Altisource Portfolio Solutions S.A.
Form 10-Q
October 25, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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 x 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 x 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 x
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 x

As of October 15, 2012, there were 23,363,324 outstanding shares of the registrant s shares of beneficial interest (excluding 2,049,424 shares held as treasury stock).

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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
(in thousands, except per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,429	$ 32,125
Accounts receivable, net	62,497	52,005
Prepaid expenses and other current assets	9,060	5,002
Deferred tax assets, net	3,570	1,133
Total current assets	159,556	90,265
Premises and equipment, net	46,352	25,600
Deferred tax assets, net	4,460	4,373
Intangible assets, net	58,593	64,950
Goodwill	14,915	14,915
Investment in equity affiliate	13,598	14,470
Other assets	8,777	9,586
Total assets	$ 306,251	$ 224,159
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 61,264	$ 44,867
Capital lease obligations - current	345	634
Other current liabilities	9,806	9,939
Total current liabilities	71,415	55,440
Capital lease obligations - non-current		202
Other non-current liabilities	2,441	2,574
Commitment and contingencies (Note 15)		
Equity:		
Common stock ($1.00 par value; 100,000 shares authorized; 25,413 issued and 23,363 outstanding as of September 30, 2012; 25,413 issued and 23,405 outstanding as of December 31, 2011)	25,413	25,413
Additional paid-in-capital	85,267	83,229
Retained earnings	200,736	126,161
Treasury stock, at cost (2,049 shares as of September 30, 2012 and 2,008 shares as of December 31, 2011)	(80,451)	(72,048)
Altisource equity	230,965	162,755

Non-controlling interests		1,430		3,188
Total equity		232,395		165,943
Total liabilities and equity	$	306,251	$	224,159

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)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenue	$ 143,988	$ 109,793	$ 427,259	$ 291,731
Cost of revenue	94,287	73,339	278,785	191,385
Gross profit	49,701	36,454	148,474	100,346
Selling, general and administrative expenses	18,452	15,329	54,485	45,487
Income from operations	31,249	21,125	93,989	54,859
Other (expense) income, net	(267)	(320)	(939)	294
Income before income taxes and non-controlling interests	30,982	20,805	93,050	55,153
Income tax provision	(2,898)	(1,843)	(8,493)	(5,377)
Net income	28,084	18,962	84,557	49,776
Net income attributable to non-controlling interests	(1,060)	(1,791)	(4,223)	(4,395)
Net income attributable to Altisource	$ 27,024	$ 17,171	$ 80,334	$ 45,381
Earnings per share:				
Basic	$ 1.16	$ 0.71	$ 3.44	$ 1.84
Diluted	$ 1.08	$ 0.67	$ 3.23	$ 1.76
Weighted average shares outstanding:				
Basic	23,338	24,341	23,347	24,602
Diluted	25,016	25,489	24,895	25,720
Transactions with related parties included above:				
Revenue	$ 86,558	$ 63,827	$ 257,491	$ 166,311
Selling, general and administrative expenses	$ 621	$ 506	$ 1,801	$ 1,352

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		Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost	controlling Interests	Total
Balance, December 31, 2010	25,413	$ 25,413	$ 79,297	$ 58,546	$ (14,418)	$ 3,060	$ 151,898
Net income				45,381		4,395	49,776
Contributions from non-controlling interest holders						31	31
Distributions to non-controlling interest holders						(5,443)	(5,443)
Share-based compensation expense			2,109				2,109
Exercise of stock options				(2,943)	3,718		775
Repurchase of shares					(35,471)		(35,471)
Balance, September 30, 2011	25,413	$ 25,413	$ 81,406	$ 100,984	$ (46,171)	$ 2,043	$ 163,675
Balance, December 31, 2011	25,413	$ 25,413	$ 83,229	$ 126,161	$ (72,048)	$ 3,188	$ 165,943
Net income				80,334		4,223	84,557
Contributions from non-controlling interest holders						27	27
Distributions to non-controlling interest holders						(6,008)	(6,008)
Share-based compensation expense			2,038				2,038
Exercise of stock options				(5,759)	8,378		2,619
Repurchase of shares					(16,781)		(16,781)
Balance, September 30, 2012	25,413	$ 25,413	$ 85,267	$ 200,736	$ (80,451)	$ 1,430	$ 232,395

