CHINA ORGANIC FERTILIZER, INC.
Form 10-K/A
June 06, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2010

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission File Number1-08397

CHINA ORGANIC FERTILIZER, INC.

(Exact name of registrant as specified in its charter)

Nevada (State of Other Jurisdiction of incorporation or organization)	95-4755369 (I.R.S. Employer I.D. No.)

49 Fuxingmennei Street, Suite 310, Beijing, P.R. China 100031
(Address of principal executive offices) (Zip Code)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 406 of the Securities Act. Yes __ No X

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 __

Indicate by check mark disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in 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 Accelerated filer _ Non-accelerated filer Small reporting company X

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

As of July 13, 2010, 59,542,572 shares of common stock, par value $.001 per share, were outstanding.

Documents incorporated by reference: NONE

Amendment No. 1

This amendment is being filed in order to amend the Report of Independent Registered Public Accounting Firm and to include Note 14 to the Financial Statements. Nothing else has been changed in this Report and no effort to update the information has been made. For current information regarding the registrant, please review the more recent filings by the Registrant with the Securities and Exchange Commission.

PART I

The information in this document contains forward-looking statements which involve risks and uncertainties, including statements regarding our capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “will,” “expect,” “plan,” “intend,” “anticipate,” “ “estimate,” “predict,” “potential,” “forecast,” “project,” or “continue,” the negative of such terms or other comparable terminol You should not rely on forward-looking statements as predictions of future events or results. Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions, risks and uncertainties and other factors which could cause actual events or results to be materially different from those expressed or implied in the forward-looking statements.

In evaluating these statements, you should consider various factors, including the risks described under “Risk Factors” and elsewhere. These factors may cause our actual results to differ materially from any forward-looking statement. In addition, new factors emerge from time to time and it is not possible for us to predict all factors that may cause actual results to differ materially from those contained in any forward-looking statements. We disclaim any obligation to publicly update any forward-looking statements to reflect events or circumstances after the date of this document, except as required by applicable law.

ITEMS 1. DESCRIPTION OF BUSINESS

Business

SNX Organic Fertilizers, Inc.

SNX Organic Fertilizers, Inc. was organized under the laws of the State of Delaware in 2005. It never initiated any business activity. In March 2006 SNX Organic acquired 100% of the registered capital stock of Beijing Shennongxing in exchange for equity in SNX Organic. Those shares represent the only asset of SNX Organic.

Beijing Shennongxing Technology Co., Ltd.

Beijing Shennongxing was organized in 2002 under the laws of the People’s Republic of China. In 2005 the Company amended its charter to adopt its current corporate name and increased its registered capital to 1,000,000 RMB ($146,413). From inception, Beijing Shennongxing has engaged in the business of manufacturing and marketing organic fertilizer. Currently Beijing Shennongxing operates through two wholly-owned subsidiaries:

- Daqing Shennongxing Xiangyu Technology Co., Ltd. (“Daqing Shennongxing”). Beijing Shennongxing invested $239,670 to establish Daqing Shennongxing in Daqing City, Heilongjiang Province. Daqing Shennongxing specializes in manufacturing complex mixing fertilizer and organic fertilizer, and in developing and marketing microbial fertilizer.

- Heilongjiang Xiangyu Organic Fertilizer Co., Ltd. (“Heilongjiang Xiangyu”). Heilongjiang Xiangyu was established in Jiamusi City, Heilongjiang Province in September 2006, with registered capital of $762,467. It specialized in manufacturing compound fertilizer and organic fertilizer under the “Xiangyu” brand, which was developed by a state-owned enterprise and carries considerable goodwill in the agricultural markets of northeast China.

To date we have focused our attention on research and development of our product line. For that reason our revenues have been modest. Our products are now ready for full scale marketing, and it is out plan to promote our product in more districts around China, and to set up additional manufacture bases in central China and southern China. Implementation of that plan will require capital, however. So our focus in the coming months will be on obtaining the working capital that will enable us to take advantage of the market opportunities available to our company.

The Market for Organic Fertilizer in China

The market for fertilizer in a region depends, in the first instance, on the fertility of the regional soil. By nature, and by reason of poor agricultural practices in the 20th Century, the soil in China is, overall, less fertile than in most other countries. Studies indicate that effective agricultural production in China requires that the farmer use twice as much fertilizer as is the norm in Japan, 2.4 times the norm in the United States, 4.4 times the norm in Canada, and 8.2 times the norm in Australia.

According to Ministry of Agriculture of China, there are more than 2 billion acres of cultivated land in Chine, which require approximately 140 million tons of fertilizer per year. The Chinese National Agricultural Means of Production Circulation Association has estimated that in 2008 Chinese fertilizer consumption accounted for 38% of total world-wide fertilizer usage. China's production of fertilizer, however, falls far short of the demand, with the result that China’s fertilizer supply is still dependent on imports. Since fertilizer is a bulky and volatile product, difficult to ship, the lack of an adequate domestic supply of fertilizer forces farmers to pay prices for imported fertilizer that are swelled by shipping charges. This situation creates a significant market opportunity for a domestic supplier of quality fertilizer.

There are about 500 factories and related companies involved in the commercial manufacture of fertilizer in China. These 500 companies could be categorized into three different market segments in term of product:

- Refined organic-based fertilizer, mainly focus on providing agricultural crops with organic nutrition and replenishing micronutrients which cannot be sufficiently obtained from soil. The companies that are involved in manufacturing such products account for about 31% of Chinese fertilizer companies.

- Compound fertilizer, which combines both organic-based fertilizer and inorganic fertilizer. These companies account for about 58% of Chinese fertilizer companies.

- Bio-organic based fertilizer, which is able to improve soil condition and suppress crop disease, while providing crops with high quality organic nutrition. These companies account for about 11% of Chinese fertilizer companies.

The third category, which includes Beijing Shennongxing, is the fastest growing segment of the fertilizer industry in China. Although bio-organic products still represent only a small share of the fertilizer market in China, as public awareness of the relationship between green products and a healthy life style is emerging, demand for organic products is growing. In addition, recognition has grown regarding the detrimental ecological effect of the intense use of chemical fertilizer, as well as the damage to agricultural soil caused by inorganic fertilizer. Increased use of chemical fertilizer in Chinese agriculture has reduced the soil's ability to absorb nitrogen and other nutrients. Applying organic or compound fertilizer helps to restore the soil by replenishing these micronutrients. These two factors have prompted several small and regional companies to produce organic, environment-friendly fertilizer. Organic fertilizer comprises a balance of both organic and biotechnology substances, thereby combining the speedy effectiveness of biotech fertilizers with the environmental benefits of the organic ones, thus ensuring significant room for its future development in the Chinese agricultural production system.

Our Products

During the past several years we have developed or acquired the technology necessary a variety of fertilizer products, including high quality organic fertilizer, active organic compound fertilizer, organic foliage fertilizer product, and organic-based fertilizer processed from biodegradable waste. In addition to the high fermentation technology that we imported from the U.S., we are also working closely with Chinese Academy of Agricultural Sciences and China Agricultural University and other experts in an effort to maximize the utility of the technology we imported from overseas. In the coming years we plan to apply for patents covering our state-of-the-art fertilizer manufacturing technology.

Our core product is “Xiangyu” brand bio-organic fertilizer and compound fertilizer. Our Xiangyu bio-organic fertilizer is produced from a variety of high quality organic materials, including fully fermented stock manure, grass peat, and humic acid. The mixture of those organic materials, combined with several other components, is processed through a series of procedures consisted of stirring, chopping, powder making, dry, cooling off, filtering and packaging.

Organic fertilizers are composed of natural nutritional elements that improve the quality and yield of crops while also improving soil quality, which in turn improves crop yield. Organic compound fertilizer accelerates reproduction of soil microbes to improve soil quality through the decomposition of organic material and the improvement of the soil’s retention of nitrogen. Moreover, this application can activate dormant soil by increasing soil nitrates and moisture content, a benefit not achieved by traditional chemical fertilizers. This process controls the release of nutritional elements that enhance the quality, quantity and health of crops. For example, in our tests comparing mandarin orange production using our bio-organic fertilizer with production using chemical fertilizer, the oranges that were bio-organically fertilized had 8% more sugar content, an increase of 5mg/100g in Vitamin C content and significantly smoother skin. So, given that organic compound fertilizers typically are less expensive or equal in price to chemical fertilizers, we believe that educated farmers will recognize that use of organic fertilizer provides economic advantages due to the increase of yield and quality and, consequently, the increased margin attained by the farmer at the market.

Plants tend to easily absorb organic fertilizer without many of the side effects found in the use of chemical fertilizer. This organic process strengthens photosynthesis, which improves the overall health of a plant in resisting drought and disease. Additional functions of organic compound fertilizer include:

- preserving nitrogen and improving soil fertility;
- allowing phosphorus and potash fertilizer to gradually dissolve;
- promoting disease resistance; and
- activating and maintaining soil moisture content.

