Altisource Portfolio Solutions S.A.
Form 10-K
February 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

o 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	**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

(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 x No o

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 o No x

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 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 x No o

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. x

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 x	Accelerated filer o
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 Act). Yes o No x

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of June 30, 2012 was $1,269,084,321 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, 2013, there were 23,426,763 outstanding shares of the Registrant s shares of beneficial interest (excluding 1,985,985 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 Annual Meeting of Stockholders to be held on May 15, 2013 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, 2012.

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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 , believe , predict , potential , or continue or the negative of these terms and comparable terminology 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 I 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 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 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 from Ocwen). Prior to our Separation from Ocwen, our businesses were wholly-owned subsidiaries of Ocwen.

2012 Highlights

Our 2012 highlights include:

- Recognized revenue of $568.4 million, representing a 34% increase over the year ended December 31, 2011;

- Recognized service revenue of $466.9 million representing a 39% increase over the year ended December 31, 2011;

- Recognized diluted earnings per share of $4.43 representing a 60% increase over the year ended December 31, 2011;

- Generated cash flows from operations of $116.5 million;

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- Relaunched the consumer real estate portal under the new HubzuTM brand; over 25,000 real estate owned (REO) assets were sold through Hubzu during the year;

- Recognized origination related service revenue of $37.8 million, representing a 72% increase over the year ended December 31, 2011;

- Completed the spin-offs of Altisource Residential Corporation (Residential) and Altisource Asset Management Corporation (AAMC) into two separate publicly traded companies as further described in *Separation of Residential Asset Businesses* below and

- Prepared for 2013 growth from Ocwen s December 28, 2012 acquisition of Homeward Residential Holdings, Inc. (Homeward Residential) and their anticipated acquisition of a portion of Residential Capital, LLC s (ResCap) servicing portfolio.

Separation of Residential Asset Businesses

On December 21, 2012, we completed the distribution of two wholly-owned subsidiaries via the spin-off of two separate companies, Residential and AAMC (the Separation of the Residential Asset Businesses). Residential s common stock is listed on the New York Stock Exchange under the symbol RESI, and AAMC s common stock is listed on the OTCQX market tier operated by OTC Markets Group, Inc. (the OTC Market) under the symbol AAMC . We distributed all of the shares of Residential common stock and AAMC common stock to our shareholders of record as of December 17, 2012. Residential and AAMC plan to enter the growing residential single-family rental market. Residential will acquire residential related assets, and AAMC will provide asset management and advisory services to Residential. Residential and AAMC are further described in Item 7 of Part II, *Management s Discussion and Analysis of Financial Condition and Results of Operations* .

Reportable Segments

We classify our businesses into the following three reportable segments:

Mortgage Services: Provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, originators and investors in single family homes. We provide these services primarily for loan portfolios serviced by Ocwen. 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, REO asset management, our consumer real estate portal and REO brokerage operations. With the Separation of the Residential Asset Businesses, we plan to provide property management, lease management and renovation management services for single-family rental properties.

Residential property valuation Residential property valuation services principally include traditional appraisal products through our licensed appraisal management company and alternative valuation products primarily through our network of real estate professionals. We generally provide these services for loan servicers 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, program management and other insurance related services applicable to residential loan servicers. We also began providing closing and title agency services for loan originations.

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

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Origination management services - Origination management services principally include Mortgage Partnership of America, L.L.C. s (MPA) operations and our contract underwriting and quality control businesses. MPA serves as the manager of Best Partners Mortgage Cooperative, Inc. (BPMC) doing business as Lenders One Mortgage Cooperative (Lenders One®), a national alliance of independent mortgage bankers that provides its members with education and training along with revenue enhancing, cost reducing and market share expanding opportunities. We provide other origination related services in the residential property valuation business. In addition, some of the origination related reseller businesses, including the flood certification business, are included in the Technology Services REALSuiteTM 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 industries. Within the Financial Services segment, we provide the following services:

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

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

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

REALServicing® An enterprise residential mortgage loan servicing product that offers an efficient and effective platform for loan servicing including default administration. This technology solution features automated workflows, a dialogue engine and robust reporting capabilities. The solution spans the loan servicing lifecycle from loan boarding to satisfaction including all collections, payment processing and reporting. We also offer 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 we incur on behalf of our customers in performing our fee based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity not owned by Altisource. It is included in revenue and reduced from net income to arrive at net income attributable to Altisource.

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Customers

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

Our three largest customers in 2012 accounted for 71% of our total revenue. Our largest customer, Ocwen, accounted for 60% of our total revenue in 2012. During 2012, Ocwen s residential loan servicing portfolio grew from $102.2 billion in unpaid principal balance (UPB) to $203.7 billion in UPB. The 2012 growth is primarily from Ocwen s acquisition of Homeward Residential in the fourth quarter and the acquisition of mortgage servicing rights and related assets from Saxon Mortgage Services, Inc. and from JP Morgan Chase portfolios in the second quarter of 2012. Additionally, in October 2012, Ocwen and Walter Investment Management Corporation presented the highest bid in the auction of ResCap s servicing portfolio. We expect Ocwen to close the ResCap transaction in the first quarter of 2013. Excluding the approximately $120 billion of Ally Bank subservicing and master servicing, the ResCap transaction will increase Ocwen s servicing portfolio UPB by approximately $203.7 billion. With these servicing platform acquisitions, Ocwen is now positioned as the fifth largest mortgage servicer in the United States. As the structured shift of servicing to non-banks continues, we expect Ocwen to continue to grow. Ocwen s highly scalable platform and low cost operating structure positions it to be very competitive as additional mortgage servicing portfolios become available.

Ocwen, including 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. In October 2012, the Ocwen agreement was extended by three years through 2020. Separately, we signed a similar agreement in October 2012 with OMS effective through 2020. Ocwen and OMS are not restricted from redeveloping these services. We settle amounts with Ocwen and OMS on a daily, weekly or monthly basis depending upon the nature of the service and when the service is provided.

Related party revenue consists of revenue earned directly from Ocwen and its subsidiaries and revenue earned from the loans serviced by Ocwen or its subsidiaries when Ocwen determines the service provider. We earn additional revenue on the portfolios serviced by Ocwen or its subsidiaries that are not considered related party revenue when a party other than Ocwen selects the service provider. As a percentage of each of our segment revenue and as a percentage of consolidated revenue, related party revenue was as follows for the years ended December 31:

	2012	2011	2010
Mortgage Services	68%	72%	73%
Technology Services	42%	39%	37%
Financial Services	< 1%	< 1%	< 1%
Consolidated revenue	60%	58%	51%

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

Sales and Marketing

We have experienced sales personnel and relationship managers with subject matter expertise. These individuals maintain relationships throughout the industry sectors we serve and play an important role in generating new client leads as well as identifying opportunities to expand our services with existing clients. Additional leads are also generated through request for proposal processes from key industry participants. Our sales team works collaboratively and is compensated principally with a base salary and commission for sales generated.

From a sales and marketing perspective, our primary focus is supporting the growth of Ocwen, expanding relationships with existing MPA members and targeting new customers that could have a material positive impact on our results of operations. Given the highly concentrated nature of the industries we serve, the time and effort spent in expanding relationships or winning new relationships is significant.

Intellectual Property

We rely on a combination of contractual restrictions, internal security practices, patents, trademarks, copyrights, trade secrets and other intellectual property to establish and protect our software, technology and expertise. We also own or, as necessary and appropriate, have obtained licenses from third parties to intellectual property relating to our services, processes and business. These intellectual property rights are important factors in the success of our businesses.

As of December 31, 2012, we have been awarded two patents that expire in 2024 and five patents that expire in 2025. In addition, we have registered trademarks or recently filed applications for registration of trademarks in a number of countries or groups of countries including the United States, the European Community, India and in eight other countries or groups of countries. These trademarks generally can be renewed indefinitely provided they are being used.

We actively protect our rights and intend to continue our policy of taking all measures we deem reasonable and necessary to develop and protect our patents, trademarks, copyrights, trade secrets and other intellectual property rights.

Industry and Competition

The industry verticals in which we engage are highly competitive and generally consist of a few national vendors as well as a large number of regional, local or in-house providers resulting in a fragmented market with disparate service offerings. From an overall perspective, we compete with the global business process outsourcing firms. Our Mortgage Services segment competes with national and regional third party service providers and in-house servicing operations of large mortgage lenders and servicers. Our Financial Services segment competes with other large receivables management companies as well as a fragmented group of smaller companies and law firms focused on collections. Our Technology Services segment competes with data processing and software development companies and in-house technology and software operations of other loan servicers.

Given the diverse nature of services we and our competitors offer, we cannot determine our position in the market with certainty, but we believe we represent only a small portion of very large-sized markets. Given our size, some of our competitors may offer more diversified services, operate in broader geographic markets or have greater financial resources than we do. In addition, some of our larger customers retain multiple providers and continuously evaluate our performance against our competitors.