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, 2012	2011
Cash flows from operating activities:		
Net income	$ 84,557	$ 49,776
Reconciling items:		
Depreciation and amortization	9,038	6,174
Amortization of intangible assets	3,833	3,952
Share-based compensation expense	2,038	2,109
Equity in losses of affiliate	872	355
Bad debt expense	1,170	999
Deferred income taxes		(32)
Loss on sale or disposal of fixed assets	401	
Changes in operating assets and liabilities:		
Accounts receivable	(11,662)	2,546
Prepaid expenses and other current assets	(4,058)	5,066
Other assets	809	(4,109)
Accounts payable and accrued expenses	10,405	71
Other current and non-current liabilities	(266)	1,844
Net cash flows provided by operating activities	97,137	68,751
Cash flows from investing activities:		
Additions to premises and equipment	(24,199)	(11,291)
Acquisition of business, net of cash acquired		(2,515)
Investment in equity affiliate		(15,000)
Change in restricted cash		(177)
Net cash flows used in investing activities	(24,199)	(28,983)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(491)	(544)
Proceeds from stock option exercises	2,619	775
Purchase of treasury stock	(16,781)	(35,471)
Contributions from non-controlling interests	27	31
Distributions to non-controlling interests	(6,008)	(5,443)
Net cash flows used in financing activities	(20,634)	(40,652)
Net increase in cash and cash equivalents	52,304	(884)
Cash and cash equivalents at the beginning of the period	32,125	22,134
Cash and cash equivalents at the end of the period	$ 84,429	$ 21,250
Supplemental cash flow information		
Interest paid	$ 39	$ 65
Income taxes paid (refunded), net	$ 2,252	$ (2,684)
Non-cash investing and financing activities		
Amortization of tax-deductible goodwill	$ 2,524	$ 2,591
Premises and equipment purchased on account	$ 5,992	$

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., together with its subsidiaries (which may be referred to as Altisource, the Company, we, us or our), is a global 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 by Ocwen Financial Corporation (Ocwen).

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 the Lenders One mortgage cooperative (Lenders One) as described below, and real estate asset managers. In July 2011, we acquired the assembled workforce of a sub-contractor (Tracmail) in India that performs asset recovery services.

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 16 for a description of our business segments).

Basis of Presentation

Our condensed consolidated financial statements include the assets, liabilities, revenues and expenses directly attributable to our operations. All significant inter-company and inter-segment transactions and accounts have been eliminated upon 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 does business as 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 condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of September 30, 2012, Lenders One had total assets of $2.1 million and liabilities of less than $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 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, 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, 2011, filed with the SEC on February 16, 2012, 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.

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 September 30, 2012 and December 31, 2011, are carried at amounts that approximate their fair value due to the short-term nature of these instruments.

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NOTE 2 TRANSACTIONS WITH RELATED PARTIES

Ocwen®

Ocwen is our largest customer. Ocwen and its wholly owned subsidiary, Ocwen Mortgage Servicing Inc. (OMS) are contractually obligated to purchase certain mortgage services and technology services from us under service agreements. On October 1, 2012, the Ocwen agreement was extended by three years through 2020. Separately, we signed a similar agreement on October 1, 2012 with OMS effective through 2020. Ocwen and OMS are not restricted from redeveloping these services. We settle amounts with Ocwen on a daily, weekly or monthly basis depending upon the nature of the services and when the service is completed.

With respect to Ocwen, related party revenue consists of revenues earned directly from Ocwen and revenues earned from the loans serviced by Ocwen when Ocwen determines the service provider. We earn additional revenues on the loan portfolios serviced by Ocwen that are not considered related party revenues when a party other than Ocwen selects 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:

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Mortgage Services	68%	71%	69%	73%
Technology Services	39%	38%	40%	38%
Financial Services	<1%	<1%	<1%	<1%
Consolidated revenue	60%	58%	60%	57%

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.

Support Services

On August 10, 2012, Altisource entered into a five-year Support Services Agreement with OMS (the Support Services Agreement), setting forth certain services Altisource and OMS will provide to each other which are similar to the services Altisource and Ocwen provided to each other pursuant to a Transition Services Agreement. 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 based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service. For the nine months ended September 30, 2012 and 2011, we billed Ocwen and OMS $2.0 million and $1.7 million, respectively ($0.6 million and $0.8 million for the third quarters of 2012 and 2011, respectively), and Ocwen and OMS billed us $1.8 million and $1.4 million, respectively ($0.6 million and $0.5 million for the third quarters of 2012 and 2011, respectively) for services provided under the Support Services Agreement and the Transition Services agreement. These amounts are reflected as components of selling, general and administrative expenses in the condensed consolidated statements of operations.

