

Altisource Portfolio Solutions S.A.

Form 10-Q

October 28, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010  
OR**

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

**Commission File Number 1-34354**

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

**Luxembourg**  
(State or other jurisdiction of incorporation or  
organization)

**Not applicable**  
(I.R.S. Employer Identification No.)

**2, rue Jean Bertholet  
L-1233 Luxembourg  
Grand Duchy of Luxembourg**  
(Address of principal executive offices) (Zip Code)  
**+352 2469 7900**

**Registrant's telephone number**

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐  
(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 Exchange Act). Yes ☐ No ☐

As of September 30, 2010, there were 25,412,748 outstanding shares of the registrant's shares of beneficial interest.



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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 amounts)*

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

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

*See accompanying notes to condensed consolidated financial statements.*

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

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





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

	Common Stock		Retained Earnings	Additional Paid-in Capital	Treasury Stock, at Cost	Non-controlling Interests	Total	Comprehensive Income
Balance, December 31, 2009	24,145	\$ 24,145	\$ 11,665	\$ 50,538	\$	\$	\$ 86,348	
Net Income			32,485			4,136	36,621	\$ 36,621
Acquisition of The Mortgage Partnership of America, L.L.C.	959	959		22,941		3,268	27,168	
Contributions from Non-controlling Interest Holders						28	28	
Distributions to Non-controlling Interest Holders						(5,207)	(5,207)	
Share-based Compensation Expense				2,134			2,134	
Exercise of Stock Options	298	298		2,708			3,006	
Delivery of Vested Restricted Stock	11	11					11	
Repurchase of Shares					(2,311)		(2,311)	
Balance, September 30, 2010	25,413	\$ 25,413	\$ 44,150	\$ 78,321	\$ (2,311)	\$ 2,225	\$ 147,798	\$ 36,621

*See accompanying notes to condensed consolidated financial statements.*

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

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

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Cash and Cash Equivalents at the End of the Period	\$ 23,037	\$ 24,710
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Supplemental Cash Flow Information

Interest Paid	\$	\$ 25
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Income Taxes Paid	\$ 1,724	\$ 534
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Non-Cash Investing and Financing Activities

Shares Issued in Connection with MPA Acquisition	\$ 23,900	\$
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Increase in Common Stock due to the Company's Conversion to a Luxembourg Société Anonyme	\$	\$ 3,283
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*See accompanying notes to condensed consolidated financial statements.*

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**ALTISOURCE PORTFOLIO SOLUTIONS S.A.**

Notes to Condensed Consolidated Financial Statements

**NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

Altisource Portfolio Solutions S.A. (which may be referred to as Altisource, the Company, we, us or our) together with its subsidiaries is a provider of services focused on high value, knowledge-based functions principally related to real estate and mortgage portfolio management, asset recovery and customer relationship management. Utilizing integrated technology that includes decision models and behavioral based scripting engines, we provide solutions that improve clients' performance and maximizes their returns.

We are publicly traded on the NASDAQ Global Select market under the symbol ASPS. We were incorporated under the laws of Luxembourg on November 4, 1999 as Ocwen Luxembourg S.à r.l., renamed Altisource Portfolio Solutions S.à r.l. on May 12, 2009 and converted into Altisource Portfolio Solutions S.A. on June 5, 2009. We became a publicly traded company as of August 10, 2009, see Separation below.

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

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

**Separation**

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

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

**Basis of Presentation**

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

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

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

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

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

Prior to our acquisition of MPA, MPA and Lenders One entered into a management agreement that ends on December 31, 2025. MPA was formed to act on behalf of Lenders One and its Members principally to provide its Members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities. For providing these services MPA receives payment from Lenders One, and in some instances the vendors, based upon the benefits achieved for the Members. The management agreement provides MPA with broad powers such as recruiting members for Lenders One, collection of fees and other obligations from Members of Lenders One, processing of all rebates owed to Lenders One, day-to-day operation of Lenders One and negotiation of contracts with vendors including signing contracts on behalf of Lenders One.

The management agreement between MPA and Lenders One, pursuant to which MPA is the management company of Lenders One, represents a variable interest in a variable interest entity. MPA determined that they are the primary beneficiary of Lenders One as they have the power to direct the activities that most significantly impact Lenders One's economic performance and the obligation to absorb losses or the right to receive benefits. As a result, Lenders One is presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the Members reflected as Non-controlling Interest on the Condensed Consolidated Balance Sheets. At September 30, 2010, Lenders One had total assets of \$6.2 million and liabilities of \$0.2 million.

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Form 10-K filed with the SEC on March 17, 2010 which contains a summary of our significant accounting policies. Certain footnote detail is also omitted from the condensed consolidated financial statements unless there is a material change from the information included in the Form 10-K.

**Foreign Currency Translation**

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

**Fair Value of Financial Instruments**

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

	Assumptions	
Risk-free Interest Rate	0.19%	0.96%

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

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

**NOTE 2 TRANSACTIONS WITH RELATED PARTIES**

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

We consider certain services to be derived from Ocwen's loan servicing portfolio rather than provided to Ocwen because such services are charged to the mortgagee and/or the investor and are not expenses to Ocwen. Ocwen, or services derived from Ocwen's loan servicing portfolio, as a percentage of each of our segment revenues and as a percentage of consolidated revenues was as follows for the three and nine months ended September 30:

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

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

**Allocation of Corporate Costs**

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

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

**Transition Services**

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

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

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

**NOTE 3 ACQUISITION OF MPA**

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

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

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

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