Competitive factors in our Mortgage Services business include the quality and timeliness of our services, the size and competence of our network of vendors and the breadth of the services we offer. For Financial Services, competitive factors include the ability to achieve a collection rate comparable to our competitors; the quality and personal nature of the service; the consistency and professionalism of the service and the recruitment, training and retention of our workforce. Competitive factors in our Technology Services business include the quality of the technology-based application or service; application features and functions; ease of delivery and integration; our ability to maintain, enhance and support the applications or services; our ability to recruit and retain software and other technical employees and the cost of obtaining, maintaining and enforcing our patents.

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Employees

As of December 31, 2012, we had the following number of employees:

	United States	India	Other	Consolidated Altisource
Mortgage Services	277	2,054	24	2,355
Financial Services	651	1,613		2,264
Technology Services	80	647		727
Corporate	50	364	10	424
Total employees	1,058	4,678	34	5,770

We have not experienced any work stoppages, and we consider our relations with employees to be good. We believe our future success will depend, in part, on our ability to continue to attract, hire and retain skilled and experienced personnel.

Seasonality

Our revenues are seasonal. More specifically, Financial Services asset recovery revenue tends to be higher in the first quarter, as borrowers may utilize tax refunds and bonuses to pay debts, and generally declines throughout the rest of the year. Mortgage Services revenue is impacted by REO sales which tend to be at their lowest level during fall and winter months and highest during spring and summer months.

Stock Repurchase Plan

In May 2012, our shareholders approved a new stock repurchase program, which replaced 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 December 31, 2012, we 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 year ended December 31, 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 following the approval of the new plan, 3.5 million shares of common stock remain available for repurchase under the plan. Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. s retained earnings less treasury shares. The distribution of Residential and AAMC to our shareholders reduced our retained earnings which will limit our ability to repurchase shares for a period of time. Our debt agreement also contains limits on our ability to repurchase our common stock which will limit the amount we can spend on share repurchases in any year and may prevent repurchases in certain circumstances.

Growth Initiatives

During 2012, we focused on providing high quality services to Ocwen s growing servicing portfolio while intensifying our efforts on our strategic initiatives to diversify and expand our revenue base. Because of our high margins and low capital requirements, we are very unique in that the faster we grow our revenue, the faster our net free cash flow grows. Our 2013 strategic growth initiatives are:

- maintaining and growing our services provided to Ocwen as it continues to grow its residential loan servicing portfolio and residential loan origination platform;

- growing our origination related services by leveraging our acquisition of MPA;

- providing property management, lease management and renovation management services for single-family home rentals;

- deploying Hubzu, our consumer real estate portal to the distressed and non-distressed home sales market;

- investing in our next generation software and

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- growing the Financial Services segment s earnings.

These initiatives are further described in Item 7 of Part II, *Management s Discussion and Analysis of Financial Condition and Results of Operations* .

Government Regulation

Our businesses are subject to extensive laws and regulations by federal, state and local governmental authorities including the Federal Trade Commission (FTC), the Consumer Financial Protection Bureau (CFPB), the Securities and Exchange Commission (SEC) and the state agencies that license our mortgage services and collection entities. We also must comply with a number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act, the Telephone Consumer Protection Act, the Homeowners Protection Act, the California Homeowner s Bill of Rights and the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act. These requirements can and do change as statutes and regulations are enacted, promulgated or amended. One such enacted regulation is the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act is extensive and includes reform of the regulation and supervision of financial institutions, as well as the regulation of derivatives, capital market activities and consumer financial services. Included in the Dodd Frank Act, among other things, is the creation of the Consumer Financial Protection Bureau, a new federal entity responsible for regulating consumer financial services and products. Title XIV of the Dodd-Frank Act contains the Mortgage Reform and Anti-Predatory Lending Act (Mortgage Act). The Mortgage Act imposes a number of additional requirements on lenders and servicers of residential mortgage loans by amending and expanding certain existing regulations. In some cases, penalties for noncompliance are significantly increased and could lead to settlements or consent orders on us or our customers that may curtail or restrict the business as it is currently conducted. The Mortgage Act generally requires implementing regulations be issued before many of its provisions are effective. Therefore, many of these provisions in the Mortgage Act will not be effective until 2013 or early 2014.

We are subject to certain federal, state and local consumer protection provisions. We are also subject to licensing and regulation as a mortgage service provider and/or debt collector in a number of states. We are subject to audits and examinations that are conducted by the states. Our employees may be required to be licensed by various state commissions for the particular type of service delivered and to participate in regular continuing education programs. From time to time, we receive requests from state and other agencies for records, documents and information regarding our policies, procedures and practices regarding our mortgage services and debt collection business activities. We are also subject to the requirements of the Foreign Corrupt Practices Act (FCPA) and comparable foreign laws, due to our activities in foreign jurisdictions. We incur ongoing costs to comply with governmental laws and regulations.

Available Information

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information with the SEC. These filings are available to the public over the Internet at the SEC s web site at *http://www.sec.gov*. You may also read and copy any document we file at the SEC s public reference room located at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal Internet address is *www.altisource.com* and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports we file or furnish with the SEC, corporate governance information (including our Code of Business Conduct and Ethics) and select press releases. The contents of our website are available for informational purposes only and shall not be deemed incorporated by reference in this report.

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ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occur, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Our Business and Industry

Our continuing relationship with Ocwen may inhibit our ability to obtain and retain other customers that compete with Ocwen.

As of December 31, 2012, our Chairman owns or controls more than 13% of Ocwen s common stock and 23% of our common stock. We derived 60% of our revenue in 2012 from Ocwen or the servicing portfolio managed by Ocwen. Given this close and continuing relationship with Ocwen, we may encounter difficulties in obtaining and retaining other customers who compete with Ocwen. Should these and other potential customers continue to view Altisource as part of Ocwen or as too closely related to or dependent upon Ocwen, they may be unwilling to utilize our services, and our growth could be inhibited as a result.

We are dependent on certain key customer relationships, the loss of or their inability to pay could affect our business and results of operations.

We currently generate approximately 60% of our revenue from Ocwen. Following the Separation from Ocwen, Ocwen is contractually obligated to purchase certain services from our Mortgage Services and Technology Services segments under service agreements that extend through August 2020 subject to termination under certain provisions.

While no other individual client represents more than 10% of our consolidated revenue, we are exposed to customer concentration. Most of our customers are not contractually obligated to continue to use our services at historical levels or at all. The loss of any of these key customers or their failure to pay us could reduce our revenue and adversely affect results of operations.

Our business is subject to substantial competition.

The markets for our services are very competitive. Our competitors vary in size and in the scope and breadth of the services they offer. We compete for existing and new customers against both third parties and the in-house capabilities of our customers. Some of our competitors have substantial resources and some have widely used technology platforms which they seek to use as a competitive advantage to drive sales of other products and services. In addition, we expect the markets in which we compete will continue to attract new competitors and new technologies. These new technologies may render our existing technologies obsolete, resulting in operating inefficiencies and increased competitive pressure.

There can be no assurance we will be able to compete successfully against current or future competitors or that competitive pressures we face in the markets in which we operate will not materially adversely affect our business, financial condition and results of operations.

Our intellectual property rights are valuable and any inability to protect them could reduce the value of our services.

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets. The efforts we have taken to protect these proprietary rights may not be sufficient or effective. The unauthorized use of our intellectual property or significant impairment of our intellectual property rights could harm our business, make it more expensive to do business or hurt our ability to compete. Protecting our intellectual property rights is costly and time consuming.

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Changes in patent law, such as changes in the law regarding patentable subject matter, can also impact our ability to obtain patent protection for our innovations. In addition, given the costs of obtaining

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patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, the scope of the protection gained will be insufficient or an issued patent may be deemed invalid or unenforceable.

Technology failures could damage our business operations and increase our costs.

System disruptions or failures may interrupt or delay our ability to provide services to our customers. Any sustained and repeated disruptions in these services may have an adverse impact on our results of operations.

The secure transmission of confidential information over the Internet is essential to maintaining consumer confidence. Security breaches and acts of vandalism could result in a compromise or breach of the technology we use to protect our customers personal information and transaction data and could result in the assessment of penalties. Furthermore, Congress or individual states could enact new laws regulating electronic commerce that could adversely affect us and our results of operations.

We have a long sales cycle for many of our services and technology solutions and if we fail to close sales after expending significant time and resources to do so, our business, financial condition, and results of operations may be adversely affected.

We may experience a long sales cycle for developing certain services. We may expend significant time and resources in pursuing a particular service or customer that does not generate revenue.