Correspondent One and HLSS

In July 2011, we acquired an equity interest in Correspondent One S.A. (Correspondent One - see Note 7). We provide Correspondent One certain finance, human resources, legal support, facilities, technology, vendor management and risk management services. For the nine months ended September 30, 2012 and 2011, we billed Correspondent One $0.2 million and $0.1 million, respectively, under this agreement ($0.1 million for each of the third quarters of 2012 and 2011).

We also provide certain origination related services to Correspondent One. We earned revenue of $0.2 million for the nine months ended September 30, 2012 ($0.2 million for the third quarter of 2012) from the provision of these services.

Home Loan Servicing Solutions, Ltd. (HLSS) is a public company whose primary objective is the acquisition of mortgage servicing rights and advances. In connection with the February 2012 HLSS initial public offering, HLSS acquired mortgage servicing related assets from Ocwen. Our Chairman is also the Chairman of HLSS. We provide HLSS certain finance, human resources and legal support services. For the nine months ended September 30, 2012, we billed HLSS $0.4 million under this agreement ($0.2 million for the third quarter).

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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)	September 30, 2012	December 31, 2011
Billed		
Third parties	$ 21,949	$ 13,776
Ocwen	6,345	5,245
Correspondent One	165	123
HLSS	65	5
Other receivables	226	350
	28,750	19,499
Unbilled		
Third parties	32,717	31,831
Ocwen	4,049	2,722
Correspondent One	135	
	65,651	54,052
Allowance for doubtful accounts	(3,154)	(2,047)
Total	$ 62,497	$ 52,005

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.

NOTE 4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Maintenance agreements	$ 5,840	$ 1,903
Prepaid software license fees	970	1,445
Prepaid insurance	824	544
Prepaid facility costs	190	72
Other prepaid expenses	728	247

Cash held for clients		451		759
Other current assets		57		32
Total	$	9,060	$	5,002

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NOTE 5 PREMISES AND EQUIPMENT, NET

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

(in thousands)	September 30, 2012	December 31, 2011
Computer hardware and software	$ 62,125	$ 39,452
Office equipment and other	16,799	15,068
Furniture and fixtures	5,164	4,299
Leasehold improvements	10,570	7,014
	94,658	65,833
Less: Accumulated depreciation and amortization	(48,306)	(40,233)
Total	$ 46,352	$ 25,600

Depreciation and amortization expense, inclusive of capital lease obligations, amounted to $9.0 million and $6.2 million for the nine months ended September 30, 2012 and 2011, respectively ($3.8 million and $2.1 million for the third quarters of 2012 and 2011, 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

There were no changes in goodwill during the nine months ended September 30, 2012. The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance, September 30, 2012 and December 31, 2011	$ 10,919	$ 2,378	$ 1,618	$ 14,915

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Intangible Assets, Net

Intangible assets, net consist of the following:

(dollars in thousands)	Weighted average estimated useful life (years)	Gross carrying amount September 30, 2012	Gross carrying amount December 31, 2011	Accumulated amortization September 30, 2012	Accumulated amortization December 31, 2011	Net book value September 30, 2012	Net book value December 31, 2011
Definite-lived intangible assets							
Trademarks	16	$ 10,614	$ 10,614	$ (3,942)	$ (3,353)	$ 6,672	$ 7,261
Customer lists	19	38,366	38,366	(17,203)(a)	(13,010)	21,163	25,356
Operating agreement	20	35,000	35,000	(4,667)	(3,354)	30,333	31,646
Non-compete agreement	4	1,300	1,300	(875)	(613)	425	687
Total		$ 85,280	$ 85,280	$ (26,687)	$ (20,330)	$ 58,593	$ 64,950

(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 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 reduction in intangible assets was $2.5 million for each of the nine months ended September 30, 2012 and 2011, respectively. The balance of Component 2 goodwill remaining was $1.4 million as of September 30, 2012 which should generate $0.8 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 $3.8 million and $4.0 million for the nine months ended September 30, 2012 and 2011, respectively ($1.2 million and $1.3 million for the third quarters of 2012 and 2011, respectively). Amortization expense is estimated to be $5.0 million for 2012, $4.8 million for 2013, $4.5 million for 2014, $4.4 million for 2015 and $4.3 million for 2016.

NOTE 7 INVESTMENT IN EQUITY AFFILIATE

Correspondent One purchases closed conforming and government guaranteed residential mortgages from approved mortgage bankers. Correspondent One provides members of Lenders One additional avenues to sell loans beyond Lenders One s preferred investor arrangements and the members own network of loan buyers. We have significant influence over the general operations of Correspondent One consistent with our 49% ownership level and therefore account for our investment under the equity method. We have no funding commitments to Correspondent One as of September 30, 2012.