Our products can be applied to all kinds of crops, but have particular advantages for crops that will benefit from an advanced blooming and fruiting period. We have tested our products in numerous field trials, in comparison with chemical fertilizer, with application to more than a dozen crops. Our tests resulted, on average, in a 10% - 30% increase in the net value of the farmer's crop, depending on the particular crop and the product application. The increased value is due, in part, to the increased effectiveness of nitrogen which is catalyzed by the product. In addition, the disease suppression characteristics of our fertilizer reduced the need for other costly crop protection applications. Our testing indicated that our fertilizers provide the following benefits:

· Stimulate seed germination and viability, root respiration, formation and growth.
· Produce thicker, greener, and healthier foliage.
· Produce more, larger, longer lasting flowers.
· Increase significantly the protein, vitamin, and mineral contents of most fruits and vegetables.
· Reduce fertilizer requirements and increase yields in most crops.
· Suppress crop disease.

In February 2007, Beijing Shennongxing's methods of manufacturing active organic compound fertilizer and organic foliage fertilizer were certified as compliant with the standards of China's Quality Management System Certification, ISO9001:2000.

Trademarks and Intellectual Property

In 1999 the China Green Product Development Center awarded to the XiangYu Fertilizer Company, a state-owned enterprise of Huanan County, its certification that fertilizer sold under the brand "XiangYu" qualified as a Grade A Green Food Raw Material, making XiangYu the first Grade A green brand in Province of Heilongjiang. To achieve that certification, the company's production environment had to satisfy environmental quality standards established by the National Administration of Agricultural Quality, Supervision, Inspection and Quality. The certification meant that food manufacturing companies using food products fertilized with XiangYu brand fertilizer are eligible to put the "Green Food" label on their products. In the following years, the XiangYu brand developed into one of the best known fertilizer brands in northeast China, including Provinces of Liaoning, Jilin and Heilongjiang. In 2008 "XiangYu" was presented the "Brand Name" award at the Heilongjiang China Agricultural Exposition.

Despite the value of its brand, the XiangYu Fertilizer Company failed as a business. In 2006, therefore, we signed a management agreement with the government of Huanan County and paid $265,492 to obtain an exclusive license to use the XiangYu brand name as well as the plant, equipment and intangible assets of the XiangYu Fertilizer Company for 20 years. Currently, we market our products under the XiangYu brand. In the near future, we also plan on acquiring another famous fertilizer brand, "Zheng Guang," which is influential in central China. We are looking to take advantage of these name brands to expand and improve public awareness of our own organic-based fertilizer products.

We currently own and employ one patented technology in our fertilizer production. In 2003 the Government of China awarded us patent number 01138982 for "bio-based organic fertilizer manufacturing technology." Beijing Shennongxing also owns two patents for seed magnetization technology that it acquired by license from Huanan County; however, it has no current use for that technology. We intend to file additional patent applications in the future.

Production and Facilities

The Company's plant in Jiamusi City has a fertilizer output capacity of 5,000 tons per year. Our plant in Daqing also has a fertilizer output capacity of 5,000 tons per year as well. We currently have one "scarab" fertilizer manufacturer, as well as the other necessary equipment for production, including a windrow turner machine, customized rotary drum screening system, farmland thermometer, farmland moisture measure, and PH screen appliance. Most of our equipment was introduced from North America.

For the year ended March 31, 2010, the combined actual output of the Company was 4000 tons, due to the low level of our marketing operations. As we obtain capital to fund our operations, we will seek to expand to our plant capacity. In addition, in order to reduce shipping expense, our plan is to develop local manufacturing facilities in additional regions of China, thereby providing local delivery capabilities and increased capacity.

Raw Material and Suppliers

A variety of raw materials are utilized in the production of our products, including fermented chicken manure, fermented rice straw, grass peat, carbamide, monoammonium, ammonium acid carbonate, humic acid, potassium, and potassium chloride. We obtain these raw materials for organic compound fertilizers from many different suppliers in the People's Republic of China. To manufacture our organic fertilizer, fermented chicken manure, fermented rice straw, grass peat and extracted humic acid are the key raw materials. We currently maintain short-term (typically one-year) supply contracts with 10 material suppliers, 4 of whom are considered "key" suppliers. We utilize spectral analysis technology to select the raw material with the best quality, and we have specially trained buyers to make sure the quality and consistency of the raw materials are maintained.

In addition to the major raw materials, we also utilize a few different components in our production process, all of which can be readily obtained from numerous sources in local markets. Management believes that there are adequate alternative sources of supply for each of these raw materials.

Marketing and Distribution

We have a marketing team of 12 employees. Their pre-market mission is to collect and correlate marketing data from across 5 provinces and 2 municipalities. Our goal is to assemble nationwide market analyses, ascertain new product needs, estimate demand and customer demographics and develop new products to meet that demand. We then apply our branding strategy - identifying our products by brands known in the local region - to introduce to the market the products most likely to appeal to the farmers in that region. For example, in northwest China, climate and environment cause farmers to realize low profit margins, which limit their financial ability to invest in fertilizer. In that area, therefore, we market a broader spectrum, low-cost fertilizer.

Currently the majority of our marketing efforts involve television advertisements and other mass media. In addition, we also conduct marketing and advertising programs through joint events with our customers. Our sales staff shares its knowledge base by organizing training courses about agricultural techniques that are offered to the public on a regular basis, as well as lectures and interactive meetings. Our staff emphasizes the technological components of our products to help end users understand the differences in products available and how to use them. Also, we have set up several hotlines to answer customer questions and to have real-time interaction with customers.

Currently we sell our products through direct selling methods. However, we are actively developing county level product representatives to represent and market our products throughout the provinces contiguous to Heilongjiang: Liaoning, Shandong, Neimenggu and Hebei. The Company will employ a target-profit pricing method. The headquarters in Beijing will determine the target profits for each of the two manufacturing plants, which in turn will work directly with general distributors to determine the prices of each of the product series sold into the local distribution channel.

Because of our low level of sales at this time, a small number of customers provide the largest portion of our sales. Our major customers are farms and plantations, including four from Beijing, three from Shandong and three from Hebei. Approximately 25% of our sales are made to farmers who are certified as “organic.” The majority of our sales are to non-organic growers who are attracted by the productivity advantages offered by our products.

Currently Beijing Shennonxing ships its fertilizer in bagged lots. Its automatic filling and packaging line has a capacity of 500kg/hour. Beijing Shennongxing uses outsourced trucks as the primary method of making shipments from the manufacturing facility to the customer. In special circumstances, rail delivery will also be available. Because transportation of fertilizer entails a risk of environmental pollution, Beijing Shennongxing has developed special transportation and storage containers for use in distribution of its products.

Within the Company’s agricultural markets, a significant portion of the required sales effort includes providing customers with follow-up analysis regarding the efficacy of the Company’s products. Beijing Shennongxing’s future growth will depend upon the Company being able to provide this type of benefit analysis to its customers. So we intend to increase the number of our staff capable of providing such information as a part of our marketing effort.

Competition

The organic fertilizer industry in the People’s Republic of China is largely fragmented, with most competitors operating small regional factories, serving local requirements. Most companies in this industry do not widely promote their products. They have competitive advantages, however, in that they are likely to have tailored their product offerings to local conditions. We intend to do likewise. We have not yet identified any competitors in the northeast China that operate in all of our product lines (organic compound fertilizer, liquid fertilizer, pesticides and insecticides). Our competitive position in the fertilizer industry is strengthened by our emphasis on the use of “environmentally friendly” fertilizer products.

Seasonality and Revenue Volatility

The fertilizer business is highly seasonal, since sales are tied to the planting, growing and harvesting cycles. The seasonality of the industry affects the sales volume of our product. Typically, we experience a higher sales volume in the second and third quarters, with a lower volume in the first and fourth quarters.

Our sales volume can be volatile as a result of a number of factors, including:

- Weather patterns and field conditions (particularly during periods of high fertilizer consumption);
- Quantities of fertilizers imported to primary markets;
- Current and projected grain inventories and prices, which are heavily influenced by U.S. exports, worldwide grain markers, and domestic demand (food, feed, biofuel);
- Government regulation, intervention and unexpected changes in government policies; and
- The reputation of our products and company in the marketplace.

Environmental Regulation

Our products and our manufacturing practices are subject to regulation by governmental agencies in the People's Republic of China. Business and company registrations, along with the products, are certified on a regular basis and must be in compliance with the laws and regulations of the People's Republic of China and provincial and local governments and industry agencies, which are controlled and monitored through the issuance of licenses. We believe that we have complied with all registrations and requirements for the issuance and maintenance of the licenses required of us by the governing bodies. As of the date of this report, all of our operating license fees and filings are current.