In addition, many of our services in the Technology Services segment are based on sophisticated software and computing systems with long sales cycles. We may encounter delays when developing new technology solutions and services. We may experience difficulties in installing or integrating our technologies on platforms used by our customers. Further, defects in our technology solutions, errors or delays in the processing of electronic transactions or other difficulties could result in interruption of business operations, delay in market acceptance, additional development and remediation costs, loss of customers, negative publicity or exposure to liability claims.

Delays due to the length of our sales cycle or costs incurred that do not result in sales could have a material adverse effect on our business, financial condition or results of operations.

Our business is subject to extensive regulation, and failure to comply with existing or new regulations may adversely impact us.

Our business is subject to extensive regulation by federal, state and local governmental authorities including the FTC, the CFPB, the SEC and the state agencies that license certain of our mortgage related services and collection services. We also must comply with a number of federal, state and local consumer protection laws including, among others, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Real

Estate Settlement Procedures Act, the Truth in Lending Act, the Fair Credit Reporting Act, the Telephone Consumer Protection Act, the Homeowners Protection Act, the California Homeowner s Bill of Rights, the Secure and Fair Enforcement for Mortgage Licensing Act, the Mortgage Reform and Anti-Predatory Lending Act and the Foreign Corrupt Practices Act. These requirements can and do change as statutes and regulations are enacted, promulgated or amended.

The ongoing economic uncertainty and troubled housing market have resulted in increased regulatory scrutiny of all participants involved in the mortgage industry. This scrutiny has included federal and state governmental agency review of all aspects of the mortgage lending and servicing industries, including an increased legislative and regulatory focus on consumer protection practices. One such enacted regulation is the Dodd-Frank Act (see further description in the *Government Regulation* section in Item 1 of Part I, *Business*). In some cases, penalties for noncompliance are significantly increased and could lead to settlements or consent orders on us or our customers that may curtail or restrict our business as it is currently conducted.

We are subject to certain additional certain federal, state and local consumer protection regulations. We also are subject to licensing and regulation as a mortgage services provider, mortgage origination underwriter, valuation provider, appraisal management company, asset manager, property manager, title insurance agency, other insurance related services provider, real estate broker and/or debt collector in a number of states. We are subject to audits and

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examinations that are conducted by the states in which we do business. Our employees and subsidiaries may be required to be licensed by various state commissions for the particular type of service sold and to participate in regular continuing education programs. From time to time, we receive requests from state and other agencies for records, documents and information regarding our policies, procedures and practices for our mortgage services and debt collection business activities. We incur significant ongoing costs to comply with governmental regulations.

The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict mortgage services activities. If our regulators impose new or more restrictive requirements, we may incur significant additional costs to comply with such requirements which could further adversely affect our results of operations or financial condition. In addition, our failure to comply with these laws and regulations can possibly lead to civil and criminal liability, loss of licensure, damage to our reputation in the industry, fines and penalties, and litigation, including class action lawsuits or administrative enforcement actions. Any of these outcomes could harm our results of operations or financial condition.

If we fail to comply with privacy regulations imposed on providers of services to financial institutions, our business could be harmed.

As a provider of services to financial institutions, we are bound by the same limitations on disclosure of the information we receive from their customers that apply to the financial institutions themselves. If we fail to comply with these regulations, we could be exposed to lawsuits or to governmental proceedings, our customer relationships and reputation could be harmed and we could be inhibited in our ability to obtain new customers. In addition, the adoption of more restrictive privacy laws or rules in the future on the federal or state level could have an adverse impact on us.

If financial institutions at which we hold escrow funds fail, it could have a material adverse impact on our company.

We hold customers   assets in escrow at various financial institutions, pending completion of certain real estate. These amounts are held in escrow for limited periods of time, generally consisting of a few days, and are generally not included in the accompanying consolidated balance sheets. Failure of one or more of these financial institutions may lead us to become liable for the funds owed to third parties, and there is no guarantee we would recover the funds deposited, whether through Federal Deposit Insurance Corporation coverage, private insurance or otherwise.

We may be subject to claims of legal violations or wrongful conduct which may cause us to pay unexpected litigation costs or damages or modify our products or processes.

From time to time, we may be subject to costly and time-consuming legal proceedings that claim legal violations or wrongful conduct. These lawsuits may involve clients, vendors, competitors and/or other large groups of plaintiffs and, if resulting in findings of violations, could result in substantial damages. Alternatively, we may be forced to settle some claims out of court and change existing company practices, services and processes that are currently revenue generating. This could lead to unexpected costs or a loss of revenue.

Our debt makes us more sensitive to the effects of economic change; our level of debt and provisions in our debt agreements could limit our ability to react to changes in the economy or our industry.

Our debt makes us more vulnerable to changes in our results of operations because a portion of our cash flow from operations is dedicated to servicing our debt and is not available for other purposes. Additionally, increases in interest rates will negatively impact our cash flows as the interest on our debt is variable. The provisions of our debt agreement could have other negative consequences to us including the following:

- limiting our ability to borrow money for our working capital, capital expenditure and debt service requirements or other general corporate purposes;

- limiting our flexibility in planning for, or reacting to, changes in our operations, our business or the industry in which we compete and

- placing us at a competitive disadvantage by limiting our ability to invest in the business.

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Our ability to make payments on our indebtedness depends on our ability to generate cash in the future. If we do not generate sufficient cash flow to meet our debt service and working capital requirements, we may need to seek additional financing or sell assets. This may make it more difficult for us to obtain financing on terms that are acceptable to us, or at all. Without any such financing, we could be forced to sell assets to make up for any shortfall in our payment obligations under unfavorable circumstances. If necessary, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations.

In addition, our debt agreement contains covenants that limit our flexibility in planning for or reacting to changes in our business and our industry including limitations on incurring additional indebtedness, making investments, granting liens and merging or consolidating with other companies. Complying with these covenants may impair our ability to finance our future operations or capital needs or to engage in other favorable business activities.

Our failure to comply with the covenants contained in our debt agreement, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

Our debt agreement requires us to comply with various operational, reporting and other covenants that limit us from engaging in certain types of transactions. If there were an event of default under our debt agreement that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be immediately due and payable. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated, upon an event of default or that we would be able to refinance or restructure the payments on those debt instruments.

Our financial results could be negatively affected if Ocwen fails to repay our loan to them as expected.

On December 27, 2012, we loaned $75.0 million to Ocwen under a senior unsecured term loan agreement (the Ocwen Term Loan). If Ocwen defaults on our loan or on debt senior to our loan, or in the event of insolvency, liquidation, dissolution, reorganization, or bankruptcy of Ocwen, holders of debt instruments ranking senior to our loan would typically be entitled to receive payment in full before we receive any distribution in respect of our loan. After repaying such senior creditors, Ocwen may not have any remaining assets to use for repaying its obligation to us.

Risks Related to our Growth Strategy

Our ability to grow is affected by our ability to retain and expand our existing client relationships and our ability to attract new customers.

Our ability to retain existing customers and expand those relationships and attract new customers is subject to a number of risks including the risk that we do not:

- maintain or improve the quality of services we provide to our customers;
- maintain or improve the level of attention expected by our customers;
- successfully leverage our existing client relationships to sell additional services and
- attract other servicers and non-distressed home sellers as new customers on our consumer real estate portal.

If our efforts to retain and expand our client relationships and to attract new customers do not prove effective, it could have a material adverse effect on our business and results of operations and our ability to grow our operations.

If we do not adapt our services to changes in technology or in the marketplace, or if our ongoing efforts to upgrade our technology are not successful, we could lose customers and have difficulty attracting new customers for our services.

The markets for our services are characterized by constant technological change, frequent introduction of new services and evolving industry standards. Our future success will be significantly affected by our ability to enhance, primarily through use of automation, econometrics and behavioral science principles, our current services and

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develop and introduce new services that address the increasingly sophisticated needs of our customers and their customers. These initiatives carry the risks associated with any new service development effort including cost overruns, delays in delivery and performance effectiveness. There can be no assurance we will be successful in developing, marketing and selling new services that meet these changing demands. In addition, we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these services. Finally, our services and their enhancements may not adequately meet the demands of the marketplace and achieve market acceptance. Any of these results would have a negative impact on our financial condition and results of operations and our ability to grow our operations.

Our growth objectives are dependent on the timing and market acceptance of our new service offerings.

Our ability to grow may be adversely affected by difficulties or delays in service development or the inability to gain market acceptance of new services to existing and new customers. There are no guarantees new services will prove to be commercially successful.

Our business is dependent on the trend toward outsourcing.

Our continued growth at historical rates is dependent on the industry trend toward outsourced services. There can be no assurance this trend will continue, as organizations may elect to perform such services themselves or may be prevented from outsourcing services. A significant change in this trend could have a materially adverse effect on our continued growth.

Our strategy of growing through acquisitions and mergers involves potential risks.

