)	(23)	(47)	(51)
Change in Fair Value of Put Option	225		582	
Other, net	52	60	57	7
Total	$ 270	$ 40	$ 614	$ (32)

NOTE 12 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.

Basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010 are calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2011	2010	2011	2010
Net Income Attributable to Altisource	$ 13,385	$ 16,347	$ 28,210	$ 22,653
Weighted-Average Common Shares Outstanding, Basic	24,625	25,226	24,734	24,960
Dilutive Effect of Stock Options	1,148	1,018	1,117	1,002
Dilutive Effect of Restricted Shares		3		3
Weighted-Average Common Shares Outstanding, Diluted	25,773	26,247	25,851	25,965
Earnings Per Share				
Basic	$ 0.54	$ 0.65	$ 1.14	$ 0.91
Diluted	$ 0.52	$ 0.62	$ 1.09	$ 0.87

For the three and six months ended June 30, 2011, an immaterial amount of options that were anti-dilutive have been excluded from the computation of diluted EPS (0.2 million for the three and six month ended June 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 for each of the three and six months ended June 30, 2011 and 2010 are 0.6 and 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 13 COMMITMENTS AND CONTINGENCIES

Litigation

The Company is from time to time 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. 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 the Company s financial condition, results of operations or cash flows.

ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements

(continued)

NOTE 14 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 that we use to evaluate operating performance and to assess the allocation of our resources by our Chief Executive Officer.

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 Services* consists of modular, comprehensive integrated technological solutions for loan servicing, vendor management and invoice presentment and payment as well as providing infrastructure support. In addition, our *Corporate Items and Eliminations* segment includes eliminations of transactions between the reporting segments and this segment also includes costs recognized by us related to corporate support functions such as finance, legal, human resources, six sigma and quality assurances.

In 2011, we reorganized our reporting structure in that certain services that were originally part of the Mortgage Services Segment are now classified as part of Financial Services. Prior periods have been recast to conform with the current year presentation.

Financial information for our segments is as follows:

Three Months Ended June 30, 2011

Corporate