Our net loss on this investment using the equity method was $0.9 million and $0.4 million for the nine months ended September 30, 2012 and 2011, respectively (net loss of $0.3 million and $0.4 million for the third quarters of 2012 and 2011, respectively).

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NOTE 8 OTHER ASSETS

Other assets consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Security deposits	$ 7,039	$ 7,615
Unbilled fees	1,540	1,773
Restricted cash	158	158
Other	40	40
Total	$ 8,777	$ 9,586

NOTE 9 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Accounts payable	$ 8,605	$ 2,974
Accrued expenses - general	20,311	18,485
Accrued salaries and benefits	17,428	14,575
Income taxes payable, net	12,418	6,419
Payable to Ocwen	2,502	2,414
Total	$ 61,264	$ 44,867

Other current liabilities consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Deferred revenue	$ 1,962	$ 4,581
Facility closure cost accrual, current portion	136	131
Collections due to clients	451	768
Overdrafts	4,127	3,501
Other	3,130	958
Total	$ 9,806	$ 9,939

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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 related to the closure of two facilities. The following table summarizes the activity, all recorded in our Financial Services segment, for the nine months ended September 30, 2012:

(in thousands)		Lease Costs
Balance, December 31, 2011	$	455
Payments		255
Balance, September 30, 2012		200
Less: Long-term portion		64
Facility closure cost accrual, current portion	$	136

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

NOTE 10 SHARE-BASED COMPENSATION

We issue share-based awards in the form of stock options for certain employees and officers. We recorded share-based compensation expense of $2.0 million and $2.1 million for the nine months ended September 30, 2012 and 2011, respectively ($1.1 million and $0.7 million for the third quarters of 2012 and 2011, respectively). The amount in 2012 includes the reversal of $0.8 million of share-based compensation expense in the first quarter related to the departure of an Executive Officer in March 2012.

Outstanding share-based compensation currently consists only 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 September 30, 2012.

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 September 30, 2012.

The Company granted 0.3 million stock options (at a weighted average exercise price of $69.48 per share) and 0.2 million stock options (at a weighted average exercise price of $33.15 per share) during the nine months ended September 30, 2012 and 2011, respectively.

The fair value of the service-based options was determined using the Black-Scholes option 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:

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	Nine months ended September 30, 2012				Nine months ended September 30, 2011			
	Black-Scholes		Binominal		Black-Scholes		Binominal	
Risk-free interest rate	0.87%	1.17%	0.08%	2.04%	1.69%	1.93%	0.04%	3.03%
Expected stock price volatility	34.22%	34.65%	34.20%	34.60%	48.00%		55.70	55.80%
Expected dividend yield								
Expected option life (in years)		6.25			6.25			
Contractual life (in years)				14				14
Fair value	$ 19.25	$29.80	$ 9.98	$22.76	$ 16.33	$17.85	$ 16.91	$20.39

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

(in thousands, except per share amounts)	Nine months ended September 30, 2012	2011
Weighted-average fair value at grant date per share	$ 20.77	$ 17.66
Intrinsic value of options exercised	11,535	4,193
Fair value of options vested	1,491	2,240

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

As of September 30, 2012, estimated unrecognized compensation costs related to share-based payments amounted to $5.5 million which we expect to recognize over a weighted-average remaining requisite service period of approximately 3.0 years.

The following table summarizes the 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, 2011	3,243,958	$ 14.19	6.7	$ 116,755
Granted	278,500	69.48		
Exercised	(221,615)	13.00		
Forfeited	(179,095)	28.35		
Outstanding at September 30, 2012	3,121,748	18.28	6.3	$ 212,188
Exercisable at September 30, 2012	1,936,789	$ 11.28	5.6	$ 145,205

Stock Repurchase Authorization

In May 2012, our shareholders approved a new stock repurchase program, which replaces the previous stock repurchase program. Under the new 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 September 30, 2012, we have purchased approximately 2.5 million shares of our common stock in the open market at an average price of $37.49 per share. During the nine months ended September 30, 2012, we purchased 0.3 million shares of common stock at an average price of $63.25 per share. Since no common stock was repurchased during the second and third quarters of 2012, 3.5 million shares of common stock remain available for repurchase under the plan.