We intend to consider acquisitions of other businesses that could complement our business. In addition to considering acquisitions that could offer us greater access in our current markets, we also consider acquisition of entities offering greater access and expertise in other asset types and markets that are related to ours but we do not currently serve. We also intend to acquire certain fee based businesses from Ocwen in connection with their acquisitions of servicing platforms. If we acquire businesses, we may face a number of risks including diverting management s attention from our daily operations to the need for additional management, operational and financial resources along with system conversions and the inability to maintain key pre-acquisition relationships with customers, suppliers and employees. Moreover, any acquisition may result in the incurrence of additional amortization expense of related intangible assets which could reduce our profitability.

We may be unable to achieve some or all of the benefits we expect from the separation of Residential.

We may not be able to achieve the strategic and financial benefits we expect from the spin-off of Residential or such benefits may be delayed. These outcomes may occur if, among other things, Residential is not successful in executing its strategy to acquire non-performing loan portfolios with a portion of the portfolios converting to single-family rental assets or if Residential is not successful in raising equity and debt to grow.

Risks Related to International Business

Our international operations subject us to additional risks which could have an adverse effect on our results of operations.

We have reduced our costs by utilizing lower cost labor in foreign countries such as India and the Philippines. As of December 31, 2012, over 4,600 of our employees were based in India and the Philippines. These countries are subject to relatively higher degrees of political and social instability and may lack the infrastructure to withstand political unrest or natural disasters. Such disruptions can decrease efficiency and increase our costs in these countries. Weakness of the United States dollar in relation to the currencies used in these foreign countries may also reduce the savings achievable through this strategy. Furthermore, the practice of utilizing labor based in foreign countries has come under increased scrutiny in the United States and, as a result, some of our customers may require us to use labor based in the United States. We may not be able to pass on the increased costs of higher-priced United States-based labor to our customers which ultimately could have an adverse effect on our results of operations.

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In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the FCPA. Any violations of the FCPA or local anti-corruption laws by us, our subsidiaries or our local agents, could have an adverse effect on our business and reputation and result in substantial financial penalties or other sanctions.

Any political or economic instability in these countries could result in our having to replace or reduce these labor sources which may increase our labor costs and have an adverse impact on our results of operations.

Altisource is a Luxembourg company and it may be difficult to enforce judgments against it or its directors and executive officers.

Altisource is a public limited company organized under the laws of Luxembourg. As a result, Luxembourg law and the articles of incorporation govern the rights of shareholders. The rights of shareholders under Luxembourg law may differ from the rights of shareholders of companies incorporated in other jurisdictions. A significant portion of the assets of Altisource are located outside the United States. It may be difficult for investors to enforce, in the United States, judgments obtained in United States courts against Altisource or its directors based on the civil liability provisions of the United States securities laws or to enforce, in Luxembourg, judgments obtained in other jurisdictions including the United States.

Risks Related to Our Employees

Our success depends on our directors, executive officers and key personnel

Our success is dependent on the efforts and abilities of our directors, executive officers and other key employees many of whom have significant experience in the real estate and mortgage industries. In particular we are dependent on the services of William C. Erbey, our Chairman of the Board, and William B. Shepro, our Chief Executive Officer, as well as the services of key personnel at each of our segments. The loss of the services of any of these directors, executives or key personnel, for any reason, could have a material adverse effect upon our business, operating results and financial condition.

Our inability to attract and retain skilled employees may adversely impact our business.

Our business is labor intensive and places significant importance on our ability to recruit, train and retain skilled employees. Additionally, demand for qualified technical and software professionals conversant in certain technologies may exceed supply as new and additional skills are required to keep pace with evolving computer technology. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain skilled employees or an increase in wages or other costs of attracting, training or retaining skilled employees could have a materially adverse effect on our business, financial condition and results of operations.

We could have conflicts with Ocwen, HLSS, Residential or AAMC, and the Chairman or other members of our Board of Directors could have conflicts of interest due to his or their relationship with Ocwen, HLSS, Residential or AAMC, which may be resolved in a manner adverse to us.

Conflicts may arise between Ocwen, HLSS, Residential or AAMC and us as a result of our ongoing agreements and the nature of our respective businesses. Our Chairman is also the Chairman of Ocwen, HLSS, Residential and AAMC. As a result, he has obligations to us as well as to these other entities and may have conflicts of interest with respect to matters potentially or actually involving or affecting us and Ocwen, HLSS, Residential or AAMC, as the case may be.

We will also seek to manage these potential conflicts through dispute resolution and other provisions of our agreements with Ocwen, HLSS, Residential or AAMC and through oversight by independent members of our Board of Directors. There can be no assurance that such measures will be effective, that we will be able to resolve all conflicts with Ocwen, HLSS, Residential or AAMC or that the resolution of any such conflicts will be no less favorable to us than if we were dealing with a third party.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space in Luxembourg, Grand Duchy of Luxembourg. A summary of our principal leased office space as of December 31, 2012 and the segments primarily occupying each location is as follows:

	Mortgage Services	**Financial Services**	**Technology Services**	**Corporate and Support Services**
Luxembourg, Luxembourg	X			X
United States				
Atlanta, GA	X	X	X	X
Boston, MA	X		X	
Irvine, CA	X			
Sacramento, CA		X		
St. Louis, MO	X			
Tempe, AZ		X		
Vestal, NY		X		
Pasay City, Philippines	X		X	
India				
Bangalore	X	X	X	X
Goa		X		
Mumbai	X	X		X

We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, involved in legal proceedings arising in the ordinary course of business. We record a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where a range of loss is determined, we record a best estimate of loss within the range. When legal proceedings are material, we disclose the nature of the litigation and to the extent possible the estimate of loss or range of loss. In the opinion of management, after consultation with legal counsel and considering insurance coverage where applicable, the outcome of current legal proceedings both individually and in the aggregate will not have a material impact on our financial condition, results of operations or cash flows. Our businesses are also subject to extensive regulation which may result in regulatory proceedings against us. See Item 1A of Part I, *Risk Factors* above.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol ASPS . The following table sets forth the high and low close of day sales prices for our common stock, for the periods indicated, as reported by the NASDAQ Global Select Market:

	2012	
Quarter ended	**Low**	**High**
December 31	$ 84.56	$ 124.33
September 30	70.70	91.06
June 30	52.35	73.23
March 31	48.55	64.78

	2011	
Quarter ended	**Low**	**High**
December 31	$ 34.41	$ 50.70
September 30	31.79	37.61
June 30	30.49	36.89
March 31	28.51	30.68

The number of holders of record of our common stock as of January 31, 2013 was 87. The number of beneficial stockholders is substantially greater than the number of holders as a large portion of our common stock is held through brokerage firms.

Dividends

We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. Additionally, the payment of cash dividends may be limited by Luxembourg law and by covenants in our debt agreements.

Issuer Purchases of Equity Securities

In May 2012, our shareholders approved a new stock repurchase program, which replaced 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 December 31, 2012, we 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 year ended December 31, 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 following the approval of the new plan, 3.5 million shares of common stock remain available for repurchase under the plan. Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. s retained earnings less treasury shares. The distribution of Residential and AAMC to our shareholders reduced our retained earnings which will limit our ability to repurchase shares for a period of time. Our debt agreement also contains limits on our ability to repurchase our common stock which will limit the amount we can spend on share repurchases in any year and may prevent repurchases in certain circumstances.

No shares were repurchased under our stock repurchase program during the months of October 2012 through December 2012.

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Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P s 500 Index for the period commencing on August 10, 2009, the first trading day of our common stock, and ending on December 31, 2012. The graph assumes an investment of $100 at the beginning of such period. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	8/10/2009	12/31/2009	06/30/10	12/31/10	06/30/11	12/31/11	06/30/12	12/31/12
Altisource	$ 100.00	$ 172.05	$ 202.79	$ 235.33	$ 301.64	$ 411.31	$ 600.25	$ 710.25
S&P 500	100.00	110.72	102.34	124.88	131.13	124.87	135.26	141.46
NASDAQ Composite	100.00	113.90	105.87	133.16	139.22	130.76	147.32	151.56

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial data as of and for the years ended December 31, 2012, 2011, 2010 and 2009 has been derived from our audited consolidated financial statements. The following selected financial data as of and for the year ended December 31, 2008 has been derived from our audited combined consolidated financial statements.

As a result of the Separation of the Residential Asset Businesses, we eliminated the assets and liabilities of Residential and AAMC from our consolidated balance sheet effective at the close of business on December 21, 2012. As Residential and AAMC are development stage companies and have not commenced operations, these entities had no historical results of operations.

The historical results presented below may not be indicative of our future performance and do not necessarily reflect what our financial position as of December 31, 2008 and results of operations for the years ended December 31, 2009 and 2008 would have been had we operated as a separate, stand-alone entity for periods ended prior to the Separation from Ocwen.