Employees

We currently have 69 full-time staff and employees, assigned to our internal departments as follows:

Department	Headcount
Management	7
Accounting staff	2
Sales and marketing staff	20
Product line staff	40
Total	69

Properties

The executive offices of Beijing Shennongxing are located in rented offices in Beijing. The manufacturing facility of its subsidiary, Daqing Shennongxing, is located on a 3,685 m2 parcel of land in the National High Technology District in Daqing City, Heilongjiang. The manufacturing facility of its other subsidiary, Heilongjiang Xiangyu, is located on a 3,198 m2 parcel in Jiamusi City, Heilongjiang. The two facilities collectively have five warehouses, two for finished products and three for raw materials and work in process, plus an office builsing.

ITEM 1A. Risk Factors

You should carefully consider the risks described below before buying our common stock. If any of the risks described below actually occurs, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

We will need to raise additional capital to fund our operations, and we do not have any commitments for that capital.

In order to operate our business at a cost effective level and achieve profits, we will need additional capital. At present no one has committed to provide us the necessary capital. If we are unsuccessful in raising additional capital, we will be unable to execute our business strategy, and are unlikely to be able to sustain operations. If we became unable to continue as a going concern, we would have to liquidate our assets and we might receive significantly less than the values at which they are carried on our consolidated financial statements. In addition, if adequate capital cannot be obtained on satisfactory terms, we will be forced to curtail or delay the implementation of updates to our facilities and delay the expansion of our sales and marketing capabilities, any of which could cause our business to fail.

We have limited operating history, and our prospects are difficult to evaluate.

We have not operated any facility other than our two facilities in city of Daqing and city of Jiamusi, which we acquired in April 2009 and September 2009, and those have been operated only on a limited basis. Our activities to date have been primarily limited to developing our products and establishing marketing relationships. Consequently there is limited historical financial information related to operations available upon which you may base your evaluation of our business and prospects. The revenue and income potential of our business is unproven. If we are unable to develop our business, we will not achieve our goals and could suffer economic loss or collapse.

Our plan to develop relationships with strategic partners and vendors may not be successful.

Our business plan contemplates that we will have to develop both short- and long-term relationships with certain partners and material suppliers to conduct growth trials and other research and development activities, to assess technology, to engage in marketing activities, and to enter into waste collection. For these efforts to succeed, we must identify partners and material suppliers whose competencies complement ours. If we are unsuccessful in our collaborative efforts, our ability to develop and market products could be severely limited or delayed.

Our future success will be dependent on our existing key employees, and hiring and assimilating new key employees, and our inability to attract or retain key personnel in the future would materially harm our business and results of operations.

Our success depends on the continuing efforts and abilities of our current management team. In addition, our future success will depend, in part, on our ability to attract and retain highly skilled employees, including management, technical and sales personnel. The loss of services of any of our key personnel, the inability to attract or retain key personnel in the future, or delays in hiring required personnel could materially harm our business and results of operations. We may be unable to identify and attract highly qualified employees in the future. In addition, we may not be able to successfully assimilate these employees or hire qualified personnel to replace them.

We may be unable to establish marketing and sales capabilities necessary to commercialize and gain market acceptance for our potential products.

We currently have limited resources to expand our sales and marketing capabilities. We will need to either hire sales personnel with expertise in the markets we intend to address or contract with others to provide sales support. Co-promotion or other marketing arrangements to commercialize our planned products could significantly limit the revenues we derive from our products, and our associates may fail to commercialize these products successfully. Our planned products address different markets and can be offered through multiple sales channels. Addressing each market effectively will require sales and marketing resources tailored to the particular market and to the sales channels that we choose to employ, and we may not be able to develop such specialized marketing resources.

The fertilizer industry is highly competitive, which may adversely affect our ability to generate and grow sales.

Chemical fertilizers are manufactured by many companies and are plentiful and relatively inexpensive. In addition, the number of fertilizer products registered as “organic” with the China Food Development and Certification Center increased by approximately 26% from 2005 to 2008. If we fail to keep up with changes affecting the markets that we intend to serve, we will become less competitive, adversely affecting our financial performance.

Detection of any significant defects in our products or failure in our quality control procedures may result in, among other things, delay in time-to-market, loss of sales and market acceptance of our products, diversion of development resources, and injury to our reputation. The costs we may incur in correcting any product defects may be substantial. Additionally, errors, defects or other performance problems could result in financial or other damages to our customers, which could result in litigation. Product liability litigation, even if we prevail, would be time consuming and costly to defend.

Changes in environmental regulations or violations of such regulations could result in increased expense and could have a material negative effect on our financial performance.

We are subject to air, water and other environmental regulations and will need to obtain a number of environmental permits to construct and operate our planned facilities. If for any reason any of these permits are not granted, construction costs for our organic waste conversion facilities may increase, or the facilities may not be constructed at all. Additionally, any changes in environmental laws and regulations, either at the national or the provincial level, could require us to invest or spend considerable resources in order to comply with future environmental regulations. The expense of compliance could be significant enough to reduce our net income and have a material negative effect on our financial performance.

Risks of doing business in People's Republic of China

The People's Republic of China's Economic Policies could affect our Business.

Virtually all of our assets are located, and all of our revenues are derived from our operations, in the People's Republic of China. Accordingly, our business, financial condition and results of operations are subject, to a significant extent, to the economic, political and legal developments in the People's Republic of China.

While the People's Republic of China's economy has experienced significant growth in the past twenty years, such growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the People's Republic of China, but they may also have a negative effect on us. For example, operating results and financial condition may be adversely affected by the government control over capital investments or changes in tax regulations.

Over the past 20 years, the Chinese economy has experienced periods of rapid expansion and fluctuating rates of inflation. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action that could inhibit economic activity in China, and thereby harm the market for our products, which could have a negative effect on our business, financial condition and results of operations.

The economy of the People's Republic of China has been changing from a planned economy to a more market-oriented economy. In recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform and the reduction of state ownership of productive assets, and the establishment of corporate governance in business enterprises. However, a substantial portion of the productive assets in the People's Republic of China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over the People's Republic of China's economic growth through the allocation of resources, the control of payment of foreign currency- denominated obligations, the setting of monetary policy and the provision of preferential treatment to particular industries or companies.

Capital outflow policies in the People's Republic of China may hamper our ability to remit income to the United States.

The People's Republic of China has adopted currency and capital transfer regulations. These regulations may require us to comply with complex regulations for the movement of capital. Although we believe that we are currently in compliance with these regulations, should these regulations or the interpretation of them by courts or regulatory agencies change; we may not be able to remit all income earned and proceeds received in connection with its operations or from the sale of its operating subsidiary to our stockholders.

We may have difficulty establishing adequate management, legal and financial controls in the People's Republic of China.

The People's Republic of China historically has not adopted a Western style of management and financial reporting concepts and practices, modern banking, computer or other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the People's Republic of China. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

Risk Related to Our Common Stock

Our common stock price may fluctuate significantly

Because we are a developmental stage company, there are few objective metrics by which our progress may be measured. Consequently, we expect that the market price of our common stock will likely fluctuate significantly. We do not expect to generate substantial revenue from the license or sale of our unique technology for several years, if at all. In the absence of product revenue as a measure of our operating performance, we anticipate that investors and market analysts will assess our performance by considering factors such as:

- announcements of developments related to our business;
- developments in our strategic relationships with scientists within our technology field;
- our ability to enter into or extend investigation phase, development phase, commercialization phase and other agreements with new and/or existing partners;
- announcements regarding the status of any or all of our collaborations or products;
- market perception and/or investor sentiment regarding our technology as the next technological wave;
- announcements regarding developments in our technology field in general;
- the issuance of competitive patents or disallowance or loss of our patent rights; and
- quarterly variations in our operating results.

We will not have control over many of these factors but expect that our stock price may be influenced by them. As a result, our stock price may be volatile and you may lose all or part of your investment.

The market for purchases and sales of our common stock may be very limited, and the sale of a limited number of shares could cause the price to fall sharply

Our securities are very thinly traded. Accordingly, it may be difficult to sell shares of the common stock without significantly depressing the value of the stock. Unless we are successful in developing continued investor interest in our stock, sales of our stock could continue to result in major fluctuations in the price of the stock.

We do not intend to declare dividends on our common stock

We will not distribute cash to our stockholders until and unless we can develop sufficient funds from operations to meet our ongoing needs and implement our business plan. The time frame for that is inherently unpredictable, and you should not plan on it occurring in the near future, if at all.

Our common stock is deemed to be a “penny stock” which may make it more difficult for investors to sell their shares due to suitability requirements.

Our common stock is deemed to be “penny stock” as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. Penny stocks are stock:

§ With a price of less than $5.00 per share;

§ That are not traded on a “recognized” national exchange;

§ Whose prices are not quoted on the NASDAQ automated quotation system; or

§ In issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $10.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker-dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker-dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. Many brokers have decided not to trade “penny stocks” because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the “penny stock rules” for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the “penny stock rules,” investors will find it more difficult to dispose of our securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company's plant in Jiamusi City has a fertilizer output capacity of 5,000 tons per year. Our plant in Daqing also has a fertilizer output capacity of 5,000 tons per year as well. We currently have one "scarab" fertilizer manufacturer, as well as the other necessary equipment for production, including a windrow turner machine, customized rotary drum screening system, farmland thermometer, farmland moisture measure, and PH screen appliance. Most of our equipment was introduced from North America.