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NOTE 11 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 three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Compensation and benefits	$ 28,840	$ 22,497	$ 84,314	$ 59,296
Outside fees and services	31,084	21,528	91,494	57,221
Reimbursable expenses	24,326	21,834	77,846	56,934
Technology and communications	6,900	5,904	17,890	13,439
Depreciation and amortization	3,137	1,576	7,241	4,495
Total	$ 94,287	$ 73,339	$ 278,785	$ 191,385

NOTE 12 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 for the three and nine months ended September 30, 2012 and 2011:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Compensation and benefits	$ 5,212	$ 5,530	$ 15,995	$ 17,275
Professional services	2,089	1,479	5,550	4,636
Occupancy related costs	6,641	4,449	19,308	12,008
Amortization of intangible assets	1,201	1,339	3,833	3,952
Depreciation and amortization	701	483	1,797	1,679
Other	2,608	2,049	8,002	5,937
Total	$ 18,452	$ 15,329	$ 54,485	$ 45,487

NOTE 13 OTHER (EXPENSE) INCOME, NET

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

(in thousands)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Equity loss in affiliate	$ (293)	$ (355)	$ (872)	$ (355)
Interest expense	(10)	(20)	(39)	(67)
Interest income	49	5	75	27
Change in fair value of put option		70		652
Other, net	(13)	(20)	(103)	37
Total	$ (267)	$ (320)	$ (939)	$ 294

Equity in loss of affiliate represents our proportional share of the losses in Correspondent One (see Note 7).

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NOTE 14 EARNINGS PER SHARE

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.

Basic and diluted EPS for the three and nine months ended September 30, 2012 and 2011 are calculated as follows:

(in thousands except per share data)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net income attributable to Altisource	$ 27,024	$ 17,171	$ 80,334	$ 45,381
Weighted-average common shares outstanding, basic	23,338	24,341	23,347	24,602
Dilutive effect of stock options	1,678	1,148	1,548	1,118
Weighted-average common shares outstanding, diluted	25,016	25,489	24,895	25,720
Earnings per share				
Basic	$ 1.16	$ 0.71	$ 3.44	$ 1.84
Diluted	$ 1.08	$ 0.67	$ 3.23	$ 1.76

For each of the three and nine months ended September 30, 2012 and September 30, 2011, an immaterial amount of options 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 nine months ended September 30, 2012 and 2011 are 0.3 million and 0.7 million options, respectively (0.2 million and 0.7 million for the three months ended September 30, 2012 and 2011, 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 at this point.

NOTE 15 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. 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 $24.7 million and $17.7 million as of September 30, 2012 and December 31, 2011 respectively.

NOTE 16 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. *Mortgage Services* principally 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* principally consists of modular, comprehensive integrated technological solutions for loan servicing, vendor management and invoice presentment and payment as well as providing infrastructure

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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, risk and six sigma.

Financial information for our segments is as follows:

(in thousands)	Three months ended September 30, 2012 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$ 115,882	$ 15,394	$ 19,076	$ (6,364)	$ 143,988
Cost of revenue	72,774	11,784	15,418	(5,689)	94,287
Gross profit	43,108	3,610	3,658	(675)	49,701
Selling, general and administrative expenses	6,155	3,116	1,851	7,330	18,452
Income from operations	36,953	494	1,807	(8,005)	31,249
Other (expense) income, net	(290)	(6)	(5)	34	(267)
Income before income taxes and non-controlling interests	$ 36,663	$ 488	$ 1,802	$ (7,971)	$ 30,982

(in thousands)	Nine months ended September 30, 2012 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$ 341,446	$ 49,649	$ 53,984	$ (17,820)	$ 427,259
Cost of revenue	218,969	35,780	40,098	(16,062)	278,785
Gross profit	122,477	13,869	13,886	(1,758)	148,474
Selling, general and administrative expenses	17,458	10,550	5,519	20,958	54,485
Income from operations	105,019	3,319	8,367	(22,716)	93,989
Other expense, net	(857)	(22)	(22)	(38)	(939)
Income before income taxes and non-controlling interests	$ 104,162	$ 3,297	$ 8,345	$ (22,754)	$ 93,050

(in thousands)	Three months ended September 30, 2011 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$ 82,170	$ 17,303	$ 14,827	$ (4,507)	$ 109,793
Cost of revenue	55,106	12,676	9,700	(4,143)	73,339
Gross profit	27,064	4,627	5,127	(364)	36,454
Selling, general and administrative expenses	4,227	4,268	756	6,078	15,329
Income from operations	22,837	359	4,371	(6,442)	21,125
Other expense, net	(283)	(9)	(12)	(16)	(320)
Income before income taxes and non-controlling interests	$ 22,554	$ 350	$ 4,359	$ (6,458)	$ 20,805