The selected consolidated financial data should be read in conjunction with the information contained in Item 7 of Part II, *Management s Discussion and Analysis of Financial Condition and Results of Operations* and our consolidated financial statements and notes thereto in Item 8 of Part II, *Financial Statements and Supplementary Data* .

	Years ended December 31,				
(in thousands, except per share data)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	$ 568,360	$ 423,687	$ 301,378	$ 202,812	$ 160,363
Cost of revenue	366,201	275,849	189,059	126,797	115,048
Gross profit	202,159	147,838	112,319	76,015	45,315
Selling, general and administrative expenses	74,712	62,131	57,352	39,473	28,088
Income from operations	127,447	85,707	54,967	36,542	17,227
Other (expense) income, net	(2,798)	203	804	1,034	(2,626)
Income before income taxes and non-controlling interests	124,649	85,910	55,771	37,576	14,601
Income tax (provision) benefit	(8,738)	(7,943)	403	(11,605)	(5,382)
Net income	115,911	77,967	56,174	25,971	9,219
Net income attributable to non-controlling interests	(5,284)	(6,855)	(6,903)		
Net income attributable to Altisource	$ 110,627	$ 71,112	$ 49,271	$ 25,971	$ 9,219
Earnings per share(1):					
Basic	$ 4.74	$ 2.92	$ 1.96	$ 1.08	$ 0.38
Diluted	$ 4.43	$ 2.77	$ 1.88	$ 1.07	$ 0.38
Transactions with related parties included above:					
Revenue	$ 338,227	$ 245,262	$ 154,988	$ 94,897	$ 64,251
Selling, general and administrative expenses	$ 2,430	$ 1,893	$ 1,056	$ 4,308	$ 6,208
Other (expense) income	$ 86	$	$	$ (1,290)	$ (2,269)

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(in thousands)	As of December 31, 2012	2011	2010	2009	2008
Cash and cash equivalents	$ 105,502	$ 32,125	$ 22,134	$ 30,456	$ 6,988
Accounts receivable, net	88,955	52,005	53,495	30,497	9,077
Premises and equipment, net	50,399	25,600	17,493	11,408	9,304
Intangible assets, net	56,586	64,950	72,428	33,719	36,391
Goodwill	14,915	14,915	11,836	9,324	11,540
Loan to Ocwen	75,000				
Total assets	429,226	224,159	197,800	120,556	76,675
Long term debt, net	198,027				1,123
Capital lease obligations	233	836	1,532	664	1,356
Total liabilities	269,397	58,216	45,902	34,208	16,129

(1) For all periods prior to the Separation from Ocwen, the number of shares originally issued of 24.1 million is being used for diluted earnings per share (EPS) and for basic EPS as no common stock of Altisource was traded prior to August 10, 2009 and no Altisource equity awards were outstanding prior to that date.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis of results of operations (MD&A) is a supplement to the accompanying consolidated financial statements and 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. Significant sections of MD&A are as follows:

Overview. This section, beginning on page 22, 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 28, provides an analysis of our consolidated results of operations for the three years ended December 31, 2012.

Segment Results of Operations. This section, beginning on page 31, provides an analysis of each business segment for the three years ended December 31, 2012 as well as our Corporate Items and Eliminations segment. 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 39, provides an analysis of our cash flows for the three years ended December 31, 2012. We also discuss restrictions on cash movements, future commitments and capital resources.

Critical Accounting Judgments. This section, beginning on page 42, identifies those accounting principles we believe are most important to our financial results and that require significant judgment and estimates on the part of management in application. We provide all of our significant accounting policies in Note 2 to the accompanying consolidated financial statements.

Other Matters. This section, beginning on page 43, provides a discussion of off-balance sheet arrangements to the extent they exist. In addition, we provide a tabular discussion of contractual obligations and discuss any significant commitments or contingencies.

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 , believe , predict , potential , or continue or the negative of these terms and comparable terminology 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 I, 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.*

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OVERVIEW

Our Business

We are 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 conduct our operations through three reportable segments. The *Mortgage Services* segment provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, originators and investors in single family homes. The *Financial Services* segment provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit, mortgages) and the utility and insurance industries. The *Technology Services* segment principally consists of our REALSuiteTM applications as well as our information technology (IT) infrastructure services. The REALSuiteTM platform provides a fully integrated set of software applications and technologies that manage the end-to-end lifecycle for residential and commercial mortgage loan servicing including the automated management and payment of a distributed network of vendors. In addition, our *Corporate Items and Eliminations* segment includes eliminations of transactions between the reporting segments and costs related to corporate support functions including executive, finance, legal, human resources, vendor management, risk and six sigma. Further discussion regarding our business may be found under Item 1 of Part I, *Business* .

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 we incur on behalf of our customers in performing our fee based services, but we pass such costs directly on to our customers without any additional markup. Non-controlling interests represent the earnings of Lenders One, a consolidated entity not owned by Altisource. It is included in revenue and reduced from net income to arrive at net income attributable to Altisource.

Basis of Presentation

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Recent Acquisitions by Ocwen

During 2012, Ocwen s residential loan servicing portfolio grew from $102.2 billion in UPB to $203.7 billion in UPB. The 2012 growth is primarily from Ocwen s acquisition of Homeward Residential in the fourth quarter and the acquisition of mortgage servicing rights and related assets from Saxon Mortgage Services, Inc. and from JP Morgan Chase portfolios in the second quarter of 2012. Additionally, in October 2012, Ocwen and Walter Investment Management Corporation presented the highest bid in the auction of ResCap s servicing portfolio. We expect Ocwen to close the ResCap transaction in the first quarter of 2013. Excluding the approximately $120 billion of Ally Bank subservicing and master servicing, the ResCap transaction will increase Ocwen s servicing portfolio UPB by approximately $203.7 billion. With these servicing platform acquisitions, Ocwen is now positioned as the fifth largest mortgage servicer in the United States. As the structured shift of servicing to non-banks continues, we expect Ocwen to continue to grow. Ocwen s highly scalable platform and low cost operating structure positions it to be very competitive as additional mortgage servicing portfolios become available.

In connection with Ocwen s acquisition of Homeward Residential and the anticipated acquisition of the ResCap servicing platform, we intend to acquire the fee based businesses associated with these servicing portfolios from Ocwen at a price that we believe will provide an unlevered pre-tax return of approximately 20%. The fee based business acquisitions are strategically valuable as they will help us maintain our business model with Ocwen, expand our footprint and provide us significant revenue and earnings growth.

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Separation of Residential Asset Businesses

On December 21, 2012, we completed the capitalization and distribution of Residential and AAMC to our shareholders. See *Separation of Residential Asset Businesses* in Item 1 of Part I, *Business*.

Residential and AAMC plan to enter the growing residential single-family rental market. Because of the different capital considerations and the operating metrics associated with owning and renting single-family homes, we believe these businesses are best suited to operate as separate stand-alone companies. Residential will acquire residential related assets, and AAMC will provide asset management and advisory services to Residential. We will provide property management, lease management and renovation management services to Residential once it begins acquiring assets. With $100 million of initial equity, we believe Residential is poised to execute on its strategy of achieving above market returns by (1) acquiring non-performing loans at a lower cost than directly acquiring REO and (2) operating at a lower cost than its competitors.

On December 24, 2012, the shares of Residential and AAMC were distributed to our shareholders of record as of December 17, 2012, in the form of a taxable pro rata stock distribution (the Distribution). Our shareholders received a pro rata distribution of:

- one share of Residential common stock for every three shares of Altisource common stock held;
- one share of AAMC common stock for every 10 shares of Altisource common stock held and
- received cash in lieu of fractional Residential and AAMC shares.

There are contractual agreements between Altisource, Residential and AAMC that govern certain ongoing relationships and provide for an orderly transition to the status of three independent companies. These agreements are described further in *Related Parties* at the end of this section. We did not report the historical operating results of Residential and AAMC as a discontinued operation because Residential and AAMC are development state companies that had not commenced operations as of the date of separation and because of the significance of the continuing involvement between these entities and Altisource under these agreements.

Although Residential and AAMC are separate companies from Altisource, these entities have the same Chairman. As a result, our Chairman has obligations to Altisource as well as to Residential and AAMC. As of December 31, 2012, our Chairman owns or controls approximately 23% of the common stock of Altisource, approximately 23% of the common stock of Residential and approximately 23% of the common stock of AAMC.

We eliminated the assets and liabilities of Residential and AAMC from our consolidated balance sheet effective at the close of business on December 21, 2012. As Residential and AAMC are development stage companies and have not commenced operations, these entities had no historical results of operations. We don t expect any negative impact on our future operations other than interest expense on the debt we borrowed in November 2012 to capitalize these entities.