For the year ended March 31, 2010, the combined actual output of the Company was 4000 tons, due to the low level of our marketing operations. As we obtain capital to fund our operations, we will seek to expand to our plant capacity. In addition, in order to reduce shipping expense, our plan is to develop local manufacturing facilities in additional regions of China, thereby providing local delivery capabilities and increased capacity.

ITEM 3. LEGAL PROCEEDINGS

We have not been involved in any material litigation or claims arising from our ordinary course of business. We are not aware of any material potential litigation or claims against us which would have a material adverse effect upon our results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

Our common stock is currently quoted on the OTCBB under the symbol "CHOR". There is a limited trading market for our common stock. The following table sets forth the range of high and low bid quotations for each quarter within the last two fiscal years, and the subsequent interim period. These quotations as reported by the OTCBB reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions.

Period	High		Low	
Quarter Ended June 30, 2008	$	0.50	$	0.11
Quarter Ended September 30, 2008	$	0.11	$	0.05
Quarter Ended December 31, 2008	$	0.11	$	0.02
Quarter Ended March 31, 2009	$	0.10	$	0.01
Quarter Ended June 30, 2009	$	0.10	$	0.01
Quarter Ended September 30, 2009	$	0.10	$	0.01
Quarter Ended December 31, 2009	$	0.10	$	0.02
Quarter Ended March 31, 2010	$	0.32	$	0.05

(b) Shareholders

On July 13, 2010 there were approximately 303 holders of record of our common stock.

(c) Dividends

Since the Company’s incorporation, no dividends have been paid on our Common Stock. We intend to retain any earnings for use in our business activities, so it is not expected that any dividends on our common stock will be declared and paid in the foreseeable future.

(d) Equity Compensation Plans

We do not have any equity compensation plans. We have not granted any stock options or other equity awards since our inception.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS.

The following discussion should be read in conjunction with the financial statements and the notes thereto appearing elsewhere in this Form 10-K. The following discussion contains forward-looking statements reflecting our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. You are also urged to carefully review and consider our discussions regarding the various factors which affect our business, including the information provided under the caption “Risk Factors.” See the cautionary note regarding forward-looking statements at the beginning of Part I of this Form 10-K.

Results of Operations for Fiscal Year Ended March 31, 2010, Compared with the Fiscal Year Ended March 31, 2010

Results of Operations

Beijing Shennongxing remains in a pre-market stage of its operations. During the past few years we have focused on developing our technology and product offering, then on establishing marketing channels, including developing access to agribusiness clients. Sales have been incidental to these activities and, therefore, limited. During the year ended March 31, 2010 we recorded only $36,413 in revenue, all of which was earned in the quarter ended June 30, 2009. During the year ended March 31, 2009 we recorded $117,414 in revenue. These sales were made to a small number of farms and plantations, generally at cost, and primarily for the purpose of initiating distribution for testing purposes. Primarily because the cost of goods sold recorded on our Statements of Operations includes an allocation of indirect production costs (such as utilities) and an allocation of indirect labor (such as assembly and packaging), in each period we realized negative gross margin: a gross loss of $51,683 in the year ended March 31, 2010 and a gross loss of $37,527 during the year ended March 31, 2009.

An additional reason for our negative margins has been recent increases in the cost of the specialized raw materials that we use in our fertilizer. Specifically, the cost of carbamide, which serves as an important raw material for our products, increased by 20.6% to RMB 1750 per ton in 2009 from RMB 1450 per ton a year earlier. In addition, the costs of monoammonium, potassium, and potassium chloride have increased significantly during 2009. Our prospects for profitable operations in the future will depend, in part, on how the international market for these raw materials develops in the next few years. Similarly, because the cost of transportation represents a significant portion of our cost of goods sold, the international market for oil will also influence our profitability in future periods.

Our general and administrative expenses principally include:

Office staff salaries and benefits;

Traveling and entertainment expenses;

Other associated fees.

Our general and administrative expenses were $648,671 for the year ended March 31, 2010, and were relatively the same, $726,254, in the year ended March 31, 2009. The reduction is primarily attributable to expenses incurred in the 2010 and 2009 fiscal years in connection with (a) product acquisition and development, and (b) efforts by the Company to become publicly listed in the United States. In addition, if we are able to secure the funds needed to implement our marketing program, general and administrative expenses will grow along with the expansion of our business operations. When funded, we intend to open new manufacturing facilities and hire additional personnel, all of which will increase our general and administrative expenses.

Due to the low level of our revenues, our operating expenses were approximately equal to our net loss in all of the periods reported on in this Report: $700,199 for the year ended March 31, 2010, $773,611 for the year ended March 31, 2009.

Our business operates in Chinese Renminbi, but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments, which are reported as a middle step between net income and comprehensive income. The net income is added to the retained earnings on our balance sheet; while the translation adjustment is added to a line item on our statement of stockholders equity labeled "accumulated other comprehensive income," since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the year ended March 31, 2010, the unrealized loss on foreign currency translations reduced our accumulated other comprehensive income by $39,555.

Liquidity and Capital Resource

Since Beijing Shennongxing was organized, its operations have been funded primarily by loans from our shareholders. As of March 31, 2010, therefore, the balance due to our shareholders was $1,882,656. This is recorded on our balance sheet as loan from stockholders, because the creditors are members of the management of Beijing Shennongxing, and they have committed that they will not seek repayment of the loan during the next fiscal year and not until the Company can afford to repay the loan without damage to its business prospects.

As of March 31, 2010, SNX had a working capital deficit of $2,652,143. Included in our current assets at March 31, 2010 are "other account receivable" of $648,170. The greater portion of this item represents funds advanced to middlemen for future purchases of raw materials. The accounts will be amortized as raw materials are received.

The second largest item in our current liabilities is denoted "accrued expenses and other payable." As of March 31, 2010 this item totaled $864,522. Included in this item is $564,151 related to the conversion of the facilities of the XiangYu Fertilizer Company for use in our operations. The item includes amounts owed (but, in most cases, not yet payable) for services by contractors, and also includes refundable contract deposits and bidding deposits given to Beijing Shennongxing in connection with the construction process.

In order to fully implement our business plan, we will require working capital far in excess of our current asset value. Our expectation, therefore, is that we will seek to access the capital markets in both the U.S. and China to obtain the funds we require. At the present time, however, we do not have commitments of funds from any source.

Off-Balance Sheet Arrangements

Neither SNX Organic nor Beijing Shennongxing has any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on their financial condition or results of operations.

Critical Accounting Policies

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the end of each fiscal period and (3) the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Some of our accounting policies require a higher degree of judgment than others in their application.

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We made no material changes to our critical accounting policies in connection with the preparation of previous financial statements.

Recent Accounting Pronouncements

In May 2009, the FASB issued guidance related to subsequent events under ASC 855-10, Subsequent Events. This guidance sets forth the period after the balance sheet date during which management or a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. This guidance is effective for interim and annual periods ending after June 15, 2009. We have included the required disclosures in our consolidated condensed financial statements.

In June 2009, the FASB issued an amendment to ASC 810-10, Consolidation. This guidance amends ASC 810-10-15 to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with a primarily qualitative approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity’s economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE and requires additional disclosures about an enterprise’s involvement in VIEs. This guidance is effective as of the beginning of the reporting entity’s first annual reporting period that begins after November 15, 2009 and earlier adoption is not permitted. We are currently evaluating the potential impact, if any, of the adoption of this guidance will have on our consolidated condensed financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01 which amends ASC 105, Generally Accepted Accounting Principles. This guidance states that the ASC will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Once effective, the Codification’s content will carry the same level of authority. Thus, the U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP: authoritative and non-authoritative. This is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 as of March 31, 2010 and thus have incorporated the new Codification citations in place of the corresponding references to legacy accounting pronouncements.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Measuring Liabilities at Fair Value, which amends ASC 820, Fair Value Measurements and Disclosures. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure the fair value using one or more of the following techniques: a valuation technique that uses the quoted price of the identical liability or similar liabilities when traded as an asset, which would be considered a Level 1 input, or another valuation technique that is consistent with ASC 820. This Update is effective for the first reporting period (including interim periods) beginning after issuance. Thus, we adopted this guidance as of March 31, 2010, which did not have a material impact on our consolidated condensed financial statements.

In September 2009, the Financial Accounting Standards Board (FASB) amended existing authoritative guidance to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The amended guidance is effective for fiscal annual reporting periods beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently assessing the impact, if any, adoption may have on its financial statements or disclosures.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CHINA ORGANIC FERTILIZER, INC

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

China Organic Fertilizer, Inc.