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(in thousands)	Nine months ended September 30, 2011 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$ 207,384	$ 54,779	$ 41,115	$ (11,547)	$ 291,731
Cost of revenue	135,670	39,738	26,479	(10,502)	191,385
Gross profit	71,714	15,041	14,636	(1,045)	100,346
Selling, general and administrative expenses	11,663	12,230	3,489	18,105	45,487
Income from operations	60,051	2,811	11,147	(19,150)	54,859
Other (expense) income, net	340	(27)	(39)	20	294
Income before income taxes and non-controlling interests	$ 60,391	$ 2,784	$ 11,108	$ (19,130)	$ 55,153

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Item 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

When we refer to we , our , the Company or Altisource , we mean Altisource Portfolio Solutions S.A. and its consolidated subsidiaries.

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, 2011. Significant sections of the MD&A are as follows:

Overview. This section, beginning on page 20, provides a description of recent developments we believe are important in understanding the results of operations and financial condition or in understanding anticipated future trends. It also provides a brief description of significant transactions and events that affect the comparability of results and a discussion of the progress being made on our growth initiatives.

Consolidated Results of Operations. This section, beginning on page 24, provides an analysis of our consolidated results of operations for the three and nine months ended September 30, 2012 and 2011.

Segment Results of Operations. This section, beginning on page 26, provides an analysis of each business segment for the three and nine months ended September 30, 2012 and 2011. In addition, we discuss significant transactions, events and trends that may affect the comparability of the results being analyzed.

Liquidity and Capital Resources. This section, beginning on page 34, provides an analysis of our cash flows for the nine months ended September 30, 2012 and 2011. We also discuss restrictions on cash movements, future commitments and capital resources.

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 and other federal securities laws. These forward-looking statements may be identified by the use of terminology such as may, will, should, expect, intend, plan, anticipate, believe, estimate, predict, po the negative 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 is not intended to be an all-inclusive list:

- 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.

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, 2011 and include the following:

- our ability to retain and expand our existing customers and attract new customers;
- technology failures;
- our business is dependent on the trend toward outsourcing; and

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- 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 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.

OVERVIEW

Our business

We are a global provider of services focused on high-value, technology-enabled, knowledge-based 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 lifecycle and are typically outsourced by loan servicers and originators. We provide these services primarily for loan portfolios serviced by 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 operations. We plan to provide leasing, rehabilitation and property management services for single-family rental properties after Altisource Residential acquires rental properties as described in our growth initiatives below.

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 and mortgage bankers.

Closing and insurance services Closing and insurance services principally include an array of title search, closing and title agency services including document preparation, pre-foreclosure and REO title searches, escrow and title insurance, and other insurance related services applicable to residential loan servicers. We also began to provide closing and title agency services on newly originated loans.

Default management services   Default management services principally provides 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 includes MPA s operations and our contract underwriting and quality control business. MPA serves as the manager of 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 business. 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, mortgages) and the utility and insurance industry. Within the Financial Services segment, we provide the following services:

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

Customer relationship management   Customer relationship management provides customer care and early stage collections services. In addition, customer relationship management provides insurance and claims processing, call center services and analytical support.

Technology Services: Comprises our REALSuite TM of applications as well as our information technology (IT) infrastructure services. We only provide our IT infrastructure services to Ocwen, Home Loan Servicing Solutions (HLSS), Correspondent One, our two recently formed subsidiaries, Altisource Residential and Altisource Asset Management, discussed below, and ourselves. The REALSuite platform provides a fully integrated set of software applications and technologies that manage the

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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 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.

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.

We classify revenue in three categories: service revenue, revenue from reimbursable expenses and 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 that we incur on behalf of our customers in performing our fee based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity that is not owned by Altisource. It is 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 new stock repurchase program, which replaces the previous stock repurchase program. Under the new 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 September 30, 2012, we have purchased approximately 2.5 million shares of our common stock in the open market at an average price of $37.49 per share. During the nine months ended September 30, 2012, we purchased 0.3 million shares of common stock at an average price of $63.25 per share. Since no common stock was repurchased during the second and third quarters of 2012, 3.5 million shares of common stock remain available for repurchase under the plan. The distribution of Altisource Residential and Altisource Asset Management to our shareholders restricts our ability to repurchase shares for a period of time as Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. s retained earnings less treasury shares.