The carrying value of net assets transferred by Altisource was as follows:

(in thousands)	Residential	AAMC	Total
Cash	$ 100,000	$ 5,000	$ 105,000
Reduction in Altisource retained earnings	$ 100,000	$ 5,000	$ 105,000

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Growth Initiatives

During 2012, we focused on providing high quality services to Ocwen s growing servicing portfolio while intensifying our efforts on our strategic initiatives to diversify and expand our revenue base. Because of our high margins and low capital requirements, we are very unique in that the faster we grow our revenue, the faster our net free cash flow grows. Our 2013 strategic growth initiatives are:

- maintaining and growing our services provided to Ocwen as it continues to grow its residential loan servicing portfolio and residential loan origination platform;
- growing our origination related services by leveraging our acquisition of MPA;
- providing property management, lease management and renovation services for single-family home rentals;
- deploying Hubzu, our consumer real estate portal, to the distressed and non-distressed home sales market;
- investing in our next generation software; and
- growing the Financial Services segment s earnings.

Growing services provided to Ocwen Our primary focus in 2013 will be boarding and providing services to Ocwen s growing servicing portfolio. We are working diligently to prepare for the on-boarding of the Homeward Residential and ResCap servicing platforms. While we generally do not begin receiving Ocwen referrals until loans are boarded on our servicing system, we are exploring options to direct referrals to Altisource sooner for certain lines of business. We also revisited our staffing models in the fourth quarter of 2012 and determined we will need fewer additional Mortgage Services employees than originally anticipated to meet the heightened referral volumes. This is reflective of improvements in the operating leverage of our business model even without the deployment of our next generation technology.

While we provide a suite of default related services today, there continue to be opportunities to develop new services to complement our current offerings. In our Mortgage Services segment, we are developing short sale and deed-in-lieu processing offerings. We believe these services will not only accelerate our growth but will also help Ocwen extend its performance leadership.

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 2012, the members of Lenders One originated approximately $183 billion of loans representing approximately 10.5% of the United States residential origination market. We estimate in excess of $3.0 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 December 31, 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 of Lenders One at a price we believe is below the current market. These services are similar to the services we provide in our default related business.

Our service revenue from origination related services grew to $37.8 million for the year ended December 31, 2012, an increase of 72% over 2011. 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. As of December 31, 2012, Lenders One membership increased to 241 members compared to 214 members as of December 31, 2011, and the number of signed agreements for origination related services with the members increased from 128 to 158. We believe that we can enhance the profitability and competitive position of the Lenders One members through the members retention of Altisource as their service provider. While we have taken a very deliberate approach in rolling out our origination related services to the Lenders One members, we are pleased with the initial progress we have made.

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Property management, lease management and renovation management services Providing property management, lease management and renovation management services to Residential is a complementary extension of our existing service offerings leveraging our existing infrastructure, competencies and significant economies of scale. We know firsthand, through our ability to establish Altisource as one of the few nationwide single-family REO management and property inspection and preservation companies in the United States, property management can be executed on a national scale. Unlike most property management firms, we are not constrained by the location of the home. We have existing nationwide single-family asset management, property inspection and preservation, real estate brokerage and settlement services operations primarily performed from centralized lower cost locations.

We entered into a long-term service agreement with Residential to be their exclusive provider of property management, lease management and renovation management services. We believe our lower cost operating structure will allow us to attractively price our services to Residential to improve their competitive position in investing in single-family rental assets. This in-turn should generate additional business for us related to these services.

We believe that as Residential acquires assets, it will become a serial equity raiser. With Altisource as the exclusive provider of property management, lease management and renovation management services to Residential, Residential s growth will, in turn, provide attractive growth and diversification to Altisource.

To support the development of the rental asset businesses, the Mortgage Services segment incurred non-recurring expenses of $2.7 million related to the separation and distribution of Residential and AAMC. In addition, the Mortgage Services segment incurred $1.0 million of operating expenses to build out our rental property management capabilities to position us to provide the services to Residential and others. To finance the capitalization of Residential and AAMC and other growth initiatives, we borrowed $200 million in November 2012 under a senior secured term loan at an interest rate of 5.75% as of December 31, 2012. As a result, we incurred interest expense of $1.2 million in 2012. We believe that these expenses represent strategic investments in our future.

Hubzu We continue to focus on deploying Hubzu, our online real estate transaction website, to the distressed and non-distressed home sales market as we believe there are opportunities to benefit from a shifting consumer preference for on-line transacting. Hubzu provides an automated, transparent and integrated on-line solution for buying and selling real estate and, eventually, related services. 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 year ended December 31, 2012, we sold more than 25,000 homes through Hubzu, and our revenue has grown to $53.2 million, compared to $31.9 million for the year ended December 31, 2011 (Hubzu is part of our asset management services business in our Mortgage Services segment).

Our 2013 efforts to grow Hubzu will center on (1) offering Hubzu to other servicers to sell their REO and (2) providing Hubzu to individual listing agents and brokers. In this regard, we have started sales conversations with servicers and financial institutions to add them to our marketplace and further extend our leadership position in online home sales. Beginning in mid-February 2013, Hubzu is available to individual listing agents and brokers to lay the foundation for a broader entry into the non-distressed home sale market.

In the medium to longer term, we intend to explore the possibility of distributing our ownership interest in this business creating a new public company. The consumer real estate portal has many of the same characteristics as some of the other publicly-traded real estate related technology companies. Similar to these companies, we believe that we can create greater shareholder value with Hubzu operating as a separate stand-alone business. As a stand-alone company, Hubzu would have a singularly focused management team, and the performance of the business would be easier to compare with like companies.

With regard to Hubzu, there is no certainty at this time that the separation will actually occur. Further, the consummation of any spin-off or similar transaction will be subject to our reaching satisfactory conclusions with our financial, tax and legal advisors on all applicable issues and the receipt of any necessary approvals.

Next generation technology In our Technology Services segment, we plan on increasing our investment in personnel to support Ocwen and Altisource s growing businesses and to accelerate the development of our next generation vendor management and spend management software, the effect of which will be a marginal decline in

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pre-tax income in this segment. We are continuing to first focus on the technologies that are critical to Ocwen s operations. These include REALServicing, our loan servicing system, and REALDoc, our correspondence generation, intelligent document intake and image storage platform. Once these technologies are fully staffed and we are making meaningful progress with development, we will refocus our efforts on recruiting the staff to complete the development of our next generation vendor management and spend management software. The investment in these technologies should significantly improve our margins.

Financial Services segment This segment includes our receivables management and customer relationship management businesses. We believe the Financial Services segment has meaningful expansion opportunities but generates lower earnings than we believe should be achieved. We are focusing on both sales growth and operating efficiencies to grow earnings in this segment. We believe 2013 will be a turning point in our earnings. By the second quarter of 2012, we will have completed a multi-year process of consolidating three operating platforms into one. This simplifies our operating infrastructure, improves our workforce efficiency and flexibility and lowers our technology costs. We also anticipate benefitting from our 2012 investment in a sales team to develop a pipeline of new business. We intend to pursue growth from existing customers and deeper penetration of the industries we currently serve, including our planned expansion of collections services for charged off mortgages.

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 December 31, 2012, we 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 year ended December 31, 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 following the approval of the new plan, 3.5 million shares of common stock remain available for repurchase under the plan. Luxembourg law limits share repurchases to approximately the balance of Altisource Portfolio Solutions S.A. s retained earnings less treasury shares. The distribution of Residential and AAMC to our shareholders reduced our retained earnings which will limit our ability to repurchase shares for a period of time. Our debt agreement also contains limits on our ability to repurchase our common stock which will limit the amount we can spend on share repurchases in any year and may prevent repurchases in certain circumstances.

Factors Affecting Comparability

The following items may impact the comparability of our results:

- On average, Ocwen serviced 0.8 million loans for the year ended December 31, 2012 compared to 0.5 million and 0.4 million loans for the years ended December 31, 2011 and 2010, respectively;

- In December 2013, we separated the Residential Asset Businesses from Altisource and capitalized the Residential Asset Businesses with $105 million. In connection with the separation and distribution of Residential and AAMC, we incurred one-time expenses of $2.7 million in 2012. We also incurred $1.0 million of expenses related to the build out of our rental property management capabilities;

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- In November 2012, we borrowed $200.0 million under a senior secured term loan agreement. Interest expense, including amortization of debt issuance costs and debt discount, totaled $1.2 million in 2012 (no comparative amounts in 2011 or 2010);

- We repurchased 0.3 million and 1.6 million shares of our common stock under our stock repurchase program during the 2012 and 2011, respectively;

- Effective January 2011, we modified our pricing for IT infrastructure and support services within our Technology Services segment from a rate card model primarily based on headcount to a fully loaded cost plus mark-up where cost is allocated based on the underlying cost driver. This model applies to the IT infrastructure and support amounts charged to Ocwen as well as internal allocations. The impact of this change is discussed further in the Technology Services segment;

- 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 (Tracmail);

- In the fourth quarter of 2010, we recognized $2.8 million of goodwill impairment related to the Financial Services segment;

- In June 2010, we received a favorable tax ruling regarding the treatment of certain intangible assets that exist for purposes of determining our taxable income. The ruling was retroactive to the date of Separation from Ocwen. As a result of the ruling, we recognized a $3.4 million credit attributable to 2009 in the second quarter 2010 and

- In February 2010, we acquired all of the outstanding membership interest of MPA which was formed for the purpose of managing Lenders One. The results of operations of Lenders One have been consolidated since the acquisition date in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 810, *Consolidation*.