We have audited the accompanying consolidated balance sheets of SNX Organic Fertilizer, Inc. and subsidiaries as of March 31, 2010 and 2009 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years ended March 31, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SNX Organic Fertilizer, Inc. and subsidiaries as of March 31, 2010 and 2009, and the results of its operations, changes in stockholders' equity, and cash flows for each of the two years ended March 31, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As more fully described in Note 14 to the consolidated financial statements, the Company has incurred significant operating losses and negative cash flows from operations through March 31, 2010, and has an accumulated deficit at March 31, 2010 of $2,285,055. These items, among other matters, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

P.C.LIU, CPA, P.C.

Flushing, NY

June 30, 2010 / May 29, 2011

CHINA ORGANIC FERTILIZER, INC.

CONSOLIDATED BALANCE SHEETS

AS OF MARCH 31, 2010 AND 2009

	2010	2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$138,345	$14,504
Accounts receivable, net	70,017	290,217
Other receivable, net	648,170	138,189
Advances to suppliers	17,604	0
Prepaid expenses	146,102	
Inventory, net	440,871	184,589
Total Current Assets	1,461,110	627,499
Property and Equipment, net	1093225	1,278,838
Construction In Progress	736279	657,111
Intangible Assets, net	457653	457,029
Total Assets	$3,748,267	$3,020,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$658,224	$44,406
Advances from customers	125,429	145,108
Tax payable	78,588	28,037
Due to Management	1,882,656	1,700,523
Other liabilities	864,522	734,069
Total Current Liabilities	3,609,419	2,652,144
Commitments and Contingency		
Stockholders' Equity:		
Preferred stock, $0.001 par value; shares authorized; 153,442 shares issued and outstanding	153	153
Common stock; $0.001 par value; shares authorized; 59,542,572shares issued and outstanding	59543	19543
Capital stock	2,354,245	1,956,624
Other comprehensive income	(62,685)	(23130)
Retained earnings	(2,285,055)	(1584856)
Total Stockholders' Equity	66201	368334
Total Liabilities and Stockholders' Equity	$3,675,620	$3,020,478

The accompanying notes are an integral part of these unaudited consolidated financial statements

CHINA ORGANIC FERTILIZER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended March 31	
	2010	2009
Revenues	$36,413	$117,414
Cost of Goods Sold	88,096	154,941
Gross Profit	(51,683)	(37,527)
Operating Expenses:		
Sales Expenses	1,466	9,073
General and Administrative Expenses	646,671	726,254
Total Operating Expenses	648,137	735,327
Income from Operations before other Income and (expense)	(699,820)	(772,854)
Other Income and (Expense):		
Other income	498	327
Financial expense	(422)	(1,084)
Non Operating(income)/expenses	76	(757)
Income Before Income Taxes	(699,744)	(773,611)
Provision For Income Taxes	455	-
Net Income (Loss)	(700,199)	(773,611)
Other Comprehensive Items:		
Foreign Currency Translation Gain (Loss)	(39,555)	14,262
Comprehensive Income	$(739,754)	$(759,349)
Weighted average earning per share		
Basis	$(0.01)	$(0.01)
Diluted	$(0.00)	$(0.00)
Weighted average number of common shares outstanding		
Basis	59,542,752	59,542,752
Diluted	419,696,014	419,696,014

The accompanying notes are an integral part of these consolidated financial statements.

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CHINA ORGANIC FERTILIZER, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Prefer Stock Series A one to one CS par $0.001 Shares	Amount	Prefer Stock Series C 1 to 100,000 CS par $0.001 Shares	Amount	Common Stock par value $0.001 Shares	Amount	Additional Paid in Capital	Comprehensive Income	Retained Earnings	Accumulated other Comprehensive Income	Stockholders' Equity Total
Balance- March 31, 2008.	-	$ -	-	$ -		$ -	$1,127,158	$(52,726)	$(811,245)		$263,187
Net loss for the year									(773,611)	(773,611)	(773,611)
Additional contributed capital							849,160				849,160
Foreign currency translation adjustment						161,361					

Cash and cash equivalents at the end of the period	$120,486	$130,079
Supplemental cash flow information:		
Interest paid	$11,694	$13,345
Income taxes paid, net	5,618	3,490
Non-cash investing and financing activities:		
Increase (decrease) in payables for purchases of premises and equipment	$1,369	$(4,091)

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION
Description of Business
Altisource Portfolio Solutions S.A., together with its subsidiaries (which may be referred to as "Altisource," the "Company," "we," "us" or "our"), is a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource's proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.
We are incorporated under the laws of Luxembourg and are publicly traded on the NASDAQ Global Select Market under the symbol "ASPS."
We conduct our operations through three reportable segments: Mortgage Services, Financial Services and Technology Services. In addition, we report our corporate related expenditures and eliminations separately (see Note 23 for a description of our business segments).
Basis of Accounting and Presentation
The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the interim data includes all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented. The preparation of interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our interim condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.
Altisource consolidates two cooperative entities which are managed by the Mortgage Partnership of America, L.L.C. ("MPA"), a wholly-owned subsidiary of Altisource: Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® mortgage cooperative ("Lenders One") and Best Partners Mortgage Brokers Cooperative, Inc., doing business as the Wholesale One® mortgage cooperative ("Wholesale One"). MPA provides services to Lenders One under a management agreement that ends on December 31, 2025 (with renewals for three successive five-year periods at MPA's option) and to Wholesale One under a management agreement that ends on July 8, 2039 (with automatic renewals for three successive five-year periods).
The management agreements between MPA and Lenders One and Wholesale One, pursuant to which MPA is the management company, represent variable interests in variable interest entities. MPA is the primary beneficiary of Lenders One and Wholesale One as it has the power to direct the activities that most significantly impact each of these cooperatives' economic performance and the right to receive benefits from each of these cooperatives. As a result, Lenders One and Wholesale One are presented in the accompanying condensed consolidated financial statements on a consolidated basis with the interests of the members reflected as non-controlling interests. As of June 30, 2016, Lenders One had total assets of $2.8 million and total liabilities of $1.3 million. As of December 31, 2015, Lenders One had total assets of $4.9 million and total liabilities of $3.7 million. As of June 30, 2016 and December 31, 2015, Wholesale One had less than $0.1 million in total assets and less than $0.1 million in total liabilities.
These interim condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 15, 2016.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 — Quoted prices in active markets for identical assets and liabilities

Level 2 — Observable inputs other than quoted prices included in Level 1

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Recently Adopted Accounting Pronouncement

On January 1, 2016, Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, became effective. As a result of this accounting change, the Company now presents debt issuance costs, net as a direct deduction from the related debt (see Note 12). Prior to January 1, 2016, debt issuance costs, net were included in other assets. We adopted the standard retrospectively. Accordingly, prior period amounts were reclassified to conform to the current presentation.

Future Adoption of New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of this standard is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This standard will require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The standard also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. It also amends certain financial statement presentation and disclosure requirements associated with the fair value of financial instruments. This standard will be effective for annual periods beginning after December 31, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). This standard introduces a new lessee model that brings substantially all leases on the balance sheet. The standard will require companies to recognize lease assets and lease liabilities on their balance sheets and disclose key information about leasing arrangements in their financial statements. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In March 2016, FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This standard clarifies guidance on principal versus agent considerations in connection with revenue recognition. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In March 2016, FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard will require companies to recognize all award-related excess tax benefits and tax deficiencies in their income statements, classify any excess tax benefits as an operating activity in their statements of cash flows, provide companies with the option of estimating forfeitures or recognizing forfeitures as they occur, modify the statutory tax withholding requirements and classify cash paid by employers when directly withholding shares for tax withholding purposes as an investing activity in their statements of cash flows. This standard will be effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. Early application of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In April 2016, FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This standard provides guidance on identifying performance obligations in a contract with a customer and clarifying several licensing considerations, including whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time) and guidance on sales-based and usage-based royalties. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

In May 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This standard addresses collectability, sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, although not prior to annual periods beginning after December 15, 2016. The Company is currently evaluating the impact this guidance may have on its results of operations and financial position.

NOTE 2 — CUSTOMER CONCENTRATION

Ocwen Financial Corporation together with its subsidiaries ("Ocwen") is our largest customer. Ocwen purchases certain mortgage services and technology services from us under the terms of master services agreements and amendments to master services agreements (collectively, the "Service Agreements") with terms extending through August 2025. Certain of the Service Agreements, among other things, contain a "most favored nation" provision and the parties to the Service Agreements have the right to renegotiate pricing. Certain agreements also prohibit Ocwen from establishing fee-based businesses that would directly or indirectly compete with Altisource's services with respect to the Homeward Residential, Inc. and Residential Capital, LLC portfolios. In addition, Ocwen purchases certain origination services from Altisource under an agreement that extends through January 2017.

