

Altisource Portfolio Solutions S.A.
Form 10-K
February 16, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-34354

Altisource Portfolio Solutions S.A.

(Exact name of registrant as specified in its charter)

Luxembourg
(State or other jurisdiction of incorporation or organization)

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

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291, Route d Arlon

L-1150 Luxembourg

Grand Duchy of Luxembourg

(352) 24 69 79 00

(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$1.00 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of the Registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2011 was \$662,418,290 based on the closing share price as quoted on the NASDAQ Global Market on that day and the assumption that all directors and executive officers of the Company, and their families, are affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of January 31, 2012, there were 23,405,123 outstanding shares of the Registrant's shares of beneficial interest (excluding 2,007,625 shares held as treasury stock).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed subsequent to the date hereof with the Commission pursuant to Regulation 14A in connection with the registrant's 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2011.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may relate to, among other things, future events or our future performance or financial condition. Words such as anticipate, intend, expect, may, could, should, would, plan, estimate, seek, believe and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the risks discussed in Item 1A of Part 1 Risk Factors. We caution you not to place undue reliance on these forward-looking statements which reflect our view only as of the date of this report. We are under no obligation (and expressly disclaim any obligation) to update or alter any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any such statement is based.

PART I

Except as otherwise indicated or unless the context requires otherwise, Altisource, we, us, our and the Company refer to Altisource Portfolio Solutions S.A., a Luxembourg société anonyme, or public limited company, and its wholly-owned subsidiaries.

ITEM 1. BUSINESS

The Company

Altisource Portfolio Solutions S.A., together with its subsidiaries, is a provider of services focused on high value, technology-enabled, knowledge-based functions principally related to real estate and mortgage portfolio management, asset recovery and customer relationship management. We enable our clients to achieve their goals by leveraging our process management, innovative technology, econometrics and consumer behavior practice and high-quality, cost effective global human resources.

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. On August 10, 2009, we became a stand-alone public company in connection with our separation from Ocwen Financial Corporation (Ocwen®) (the Separation). Prior to the date of Separation, our businesses were wholly-owned subsidiaries of Ocwen.

2011 Achievements

During 2011, we achieved several milestones:

Recognized revenue of \$423.7 million, representing a 41% increase over the year-ended December 31, 2010.

Recognized Service Revenue of \$334.8 million representing a 36% increase over the year-ended December 31, 2010.

Recognized diluted earnings per share of \$2.77 representing a 47% increase over the year-ended December 31, 2010.

Generated \$111.6 million of operating cash flow representing on average \$0.33 for every dollar of Service Revenue generated.

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In addition, we sought to strategically deploy cash generated during 2011 to either facilitate long-term growth or return such cash to shareholders:

Returned \$61.1 million to shareholders through the repurchase of 1.6 million shares under the stock repurchase program at an average price of \$37.57 per share.

Expended \$16.4 million on capital projects to facilitate the growth of operations, primarily as a result of the continued growth of the residential loan servicing portfolio of Ocwen, our largest customer.

Invested \$15.0 million in Correspondent One S.A. (Correspondent), an equity method investment. Correspondent One facilitates the purchase of closed conforming and government guaranteed residential mortgages from approved mortgage bankers. Correspondent One provides members of the Lenders One Mortgage Cooperative (Lenders One®), a national alliance of independent mortgage bankers which we manage, additional avenues to sell loans beyond Lenders One's preferred investor arrangements and the members own network of loan buyers.

Acquired Springhouse, LLC (Springhouse) an appraisal management company that utilizes a nationwide panel of appraisers to provide appraisals principally to mortgage originators and real estate managers.

Acquired the assembled workforce of a sub-contractor (Tracmail) in India that performs asset recovery services.

Reportable Segments

We classify our businesses into three reportable segments:

Mortgage Services consists of mortgage portfolio management services that span the mortgage lifecycle from origination through real estate owned (REO) asset management and sale;

Financial Services principally consists of unsecured asset recovery and customer relationship management; and

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 also includes costs recognized by us related to corporate support functions such as executive, finance, legal, human resources, vendor management and six sigma.

We conduct portions of our operations in all 50 states and in three countries outside of the United States.

Mortgage Services

Our Mortgage Services segment continues to be the primary driver of growth. This segment generates revenue principally by providing services that loan originators and loan servicers typically outsource to third parties. Our services are provided using our national platform and span the lifecycle of a mortgage loan. Our services are primarily centered on our relationship with Ocwen, but we also have longstanding relationships with some of the leading capital market firms, commercial banks, hedge funds, insurance companies and lending institutions.