Growth initiatives

We believe that Ocwen provides significant growth opportunities for Altisource. On October 3, 2012, Ocwen announced its agreement to acquire Homeward Residential Holdings Inc. (Homeward Residential) from WL Ross & Co. LLC. We believe the acquisition will bring growth to Ocwen and Altisource, increasing the number of loans serviced by Ocwen by over 50%. Additionally, we believe the acquisition will expand Ocwen s origination capacity providing a sustainable source of future growth for Ocwen and a new customer for our growing origination related services business.

On October 24, 2012, Ocwen and Walter Investment Management Corp. announced they were jointly awarded the highest and best bid in the auction of Residential Capital LLC s loan servicing portfolio. The transaction is subject to the completion of definitive acquisition documents and the approval of the bankruptcy court.

We believe the market opportunity for default related services will remain strong for the next three to five years, if not longer. However, we recognize that default related revenue will eventually peak. Our strategy for the future continues to include providing high quality mortgage servicing related services to Ocwen and others. In addition, we have developed four initiatives to expand and diversify our revenue and customer base in areas other than mortgage default in order to help meet our longer term earnings growth objective. Our core capabilities and technologies are the foundation of each initiative we are pursuing. The four initiatives are:

- developing the residential asset business for single-family home rentals;
- growing our origination related services by leveraging our acquisition of Lenders One and our investment in Correspondent One;

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- fully developing our consumer real estate portal for distressed and non-distressed home sales; and

- improving the Financial Services segment s earnings and growing its revenue.

Residential asset businesses We are in the process of establishing residential asset management related businesses to support the growing residential single-family rental market as we believe there is a significant opportunity to leverage and extend our existing infrastructure and competencies to this market. The single-family residential rental market in the United States is a $3 trillion industry, accounting for 52% of all residential rental units in 2011. With the continued displacement of homeowners related to foreclosure and other economic circumstances, we believe the demand for single-family rentals will significantly increase.

Because of the different capital considerations and the operating metrics associated with owning and renting single-family homes, we believe the entity that owns the residential assets is best suited to operate separate and apart from Altisource. In this regard, we have created two companies that we intend to separate and distribute to our shareholders. The first, Altisource Residential will acquire residential related assets and, the second, Altisource Asset Management, will provide asset management and advisory services to Altisource Residential. Altisource will provide construction management, rental property management and leasing brokerage services to Altisource Residential, creating a long-term, stable revenue stream for Altisource. Further, to the extent Altisource Residential acquires non-performing loans, Altisource Residential intends to retain Ocwen to service the loans who, in turn, will retain us to provide default related and technology services.

For Altisource, entering the construction management, rental property management and leasing brokerage rental markets are complementary extensions of our existing service offerings, leveraging our significant economies of scale. As a result, we believe our per unit operating costs will be substantially lower than others in the industry. With our operating cost advantage, we believe that we can provide these services to Altisource Residential at a cost similar to an apartment unit managed by a multi-family REIT.

In the third quarter of 2012, we filed Form 10 registration statements to separate Altisource Residential and Altisource Asset Management from Altisource. We expect to complete the separation around the end of the year. At the same time, we continue to extend our internal residential asset management capabilities to the rehabilitation, leasing and management of single family homes. Altisource will be the exclusive service provider of these services to Altisource Residential. As Altisource Residential develops and grows its business, Altisource will establish an attractive, longer term revenue stream.

Mortgage origination related services With an objective of long-term growth in the origination services market, we acquired the manager of the Lenders One mortgage cooperative in February 2010. In 2011, the members of Lenders One originated approximately $107 billion of loans. We estimate that in excess of $1.5 billion was spent on origination related services in connection with these loans. The manager of the cooperative leverages the size of Lenders One, 241 members strong as of September 30, 2012, to obtain better execution on the sale of closed loans with third parties and to achieve lower costs on origination related services from third parties.

Leveraging our vendor network, technology, scale, global workforce and lower sales costs, we have begun offering origination related services directly to the members at a price we believe is below the current market. Many of the services are in place and are similar to the services we provide in our default related business.

Our service revenue from origination related services grew to $10.1 million for the third quarter of 2012, an increase of 69% over the third quarter of 2011. We also sequentially grew our origination related services revenue by 23% over the second quarter of 2012. This is reflective of Lenders One membership growth, strong origination volume and an increasing number of the Lenders One members retaining Altisource to provide them with origination related services. When comparing the end of the third quarter of 2012 to the end of the second quarter of 2012, Lenders One membership increased from 232 to 241 and the number of signed agreements with the members increased from 108 to 128. During the third quarter of 2012, we also began a pilot of our initial bundle of origination related services with several of the Lenders One members. We hope to complete the pilot of our ordering and services delivery portal during the fourth quarter and roll-out our initial bundle of origination related services to the full complement of members beginning in 2013.