Revenue from Ocwen primarily consists of revenue earned directly from Ocwen and revenue earned from the loans serviced by Ocwen when Ocwen designates us as the service provider. Revenue from Ocwen as a percentage of segment and consolidated revenue was as follows:

	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Mortgage Services	59%	62%	59%	63%
Financial Services	19%	19%	17%	22%
Technology Services	38%	57%	41%	52%
Consolidated revenue	55%	59%	55%	59%

For the six months ended June 30, 2016 and 2015, we generated revenue from Ocwen of $280.7 million and $301.0 million, respectively ($140.5 million and $159.6 million for the second quarter of 2016 and 2015, respectively). Services provided to Ocwen during such periods and reported in the Mortgage Services segment included real estate asset management and sales,

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residential property valuation, trustee management services, property inspection and preservation and insurance services. Services provided to Ocwen and reported in the Financial Services segment included mortgage charge-off collections. Services provided to Ocwen and reported in the Technology Services segment included information technology infrastructure management and software applications. As of June 30, 2016, accounts receivable from Ocwen totaled $30.9 million, $19.4 million of which was billed and $11.5 million of which was unbilled. As of December 31, 2015, accounts receivable from Ocwen totaled $38.2 million, $20.4 million of which was billed and $17.8 million of which was unbilled.

We earn additional revenue related to the portfolios serviced by Ocwen when a party other than Ocwen selects Altisource as the service provider. For the six months ended June 30, 2016 and 2015, we recognized revenue of $98.0 million and $108.0 million, respectively ($51.3 million and $54.5 million for the second quarter of 2016 and 2015, respectively), related to the portfolios serviced by Ocwen when a party other than Ocwen selected Altisource as the service provider. These amounts are not included in deriving revenue from Ocwen as a percentage of revenue in the table above.

NOTE 3 — TRANSACTIONS WITH RELATED PARTIES

Through January 16, 2015, William C. Erbey served as our Chairman as well as the Executive Chairman of Ocwen and Chairman of each of Home Loan Servicing Solutions, Ltd. (“HLSS”), Altisource Residential Corporation (“Residential”) and Altisource Asset Management Corporation (“AAMC”). Effective January 16, 2015, Mr. Erbey stepped down as the Executive Chairman of Ocwen and Chairman of each of Altisource, HLSS, Residential and AAMC and is no longer a member of the Board of Directors for any of these companies. Consequently, these companies are no longer related parties of Altisource, as defined by FASB ASC Topic 850, Related Party Disclosures. The disclosures in this note are limited to the periods that each of Ocwen, HLSS, Residential and AAMC were related parties of Altisource and are not necessarily reflective of current activities with these former related parties.

Ocwen

Revenue

For the period from January 1, 2015 through January 16, 2015, we estimated that we generated revenue from Ocwen of $22.9 million. Services provided to Ocwen during such periods included real estate asset management and sales, residential property valuation, trustee management services, property inspection and preservation, insurance services, charge-off mortgage collections, information technology infrastructure management and software applications.

We record revenue we earn from Ocwen under the Service Agreements at rates we believe to be comparable market rates as we believe they are consistent with the fees we charge to other customers and/or fees charged by our competitors for comparable services.

Cost of Revenue and Selling, General and Administrative Expenses

At times, we have used Ocwen’s contractors and/or employees to support Altisource related services. Ocwen generally billed us for these contractors and/or employees based on their fully-allocated cost. Additionally, through March 31, 2015, we purchased certain data relating to Ocwen’s servicing portfolio in connection with a Data Access and Services Agreement. Based upon our previously provided notice, the Data Access and Services Agreement was terminated effective March 31, 2015. For the period from January 1, 2015 through January 16, 2015, we estimated that we incurred $1.9 million of expenses related to these items. These amounts are reflected as a component of cost of revenue in the condensed consolidated statements of operations and comprehensive income.

We provided certain other services to Ocwen and Ocwen provided certain other services to us in connection with Support Services Agreements. These services primarily included such areas as vendor management, corporate services and facilities related services. Billings for these services were generally based on the fully-allocated cost of providing the service based on an estimate of the time and expense of providing the service or estimates thereof. Of the January 2015 billings to Ocwen, we estimated that $0.1 million related to the period from January 1, 2015 through January 16, 2015. Of the January 2015 billings from Ocwen, we estimated that $0.3 million related to the period from January 1, 2015 through January 16, 2015. These amounts are reflected as a component of selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income.

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HLSS

Prior to April 2015, HLSS was a publicly traded company whose primary objective was the acquisition of mortgage servicing rights and related servicing advances, loans held for investment and other residential mortgage related assets. We provided HLSS certain finance, human resources, tax and facilities services and sold information technology services to HLSS under a support services agreement. For the period from January 1, 2015 through January 16, 2015, our billings to HLSS were immaterial.

Residential and AAMC

Residential is focused on acquiring, owning and managing single family rental properties throughout the United States. AAMC's primary business is to provide asset management and certain corporate governance services to institutional investors. Currently, AAMC's primary client is Residential.

We have agreements, which extend through 2027, to provide Residential with renovation management, lease management, property management, real estate owned asset management, title insurance, settlement and valuation services. In addition, we have agreements with Residential and AAMC pursuant to which we may provide services such as finance, human resources, facilities, technology and insurance risk management. Further, we have separate agreements for certain services related to income tax matters, trademark licenses and technology products and services.

For the period from January 1, 2015 through January 16, 2015, we estimated that we generated revenue from Residential of $1.0 million. This amount is reflected in revenue in the condensed consolidated statements of operations and comprehensive income. This excludes revenue from services we provide to Residential's loans serviced by Ocwen or other loan servicers where we were retained by Ocwen or Residential's other loan servicers.

For the period from January 1, 2015 through January 16, 2015, our billings to AAMC were immaterial.

NOTE 4 — ACQUISITIONS

RentRange, Investability and Onit Solutions Acquisitions

On October 9, 2015, we acquired GoldenGator, LLC (doing business as RentRange®) ("RentRange"), REIsmart, LLC (doing business as Investability™) ("Investability") and Onit Solutions, LLC, a support company for RentRange and Investability (collectively "RentRange and Investability") for $24.8 million. RentRange is a leading provider of rental home data and information to the financial services and real estate industries, delivering a wide assortment of address and geography level data, analytics and rent-based valuation solutions for single and multi-family properties. Investability is an online residential real estate search and acquisition platform that utilizes data and analytics to allow real estate investors to access the estimated cash flow, capitalization rate, net yield and market value of properties for sale in the United States. The purchase price was composed of $17.5 million in cash and 247 thousand shares of restricted common stock of the Company with a value of $7.3 million as of the closing date. Upon issuance, the restricted stock is subject to transfer restrictions and potential forfeiture provisions. These restrictions and forfeiture provisions will lapse over a four year period, subject to the recipients meeting certain continued employment conditions with the Company and the satisfaction of certain acquisition related escrow release conditions. RentRange and Investability are not material in relation to the Company's results of operations or financial position.

The preliminary allocation of the purchase price is as follows:

(in thousands)	
Cash	$3
Accounts receivable, net	245
Premises and equipment, net	1,206
Other assets	199
Software	1,265
Trademarks and trade names	1,205
Databases/other	910
Non-compete agreements	330
Customer relationships	255
Goodwill	19,565
	25,183
Accounts payable and accrued expenses	(391)
Purchase price	$24,792

CastleLine Acquisition

On July 17, 2015, we acquired CastleLine Holdings, LLC and its subsidiaries ("CastleLine") for $33.4 million. CastleLine is a specialty risk management and insurance services firm that provides financial products and services to parties involved in the origination, underwriting, purchase and securitization of residential mortgages. The purchase consideration was composed of $12.3 million of cash at closing, $10.5 million of cash payable over four years from the acquisition date and 495 thousand shares of restricted common stock of the Company with a value of $14.4 million as of the closing date. Of the cash payable following acquisition, $3.8 million is contingent on certain future employment conditions of certain of the sellers, and therefore excluded from the purchase price. After the acquisition date, management adjusted the allocation of the purchase price based upon information that subsequently became available relating to acquisition date working capital and the purchase price allocation to intangible assets. This adjustment was recorded during the second quarter of 2016. The CastleLine acquisition is not material in relation to the Company's results of operations or financial position.

The initial and final allocation of the purchase price is as follows:

(in thousands)	Initial purchase price allocation	Adjustments	Final purchase price allocation
Cash	$ 1,088	$ —	$ 1,088
Accounts receivable, net	510	(410)	100
Prepaid expenses	66	(46)	20
Restricted cash	2,501	—	2,501
Non-compete agreements	1,105	25	1,130
Databases/other	465	1,335	1,800
Customer relationships	395	—	395
Trademarks and trade names	150	10	160
Deferred taxes	—	356	356
Goodwill	28,125	(1,395)	26,730

	34,405	(125)	34,280
Accounts payable and accrued expenses	(875)	38	(837)
Deferred revenue	(87)	87	—
Purchase price	$ 33,443	$ —	$ 33,443

NOTE 5 — AVAILABLE FOR SALE SECURITIES

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million. This investment is classified as available for sale and reflected in the condensed consolidated balance sheets at fair value at the balance sheet date ($38.1 million as of June 30, 2016) (no comparative amount as of December 31, 2015). Unrealized gains and losses

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on available for sale securities are reflected in other comprehensive income, unless there is an impairment that is other than temporary. In the event that a decline in market value is other than temporary, we would record a charge to earnings and a new cost basis in the investment would be established. In the second quarter of 2016, we incurred expenses of $3.4 million and earned dividends of $1.0 million related to this investment (no comparative amounts in 2015).