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Our services typically begin with a default management referral from a customer which results in a pre-foreclosure title search, property inspection services and non-legal back-office support services in connection with managing foreclosures. Upon receipt of an asset management referral after a property has been foreclosed, we provide REO preservation, REO asset management, REO valuation, REO brokerage, REO closing and REO title insurance services.

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While our initial focus has principally been related to default services, we are also committed to developing our services to support mortgage originators and correspondent lenders. In February 2010, we acquired the Mortgage Partnership of America, L.L.C. (MPA). MPA is the manager of a national alliance of community mortgage bankers and correspondent lenders which does business as Lenders One. We believe MPA's 210 plus member companies originated approximately 8% of the total U.S. residential mortgage originations in 2011. Further, in 2011, we co-formed Correspondent One which once fully operational will provide members of Lenders One additional avenues to sell their loans beyond Lenders One's preferred investor arrangements and the members' own network of loan buyers. We anticipate this will result in improved profitability for the members and facilitate the sale of our services to the members.

In 2011, we reorganized our reporting structure within this segment in that certain services originally part of Component Services and Other are now classified as part of Customer Relationship Management in our Financial Services segment. Following this change, Component Service and Other was renamed Origination Management Services. Prior periods have been recast to conform to the current year presentation.

The table below presents revenues for our Mortgage Services segment for the past three annual periods:

(in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Revenue:			
Asset Management Services	\$ 141,486	\$ 78,999	\$ 30,464
Origination Management Services	25,566	22,835	3,899
Residential Property Valuation	51,785	33,502	26,800
Closing and Insurance Services	56,612	28,056	17,444
Default Management Services	36,472	23,741	9,194
Total Revenue	\$ 311,921	\$ 187,133	\$ 87,801
Transactions with Related Parties:			
Asset Management Services	\$ 136,685	\$ 78,999	\$ 30,464
Residential Property Valuation	48,734	32,525	25,762
Closing and Insurance Services	26,733	17,379	13,496
Default Management Services	11,032	6,752	4,367
Total	\$ 223,184	\$ 135,655	\$ 74,089
Reimbursable Expenses (included in Revenue)⁽¹⁾:			
Asset Management Services	\$ 76,511	\$ 41,920	\$ 14,308
Default Management Services	3,497	2,328	1,769
Closing and Insurance Services	116	302	
Total	\$ 80,124	\$ 44,550	\$ 16,077

⁽¹⁾ Reimbursable Expenses include costs we incur that we pass through to our customers without any mark-up.

Asset Management Services. Principally includes property preservation, property inspection, REO asset management and REO brokerage. Asset Management Services has been the largest contributor to Service Revenue growth year to date which reflects an increase in the number of REO sold, the number of REO for which we provide property preservation services and an increase in pre-foreclosure inspection services.

Origination Management Services. Principally includes MPA, our contract underwriting business and our origination fulfillment operations currently under development.

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Residential Property Valuation Services. We provide our customers with traditional appraisal products through our licensed appraisal management company, working with our network of experienced appraisers and our exclusive ordering system. Customers may also order alternative valuation products through our system and network of real estate professionals. We also offer customers the ability to outsource all or part of their appraisal and valuation management oversight functions to us.

Closing and Insurance Services. We provide an array of closing services (e.g., document preparation) and title services (e.g., pre-foreclosure title search, title insurance) applicable to the residential foreclosure process and the sale of residential property. During 2011, we focused on increasing our referral capture rate in our operational states and rolling out insured title services nationwide, similar to what we accomplished with our title search and asset management businesses in 2010.

Default Management Services. We provide non-legal back-office support for foreclosure, bankruptcy and eviction attorneys as well as foreclosure trustee services. We do not execute or notarize foreclosure affidavits of debt or lost note affidavits.

Financial Services

Our Financial Services segment provides collection and customer relationship management services primarily to debt originators (e.g., credit card, auto loans, retail credit, mortgages) and the utility and insurance industries. Our leadership team for this segment is focused on disciplined floor management, delivering more services over our global delivery platform, expanding our quality and analytical initiatives and investing in new technology. Our global delivery platform consists of highly trained specialists in various geographic regions.

The following table represents revenues for our Financial Services segment for the past three annual periods:

(in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Revenue:			
Asset Recovery Management	\$ 39,321	\$ 48,050	\$ 51,019
Customer Relationship Management	31,860	29,567	28,712
Total Revenue	\$ 71,181	\$ 77,617	\$ 79,731
Transactions with Related Parties:			
Asset Recovery Management	\$ 266	\$ 166	\$ 98
	\$ 266	\$ 166	\$ 98
Reimbursable Expenses (included in Revenue)⁽¹⁾:			
Asset Recovery Management	\$ 1,950	\$ 2,899	\$

⁽¹⁾ Reimbursable Expenses include costs we incur that we pass through to our customers without any mark-up.