Consumer real estate portal We are also continuing to fully develop our consumer real estate portal as we believe there are opportunities to benefit from a shifting consumer preference for on-line transacting. The consumer real estate portal provides an automated, transparent and integrated on-line solution for buying and selling real estate and, eventually, related services. Like the residential rental business, the market for this business is immense. The 2012 forecast for home sales in the United States is approximately $780 billion. These sales will generate over $40 billion in brokerage commissions annually. Based on our observations, we believe the industry is beginning to see a shift in consumer behavior and attitudes toward on-line transacting for homes. For the nine months ended September 30, 2012, we sold more than 20,000 homes through our consumer real estate portal, and our revenue has grown to $40.3 million in the first nine months of 2012, compared to $22.3 million for the same period in 2011 (the consumer real estate portal is part of our asset management services business in our Mortgage Services segment).

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In the third quarter of 2012, we launched the business under the new Hubzu TM brand (Hubzu), with a significantly enhanced user experience. The new Hubzu website provides easier navigation and improved overall experience for our customers with enhanced content, tools and resources to guide our customers through the process. Hubzu also improves the auction and traditional sale process by providing more transparency on the buyers offers and detailed status updates and notifications.

With the launch of Hubzu, we have initiated two efforts to grow the business. First, we are beginning to have conversations with servicers and financial institutions to add them to our marketplace and further extend our leadership position in REO home sales. We continue to believe our ability to accelerate the sales process at the right price will deliver significant value to these customers. In addition, we are in the final stages of preparing to open up Hubzu to individual listing agents and brokers. Over the past year, we have received interest from individual listing agents to utilize both our significant market reach and simple and transparent offer management system for their clients. We intend to leverage the launch of this new segment to lay the foundation for a broader entry into the non-distressed home sale market.

Financial Services segment This segment includes our receivables management and customer care businesses. We believe the Financial Services segment has meaningful expansion opportunities but generates lower margins than we believe should be achieved. Therefore, we continue to build the foundation for higher margins. In 2012, we are simplifying the technology architecture, increasing automation and implementing borrower self-help programs. In the third quarter, we eliminated a legacy mainframe system, allowing us to leverage our dialogue engine and introduce borrower self help for all products while reducing costs. We expect our margin improvement initiatives to be complete by the end of the first half of 2013.

From a revenue perspective, we recently invested in a sales team and are developing a pipeline of new business. Looking to 2013, we intend to pursue growth from existing customers and deeper penetration of the industries we currently serve. In 2014, with our next generation technology in place, we plan to provide higher margin platform business process outsourcing solutions, similar to what is being used by Ocwen. These solutions include a suite of technologies, including dialogue engines and customized customer self-help programs, to improve performance and reduce variability in outcomes.

Factors affecting comparability

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

- On average, Ocwen serviced 0.7 million loans for the nine months ended September 30, 2012 compared to 0.5 million loans for the nine months ended September 30, 2011.

- 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.

- In July 2011, we acquired the assembled workforce of a sub-contractor in India that performs asset recovery services.

- Throughout 2011, we repurchased 1.6 million shares of our common stock under our stock repurchase program, and during the nine months ended September 30, 2012, we purchased 0.3 million shares of our common stock under the program (none during the third quarter of 2012).

- In the first quarter of 2012, we increased our employee levels in anticipation of Ocwen boarding additional loans. Additional loans were boarded by Ocwen in April and June of 2012 (June was almost exclusively government-sponsored enterprise (GSE) loans).

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CONSOLIDATED RESULTS OF OPERATIONS

Summary Consolidated Results

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

The following table sets forth information regarding our results of operations for the three and nine months ended September 30, 2012 and 2011:

(dollars in thousands, except per share data)	Three months ended September 30, 2012	Three months ended September 30, 2011	% Increase / (decrease)	Nine months ended September 30, 2012	Nine months ended September 30, 2011	% Increase / (decrease)
Service revenue						
Mortgage Services	$ 90,607	$ 58,915	54	$ 259,926	$ 147,768	76
Financial Services	15,283	16,934	(10)	49,100	53,067	(7)
Technology Services	19,076	14,827	29	53,984	41,115	31
Eliminations	(6,364)	(4,507)	(41)	(17,820)	(11,547)	(54)
	118,602	86,169	38	345,190	230,403	50
Reimbursable expenses	24,326	21,833	11	77,846	56,933	37
Non-controlling interests	1,060	1,791	(41)	4,223	4,395	(4)
Total revenue	143,988	109,793	31			