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CONSOLIDATED RESULTS OF OPERATIONS

Summary Consolidated Results

Following is a discussion of our consolidated results of operations for the years ended December 31, 2012, 2011 and 2010. For a more detailed discussion of the factors that affected the results of our business segments in these periods, see *Segment Results of Operations* below.

The following table sets forth information regarding our results of operations for the years ended December 31:

		% Increase		% Increase	
Service revenue					
Mortgage Services	$ 351,908	56	$ 224,942	66	$ 135,680
Financial Services	63,979	(8)	69,231	(7)	74,718
Technology Services	74,189	32	56,094	8	52,013
Eliminations	(23,147)	(49)	(15,509)	(1)	(15,385)
	466,929	39	334,758	36	247,026
Reimbursable expenses	96,147	17	82,074	73	47,449
Non-controlling interests	5,284	(23)	6,855	(1)	6,903
Total revenue	568,360	34	423,687	41	301,378
Cost of revenue	366,201	33	275,849	46	189,059
Gross profit	202,159	37	147,838	32	112,319
Selling, general and administrative expenses	74,712	20	62,131	8	57,352
Income from operations	127,447	49	85,707	56	54,967
Other (expense) income, net:					
Interest expense	(1,210)	N/M	(85)	29	(119)
Other (expense) income, net	(1,588)	N/M	288	(69)	923
Total other (expense) income, net	(2,798)	N/M	203	(75)	804
Income before income taxes and non-controlling interests	124,649	45	85,910	54	55,771
Income tax (provision) benefit	(8,738)	(10)	(7,943)	N/M	403
Net income	115,911	49	77,967	39	56,174
Net income attributable to non-controlling interests	(5,284)	23	(6,855)	1	(6,903)
Net income attributable to Altisource	$ 110,627	56	$ 71,112	44	$ 49,271
Margins:					
Gross profit/service revenue	43%		44%		45%
Income from operations/service revenue	27%		26%		22%
Earnings per share:					
Basic	$ 4.74	62	$ 2.92	49	$ 1.96
Diluted	$ 4.43	60	$ 2.77	47	$ 1.88

N/M not meaningful.

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Revenue

We recognized service revenue of $466.9 million, $334.8 million and $247.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. The growth in service revenue over the three year period was driven by the growth in Ocwen s servicing portfolio coupled with our ongoing expansion of mortgage and real estate portfolio management services. Service revenue growth was also driven by an increase in origination related services provided to Lenders One members and growth in Financial Services customer relationship management business. Partially offsetting our service revenue growth was a decline in Financial Services segment revenue in our asset recovery management business. This business was impacted by lower credit card charge off placements and a shift of existing services from higher cost to lower cost geographies with corresponding lower fees from our customers for these services.

The increase in revenue from reimbursable expenses over the three year period is due primarily to the increase in our asset management services and closing and insurance services businesses in the Mortgage Services segment over the same period.

Our revenues are impacted by seasonality. More specifically, Financial Services asset recovery revenue tends to be higher in the first quarter and generally declines throughout the year. Mortgage Services revenue is impacted by REO sales which tend to be at their lowest level during the fall and winter months and highest during the spring and summer months.

Cost of Revenue and Gross Profit

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

We recognized cost of revenue of $366.2 million, $275.8 million and $189.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. The increase in cost of revenue over the three year period is directly attributable to compensation, technology and vendor costs associated with the growth in Ocwen s servicing portfolio and higher costs in our Technology Services segment as we continue to invest in the development of our next generation technology and infrastructure.

Gross profit as a percentage of service revenue was 43%, 44% and 45% for the years ended December 31, 2012, 2011 and 2010, respectively. Our gross margins can vary significantly from period to period. The most significant factors contributing to variability include the mix of services delivered, timing of investments in new services, hiring of staff in advance of new business and the timing of when loans are boarded by our customers. Gross profit as a percentage of service revenue decreased over the three year period primarily from higher costs in our Technology Services segment as we continue to invest in the development of our next generation technology. Gross profit as a percentage of service revenue further declined in 2012 from the costs incurred to develop the rental property management business and the growth of the lower margin origination services business.

Selling, General and Administrative Expenses and Income from Operations

SG&A includes 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, depreciation and amortization on non-operating assets.

We recognized SG&A of $74.7 million, $62.1 million and $57.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our operating margins were 27%, 26% and 22%, respectively, as a percentage of each year s service revenue. Income from operations as a percentage of service revenue is improving as SG&A is growing at a slower pace than service revenue. The benefit was partially offset in 2012 by costs associated with the separation of Residential and AAMC.

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On an absolute basis, the increase in SG&A for the year ended December 31, 2012 compared to the year ended December 31, 2011 was primarily due to a $6.2 million increase in occupancy related costs primarily from the addition of new leased facilities and equipment to support our growth. In addition, other SG&A increased $4.2 million from higher marketing costs related to Hubzu, travel expenses primarily associated with the management of our global operations and higher bad debt expense. Finally, professional services increased primarily from $2.2 million of expenses incurred in connection with the Separation of the Residential Asset Businesses. Partially offsetting these increases was lower compensation expense of $1.2 million primarily due to the reversal in the first quarter of share-based compensation and incentive compensation expense related to the departure of an executive officer in March 2012.

Income Tax Provision (Benefit)

We recognized an income tax provision (benefit) of $8.7 million, $7.9 million and $(0.4) million in 2012, 2011 and 2010, respectively. The effective tax rate in all three periods differs from the Luxembourg statutory tax rate of 28.8% primarily because of the effect of a favorable tax ruling in Luxembourg in 2010 and the mix of income and losses and varying tax rates in multiple taxing jurisdictions. Our effective tax rate was 7.0%, 9.2% and (0.7)% for 2012, 2011 and 2010, respectively.

Our consolidated effective income tax rate for financial reporting purposes may change periodically due to changes in enacted tax rates, fluctuations in the mix of income earned from our domestic and international operations which may be subject to differing tax rates and our ability to utilize net operating loss and tax credit carryforwards.

Recent Accounting Pronouncements

There are no pending accounting pronouncements that are expected to have a material impact upon adoption.

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SEGMENT RESULTS OF OPERATIONS

The following section provides a discussion of pre-tax results of operations of our business segments for the years ended December 31, 2012, 2011 and 2010. Transactions between segments are accounted for as third-party arrangements for purposes of presenting Segment Results of Operations. Intercompany transactions primarily consist of IT infrastructure services and charges for the use of certain REALSuite applications from our Technology Services segment to our other two segments. Generally, we reflect these charges within technology and communications expense in the segment receiving the services, except for consulting services, which we reflect in professional services expense.

Financial information for our segments is as follows:

	For the year ended December 31, 2012				
(in thousands)	**Mortgage Services**	**Financial Services**	**Technology Services**	**Corporate Items and Eliminations**	**Consolidated Altisource**
Revenue					
Service revenue	$ 351,908	$ 63,979	$ 74,189	$ (23,147)	$ 466,929
Reimbursable expenses	95,604	543			96,147
Non-controlling interests	5,284				5,284
	452,796	64,522	74,189	(23,147)	568,360
Cost of revenue	285,586	46,737	54,634	(20,756)	366,201
Gross profit	167,210	17,785	19,555	(2,391)	202,159
Selling, general and administrative expenses	25,099	13,415	8,888	27,310	74,712
Income from operations	142,111	4,370	10,667	(29,701)	127,447
Other expense, net	(1,713)	(27)	(25)	(1,033)	(2,798)
Income before income taxes and non-controlling interests	$ 140,398	$ 4,343	$ 10,642	$ (30,734)	$ 124,649
Margins:					
Gross profit/service revenue	48%	28%	26%	N/M	43%
Income from operations/service revenue	40%	7%	14%	N/M	27%
Transactions with related parties:					
Revenue	$ 306,774	$ 208	$ 31,245	$	$ 338,227
Selling, general and administrative expenses	$ 57	$	$	$ 2,373	$ 2,430
Other income	$	$	$	$ 86	$ 86

N/M not meaningful.