Asset Recovery Management. We provide post-charge-off consumer debt collection (e.g., credit cards, auto loans, second mortgages) on a contingent fee basis where we are paid a percentage of the recovered debt.

Customer Relationship Management. We provide customer care (e.g., connects/disconnects for utilities) and early stage collections services for which we are generally compensated on a per-call, per-person or per-minute basis. In addition, we provide insurance and claims processing, call center services and analytical support for which we are paid based upon the number of employees utilized.

Table of Contents*Technology Services*

Technology Services comprises our REALSuite of applications as well as our IT infrastructure services. We only provide our IT infrastructure services to Ocwen and ourselves. In 2011, we began to report our Consumer Analytics group within Technology Services. Previously this group was included in Corporate.

Effective January 1, 2011, we modified our pricing for IT Infrastructure Services within our Technology Services segment from a model based principally on a rate card to a fully loaded costs plus mark-up methodology. This model applies to the infrastructure amounts charged to Ocwen as well as internal allocations of infrastructure costs.

Our Technology Services segment is primarily focused on supporting the growth of Mortgage Services and Ocwen. In addition, Technology Services is assisting in the cost reduction and quality initiatives on-going within the Financial Services segment.

The following table presents revenues for our Technology Services segment for the past three annual periods:

(in thousands)	September 30, 2011	September 30, 2010	September 30, 2009
Revenue:			
REALSuite	\$ 34,926	\$ 31,214	\$ 25,784
IT Infrastructure Services	21,168	20,799	21,669
Total Revenue	\$ 56,094	\$ 52,013	\$ 47,453
Transactions with Related Parties:			
REALSuite	\$ 13,253	\$ 11,226	\$ 9,899
IT Infrastructure Services	8,559	7,941	10,811
	\$ 21,812	\$ 19,167	\$ 20,710

The REALSuite platform provides a fully integrated set of applications and technologies that manage the end-to-end lifecycle for residential and commercial servicing including the automated management and payment of a distributed network of vendors. A brief description of key components of the REALSuite is described 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 cycle from loan boarding to satisfaction including all collections, payment processing and reporting. We also offer *REALSynergy*[®], an enterprise commercial loan servicing system.

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.

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IT Infrastructure Services. We provide a full suite of IT services (e.g., desktop management, application support, network management, telephony, data center management, disaster recovery, helpdesk and infrastructure security) for which we perform remote management of IT functions internally and for Ocwen.

Corporate Items and Eliminations

Corporate Items and Eliminations includes eliminations of transactions between the reporting segments and this segment also includes costs recognized by us related to corporate support functions such as executive, finance, legal, human resources, vendor management and six sigma. Prior to the date of Separation, this segment included expenditures recognized by us related to the Separation.

Customers

We provide services to some of the most respected organizations in their industries, including one of the U.S. largest sub-prime servicers, utility companies, commercial banks, servicers, investors, mortgage bankers, financial service companies and hedge funds across the U.S.

Our three largest customers in 2011 accounted for 71% of our total revenue. Our largest customer is Ocwen which accounted for 58% of Altisource's total revenue in 2011. During 2011, Ocwen successfully grew its residential loan servicing portfolio primarily through acquisitions to \$102.2 billion in unpaid principal balances as of December 31, 2011. In October 2011, Ocwen announced it had entered into a definitive agreement to acquire a portfolio from a subsidiary of Morgan Stanley Mortgage Capital Holdings, LLC which would result in a net gain of approximately \$16.0 billion in unpaid principal balance (the Saxon portfolio). In November 2011, Ocwen entered into an agreement with JPMorgan Chase, N.A. (JPMCB) to acquire a portfolio of \$15.0 billion in unpaid principal balance. Both of these transactions are expected to board in the first half of 2012. Additionally, Ocwen continues to evaluate additional servicing portfolio acquisitions.

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 until August 2017 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.

With respect to Ocwen, related party revenues consist of revenues earned directly from Ocwen and revenues earned from the loans serviced by Ocwen when Ocwen determines the service provider. We earn additional revenue on the loan portfolios serviced by Ocwen that are not considered related party revenues as Ocwen does not have the ability to decide the service provider. As a percentage of each of our segment revenues and as a percentage of consolidated revenues, related party revenue was as follows for the year ended December 31:

	September 30, 2011	September 30, 2010	September 30, 2009
Mortgage Services	72%	73%	84%
Technology Services	39	37	