NOTE 6 — ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Billed	$61,211	$ 67,021
Unbilled	50,548	56,458
	111,759	123,479
Less: allowance for doubtful accounts	(11,594)	(18,456)
Total	$100,165	$ 105,023

Unbilled receivables consist primarily of certain asset management and default management services for which we generally recognize revenues over the service delivery period but bill following completion of the service. We also include in unbilled receivables amounts that are earned during a month and billed in the following month.

NOTE 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Maintenance agreements, current portion	$8,131	$ 7,000
Income taxes receivable	988	633
Prepaid expenses	7,975	7,873
Other current assets	10,653	6,245
Total	$27,747	$ 21,751

NOTE 8 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Computer hardware and software	$183,490	$ 177,010
Office equipment and other	25,934	21,720
Furniture and fixtures	15,338	14,443
Leasehold improvements	36,807	35,503
	261,569	248,676
Less: accumulated depreciation and amortization	(146,993)	(129,555)
Total	$114,576	$ 119,121

Depreciation and amortization expense amounted to $18.3 million and $18.4 million for the six months ended June 30, 2016 and 2015, respectively ($9.1 million and $9.6 million for the second quarter of 2016 and 2015, respectively), and is included in cost of revenue for operating assets and in selling, general and administrative expenses for non-operating assets in the accompanying condensed consolidated statements of operations and comprehensive income.

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

NOTE 9 — GOODWILL AND INTANGIBLE ASSETS, NET
Goodwill
The following is a summary of goodwill by segment:

(in thousands)	Mortgage Services	Financial Services	Technology Services	Total
Balance as of December 31, 2015	$80,423	$ 2,378	$ —	$82,801
Acquisition of CastleLine [(1)]	(1,395)	—	—	(1,395)
Balance as of June 30, 2016	$79,028	$ 2,378	$ —	$81,406

(1) During the second quarter of 2016, goodwill was revised to reflect a purchase accounting measurement period adjustment related to the CastleLine acquisition. See Note 4.

Intangible assets, net
Intangible assets, net consist of the following:

(in thousands)	Weighted average estimated useful life (in years)	Gross carrying amount June 30, 2016	Gross carrying amount December 31, 2015	Accumulated amortization June 30, 2016	Accumulated amortization December 31, 2015	Net book value June 30, 2016	Net book value December 31, 2015
Definite lived intangible assets:							
Trademarks and trade names	13	$15,254	$ 15,244	$(7,121)	$(6,491)	$8,133	$ 8,753
Customer related intangible assets	10	274,428	274,428	(136,440)	(113,725)	137,988	160,703
Operating agreement	20	35,000	35,000	(11,229)	(10,354)	23,771	24,646
Non-compete agreements	4	1,460	1,435	(314)	(115)	1,146	1,320
Intellectual property	10	300	300	(70)	(55)	230	245
Other intangible assets	5	2,710	1,375	(572)	(39)	2,138	1,336
Total		$329,152	$ 327,782	$(155,746)	$(130,779)	$173,406	$ 197,003

Amortization expense for definite lived intangible assets was $25.0 million and $17.9 million for the six months ended June 30, 2016 and 2015, respectively ($12.8 million and $9.0 million for the second quarter of 2016 and 2015, respectively). Expected annual definite lived intangible asset amortization for 2016 through 2020 is $39.9 million, $27.0 million, $23.9 million, $21.7 million and $19.6 million, respectively.

NOTE 10 — OTHER ASSETS
Other assets consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Security deposits	$5,365	$ 5,341
Maintenance agreements, non-current portion	1,334	1,570

Restricted cash	4,781	4,801
Other	1,206	1,441
Total	$12,686	$ 13,153

NOTE 11 — ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Accounts payable	$15,114	$ 11,644
Accrued expenses - general	29,906	30,347
Accrued salaries and benefits	38,320	46,564
Income taxes payable	5,408	3,316
Total	$88,748	$ 91,871

Other current liabilities consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Unfunded cash account balances	$3,660	$ 6,395
Other	10,649	9,871
Total	$14,309	$ 16,266

NOTE 12 — LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	June 30, 2016	December 31, 2015
Senior secured term loan	$482,626	$ 536,598
Less: debt issuance costs, net	(5,071)	(6,184)
Less: unamortized discount, net	(1,834)	(2,236)
Net long-term debt	475,721	528,178
Less: current portion	(5,945)	(5,945)
Long-term debt, less current portion	$469,776	$ 522,233

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain wholly-owned subsidiaries are guarantors of the term loan (collectively, the "Guarantors"). We subsequently amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders or as otherwise provided in the loan agreement upon the occurrence of any event of default under the senior secured term loan agreement.

In addition to the scheduled principal payments, subject to certain exceptions, the term loan is subject to mandatory prepayment upon issuances of debt, casualty and condemnation events and sales of assets, as well as from a percentage of Consolidated Excess Cash Flow if the leverage ratio is greater than 3.00 to 1.00, as calculated in accordance with the provisions of the senior secured term loan (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were owed for the six months ended June 30, 2016.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9.0% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt. The net gains were included in other income (expense), net in the condensed consolidated statements of operations and comprehensive income.

The term loan bears interest at rates based upon, at our option, the Adjusted Eurodollar Rate or the Base Rate. Adjusted Eurodollar Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Adjusted Eurodollar Rate for the applicable interest period and (y) 1.00% plus (ii) a 3.50% margin. Base Rate loans bear interest at a rate per annum equal to the sum of (i) the greater of (x) the Base Rate and (y) 2.00% plus (ii) a 2.50% margin. The interest rate at June 30, 2016 was 4.50%.

Term loan payments are guaranteed by the Guarantors and are secured by a pledge of all equity interests of certain subsidiaries as well as a lien on substantially all of the assets of Altisource Solutions S.à r.l. and the Guarantors, subject to certain exceptions.

The senior secured term loan agreement includes covenants that restrict or limit, among other things, our ability to: create liens and encumbrances; incur additional indebtedness; sell, transfer or dispose of assets; make Restricted Junior Payments including share repurchases, dividends and repayment of junior indebtedness; change lines of business; amend material debt agreements or other material contracts; engage in certain transactions with affiliates; enter into sale/leaseback transactions; grant negative pledges or agree to such other restrictions relating to subsidiary dividends and distributions; make changes to our fiscal year and engage in mergers and consolidations.

The senior secured term loan agreement contains certain events of default, including (i) failure to pay principal when due or interest or any other amount owing on any other obligation under the senior secured term loan agreement within five days of becoming due, (ii) material incorrectness of representations and warranties when made, (iii) breach of covenants, (iv) failure to pay principal or interest on any other debt that equals or exceeds $40.0 million when due, (v) default on any other debt that equals or exceeds $40.0 million that causes, or gives the holder or holders of such debt the ability to cause, an acceleration of such debt, (vi) occurrence of a Change of Control, (vii) bankruptcy and insolvency events, (viii) entry by a court of one or more judgments against us in an amount in excess of $40.0 million that remain unbonded, undischarged or unstayed for a certain number of days after the entry thereof, (ix) the occurrence of certain ERISA events and (x) the failure of certain Loan Documents to be in full force and effect. If any event of default occurs and is not cured within applicable grace periods set forth in the senior secured term loan agreement or waived, all loans and other obligations could become due and immediately payable and the facility could be terminated.

As of June 30, 2016, debt issuance costs were $5.1 million, net of $5.2 million of accumulated amortization. As of December 31, 2015, debt issuance costs were $6.2 million, net of $4.1 million of accumulated amortization.

Interest expense on the term loans totaled $12.5 million and $14.4 million for the six months ended June 30, 2016 and 2015, respectively ($6.0 million and $7.2 million for the second quarter of 2016 and 2015, respectively).

NOTE 13 — OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

(in thousands)	June 30, 2016	December 31, 2015
Acquisition related obligations	$5,446	$ 8,422
Other non-current liabilities	11,115	9,731

Total	$16,561	$ 18,153

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

NOTE 14 — FAIR VALUE

Fair Value Measurements on a Recurring Basis

Available for sale securities are carried at fair value and consist of 4.1 million shares of Residential common stock with a fair value of $38.1 million as of June 30, 2016 (no comparative amount as of December 31, 2015). Available for sale securities are measured using Level 1 inputs as these securities have quoted prices in active markets.