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(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
	For the year ended December 31, 2011				
Revenue					
Service revenue	$ 224,942	$ 69,231	$ 56,094	$ (15,509)	$ 334,758
Reimbursable expenses	80,124	1,950			82,074
Non-controlling interests	6,855				6,855
	311,921	71,181	56,094	(15,509)	423,687
Cost of revenue	202,035	51,096	36,874	(14,156)	275,849
Gross profit	109,886	20,085	19,220	(1,353)	147,838
Selling, general and administrative expenses	15,278	15,634	4,867	26,352	62,131
Income from operations	94,608	4,451	14,353	(27,705)	85,707
Other (expense) income, net	248	(34)	(49)	38	203
Income before income taxes and non-controlling interests	$ 94,856	$ 4,417	$ 14,304	$ (27,667)	$ 85,910
Margins:					
Gross profit/service revenue	49%	29%	34%	N/M	44%
Income from operations/service revenue	42%	6%	26%	N/M	26%
Transactions with related parties:					
Revenue	$ 223,184	$ 266	$ 21,812	$	$ 245,262
Selling, general and administrative expenses	$	$	$	$ 1,893	$ 1,893

N/M not meaningful.

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(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
	For the year ended December 31, 2010				
Revenue					
Service revenue	$ 135,680	$ 74,718	$ 52,013	$ (15,385)	$ 247,026
Reimbursable expenses	44,550	2,899			47,449
Non-controlling interests	6,903				6,903
	187,133	77,617	52,013	(15,385)	301,378
Cost of revenue	117,691	56,575	28,909	(14,116)	189,059
Gross profit	69,442	21,042	23,104	(1,269)	112,319
Selling, general and administrative expenses	13,718	20,739	4,985	17,910	57,352
Income from operations	55,724	303	18,119	(19,179)	54,967
Other (expense) income, net	781	(50)	(60)	133	804
Income before income taxes and non-controlling interests	$ 56,505	$ 253	$ 18,059	$ (19,046)	$ 55,771
Margins:					
Gross profit/service revenue	51%	28%	44%	N/M	45%
Income from operations/service revenue	41%	0%	35%	N/M	22%
Transactions with related parties:					
Revenue	$ 135,655	$ 166	$ 19,167	$	$ 154,988
Selling, general and administrative expenses	$	$	$	$ 1,056	$ 1,056

N/M not meaningful.

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Mortgage Services

Revenue

Revenue by service line was as follows for the years ended December 31:

(in thousands)		2012	% Increase / (decrease)		2011	% Increase / (decrease)		2010
Service revenue								
Asset management services	$	107,480	65	$	64,975	75	$	37,079
Closing and insurance services		85,601	52		56,496	104		27,754
Residential property valuation		80,322	55		51,785	55		33,502
Default management services		50,224	52		32,975	54		21,413
Origination management services		28,281	51		18,711	17		15,932
Total service revenue		351,908	56		224,942	66		135,680
Reimbursable expenses:								
Asset management services		92,992	22		76,511	83		41,920
Default management services		426	(88)		3,497	50		2,328
Closing and insurance services		2,186	N/M		116	(62)		302
Total reimbursable expenses		95,604	19		80,124	80		44,550
Non-controlling interests		5,284	(23)		6,855	(1)		6,903
Total revenue	$	452,796	45	$	311,921	67	$	187,133
Transactions with related parties:								
Asset management services	$	181,948	33	$	136,685	73	$	78,999
Residential property valuation		73,406	51		48,734	50		32,525
Closing and insurance services		37,849	42		26,733	54		17,379
Default management services		13,548	23		11,032	63		6,752
Origination management services		23	N/M			N/M		
Total	$	306,774	37	$	223,184	65	$	135,655

N/M not meaningful.

Revenue growth in all of the business lines, except origination management services, during the three year period was driven by the growth in Ocwen s servicing portfolio and expansion in services provided. Additionally, a portion of the growth in closing and insurance services from 2010 to 2011 is from an increased capture rate of Ocwen s referrals as we continued to expand our geographic presence. A portion of the growth in asset management services is from (1) a higher capture rate of REO sales through the time-limit bidding process resulting in a higher percentage commission and (2) an increase in the average REO sales price.

The higher origination management services revenue over the three year period is from higher overall originations volume, the increase in number of Lenders One members and the incremental roll-out and capture of origination related services to the members. The number of Lenders One members as of December 31, 2012, 2011 and 2010 were 241 members, 214 members and 179 members, respectively.

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Cost of Revenue and Gross Profit

Cost of revenue consists of the following for the years ended December 31:

(in thousands)	2012	% Increase / (decrease)	2011	% Increase / (decrease)	2010
Compensation and benefits	$ 53,842	44	$ 37,264	81	$ 20,584
Outside fees and services	116,323	57	73,888	64	45,135
Reimbursable expenses	95,604	19	80,124	80	44,550
Technology and communications	18,509	82	10,150	42	7,160
Depreciation and amortization	1,308	115	609	132	262
Cost of revenue	$ 285,586	41	$ 202,035	72	$ 117,691

Cost of revenue increased over the three year period from costs related to the growth in Ocwen s servicing portfolio as well as the development of closing and title services in 2011, new origination related services in 2012 and new rental property management services in 2012.

Gross profit as a percentage of service revenue was 48%, 49% and 51% for the years ended December 31, 2012, 2011 and 2010, respectively. The most significant factors impacting gross profit as a percent of service revenue were the mix of services provided (growth of the lower margin origination related appraisals in 2012 as we focused on the sale of these services to the Lenders One members during the periods presented); costs incurred in 2012 to develop the rental property management business including the separation of Residential and AAMC; use of outside providers in 2011 to support the growth in residential property valuation services and a higher level of technology expenses to support our continued growth. Although we have been able to generally maintain our margins in periods of accelerated growth, over time we will seek to reduce employee and vendor costs as a percent of service revenue principally through deployment of our next generation vendor, process and payment management technologies which began in the second half of 2012 and will continue through 2014.

Our margins can vary substantially depending upon when servicing is acquired by Ocwen. Typically, compensation and benefits will increase in anticipation of a servicing portfolio acquisition as we hire and train personnel to deliver services in advance of the actual boarding of loans by Ocwen. Subsequently, as new loans are boarded, for the first couple of months post boarding, we tend to deliver an elevated level of valuations and pre-foreclosure services for which we incur substantially more outside fees and services when compared to asset management services.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses increased on an absolute basis over the three year period principally due to the growth in the Mortgage Services segment which required investments in leased facilities and related occupancy costs, technology and other general and administrative costs. Also contributing to the increase in both periods was higher marketing costs related to Hubzu, travel expenses primarily associated with the management of our global operations, higher bad debt expense in line with our higher levels of revenue and costs in 2012 associated with the separation of Residential and AAMC.

Income from operations as a percentage of service revenue, however, declined in 2012 compared to 2011 due to the lower gross profit margins in 2012, costs associated with the separation of Residential and AAMC partially offset by stabilization of SG&A on higher service revenue. Excluding the costs to develop the rental property management business and the costs associated with the separation of Residential and AAMC, our income from operations as a percentage of service revenue would have been 44% in 2012.

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Financial Services

Revenue

Revenue by service line was as follows for the years ended December 31:

(in thousands)		2012	% Increase / (decrease)		2011	% Increase / (decrease)		2010
Service revenue								
Asset recovery management	$	29,582	(21)	$	37,371	(17)	$	45,151
Customer relationship management		34,397	8		31,860	8		29,567
Total service revenue		63,979	(8)		69,231	(7)		74,718
Reimbursable expenses:								
Asset recovery management		543	(72)		1,950	(33)		2,899
Total reimbursable expenses		543	(72)		1,950	(33)		2,899
Total revenue	$	64,522	(9)	$	71,181	(8)	$	77,617
Transactions with related parties:								
Asset recovery management	$	208	(22)	$	266	60	$	166

Financial Services revenue declined over the three year period due to a decline in revenue from asset recovery management services. The decline was primarily due to the shift of existing services for one of the segment s largest customers to a lower cost geography with corresponding lower fees from our customer for these services and a decline in total placements as a result of lower credit card delinquencies. Partially offsetting this decline, service revenue in customer relationship management increased over the same periods. Our global delivery platform consists of highly trained specialists in various geographic regions. The use of specialists in certain countries may result in lower commission rates paid by clients but results in higher margins principally due to the lower employee cost structure.

Cost of Revenue and Gross Profit

Cost of revenue consists of the following for the years ended December 31:

(in thousands)		2012	% Increase / (decrease)		2011	% Increase / (decrease)		2010
Compensation and benefits	$	32,700	10	$	29,764	(4)	$	30,948
Outside fees and services		5,598	(52)		11,587			