In accordance with ASC Topic 805, Business Combinations, liabilities for contingent consideration are reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. Liabilities for acquisition related contingent consideration were recorded in connection with the acquisitions of certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. and Owners Advantage, LLC in 2014. The total fair value of the liabilities for acquisition related contingent consideration was $4.1 million and $3.9 million as of June 30, 2016 and December 31, 2015, respectively. We measure the liabilities for acquisition related contingent consideration using Level 3 inputs as they are determined based on the present value of future estimated payments, which include sensitivities pertaining to discount rates and financial projections.

In the second quarter of 2015, we reached an agreement with the former owners of Equator, LLC (“Equator”) to extinguish any liability for the Equator related contingent consideration (“Equator Earn Out”) in exchange for $0.5 million. In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million reduction in operating expenses in the condensed consolidated statements of operations and comprehensive income.

There were no transfers between different levels during the periods presented.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of financial instruments held by the Company as of June 30, 2016 and December 31, 2015. The following fair values are estimated using market information and what the Company believes to be appropriate valuation methodologies under GAAP are as follows:

	June 30, 2016			December 31, 2015		
(in thousands)	Carrying amount	Fair value		Carrying amount	Fair value	
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$120,486	$120,486	$ —	$179,327	$179,327	$ —
Restricted cash	4,781	4,781	—	4,801	4,801	—
Long-term debt	482,626	—	412,645	536,598	—	469,523

Our financial assets and financial liabilities primarily include cash and cash equivalents, restricted cash and long-term debt. Cash and cash equivalents and restricted cash are carried at amounts that approximate their fair value due to the short-term nature of these instruments and were measured using Level 1 inputs. The fair value of our long-term debt is based on quoted market prices. Based on the frequency of trading, we do not believe that there is an active market for our debt. Therefore, the quoted prices are considered Level 2 inputs.

NOTE 15 — SHAREHOLDERS’ EQUITY AND SHARE-BASED COMPENSATION

Stock Repurchase Plan

On May 18, 2016, our shareholders approved a new share repurchase program, which replaced the previous share repurchase program. Under the new program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under prior programs. Under the existing and prior programs, we purchased 0.8 million shares of common stock at an average price of $25.79 per share during the six months ended June 30, 2016 and 1.6 million shares at an average price of $28.02 per share during the six months ended June 30, 2015 (0.3 million shares at an average price of $26.74

per share for the second quarter of 2016 and 1.4 million shares at an average price of $28.57 per share for the second quarter of 2015). As of June 30, 2016, approximately 4.5 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share

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repurchases and may prevent repurchases in certain circumstances. As of June 30, 2016, approximately $333 million was available to repurchase our common stock under our senior secured term loan.

Share-Based Compensation

We issue share-based awards in the form of stock options and certain other equity-based awards for certain employees and officers. We recorded share-based compensation expense of $3.6 million and $1.3 million for the six months ended June 30, 2016 and 2015, respectively ($1.7 million and $0.9 million for the second quarter of 2016 and 2015, respectively). As of June 30, 2016, estimated unrecognized compensation costs related to share-based awards amounted to $9.0 million, which we expect to recognize over a weighted average remaining requisite service period of approximately 2.58 years.

Stock Options

Stock option grants are composed of a combination of service-based, market-based and performance-based options.

Service-Based Options. These options generally vest over three or four years with equal annual cliff-vesting and expire on the earlier of ten years after the date of grant or following termination of service. A total of 1.2 million service-based awards were outstanding at June 30, 2016.

Market-Based Options. These option grants generally have two components, each of which vests only upon the achievement of certain criteria. The first component, which we refer to internally as “ordinary performance” grants, consists of two-thirds of the market-based grant and begins to vest if the stock price is at least double the exercise price, as long as the stock price realizes a compounded annual gain of at least 20% over the exercise price. The remaining third of the market-based options, which we refer to internally as “extraordinary performance” grants, begins to vest if the stock price is at least triple the exercise price, as long as the stock price realizes a compounded annual gain of at least 25% over the exercise price. For substantially all market-based awards, 25% vest upon the achievement of the criteria and the remaining 75% vest thereafter in three equal annual installments. Market-based options generally expire on the earlier of ten years after the date of grant or following termination of service, unless the performance criteria is met prior to termination of service or in the final three years of the option term, in which case vesting will generally continue in accordance with the provisions of the award agreement. A total of 1.8 million market-based awards were outstanding at June 30, 2016.

Performance-Based Options. These option grants begin to vest upon the achievement of certain business unit specific financial measures. 25% of the awards vest upon the achievement of the performance criteria and the remaining 75% vest thereafter in three equal annual installments. The award of performance-based options is adjusted based on the level of achievement specified in the award agreements. If the performance criteria achieved is below a certain threshold, the award is cancelled. The options expire on the earlier of ten years after the date of grant or following termination of service. A total of 0.1 million performance-based awards were outstanding at June 30, 2016.

The Company granted 0.1 million stock options (at a weighted average exercise price of $27.43 per share) and 0.7 million stock options (at a weighted average exercise price of $23.17 per share) during the six months ended June 30, 2016 and 2015, respectively.

The fair values of the service-based and performance-based options were determined using the Black-Scholes option pricing model and the fair value of the market-based options was determined using a lattice (binomial) model. The following assumptions were used to determine the fair value as of the grant date:

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Black-Scholes	Binomial	Black-Scholes	Binomial
Risk-free interest rate (%)	1.25 - 1.89	0.23 - 1.97	1.50 - 1.78	0.02 - 2.26
Expected stock price volatility (%)	59.75 - 62.14	59.76 - 62.14	55.06 - 57.60	55.06 - 57.60
Expected dividend yield	—	—	—	—

Expected option life (in years)	6.00 - 6.25	4.54 - 4.88	6.00 - 6.25	4.54 - 4.88
Fair value	\$11.15 - \$17.09	\$11.06 - \$17.58	\$10.01 - \$16.05	\$9.91 - \$16.13

We determined the expected option life of all service-based stock option grants using the simplified method. We use the simplified method because we believe that our historical data does not provide a reasonable basis upon which to estimate expected option life.

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

The following table summarizes the weighted average grant date fair value of stock options granted per share, the total intrinsic value of stock options exercised and the grant date fair value of stock options that vested during the period presented:

(in thousands, except per share amounts)	Six months ended June 30, 2016	2015
Weighted average grant date fair value of stock options granted per share	$15.81	$12.49
Intrinsic value of options exercised	1,002	176
Grant date fair value of stock options that vested	2,010	530

The following table summarizes the activity related to our stock options:

	Number of options	Weighted average exercise price	Weighted average contractual term (in years)	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2015	3,163,125	$ 20.13	4.94	$ 35,842
Granted	93,500	27.43		
Exercised	(79,726)	12.36		
Forfeited	(46,950)	25.32		
Outstanding at June 30, 2016	3,129,949	20.47	4.43	34,598
Exercisable at June 30, 2016	2,286,429	15.19	2.84	32,079

Other Share-Based Awards

The Company’s other share-based and similar types of awards are composed of restricted shares and Equity Appreciation Rights (“EARs”).

The restricted shares are service-based awards that vest over one to four years with either annual cliff-vesting, vesting of all of the restricted shares at the end of the vesting period or vesting beginning after two years of service. The Company granted 12 thousand restricted shares (at a weighted average price of $26.66 per share) during the six months ended June 30, 2016.

The following table summarizes the activity related to our restricted shares:

	Number of restricted shares
Outstanding at December 31, 2015	272,326
Granted	12,378
Issued	(13,388)
Forfeited	(5,100)
Outstanding at June 30, 2016	266,216

EARs provide participating employees of certain divisions of the Company with the potential to receive a percentage of the increase in the value of the applicable division during the term of the EARs. The Company has established EAR plans for three divisions: Consumer Analytics, Document Solutions and Marketplace Solutions. These EAR plans allow for the issuance of EARs representing up to 15% of each of these divisions. The EARs consist of service-based awards and performance-based awards. Service-based EARs generally vest in equal installments on the first, second, third and fourth anniversaries of the grant date. Performance-based EARs generally begin to vest on the date certain performance criteria are achieved by the applicable division of the Company.

The participating employee will have the opportunity at certain times specified in the award agreement to exercise EARs that have vested and in exchange will receive share equivalency units, the number of which will be based on the increase in value of the division and the amount of EARs awarded to the participating employee that are exercised. After a holding period of six months

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Notes to Condensed Consolidated Financial Statements (Continued)

and one day, the Company, the applicable division or an affiliate of the Company may redeem the share equivalency units for a payment equal to the then fair market value of the share equivalency units. At the Company’s option, the share equivalency units may be redeemed for cash, shares of Altisource’s common stock under its shareholder approved equity incentive plan, a subordinated note payable or, under certain circumstances where the division has been converted into a company form, shares of that company. Upon the occurrence of certain corporate transactions, including the sale of the division, a qualified initial public offering of the equity of the division or a spin-off of the division, the Company will have the right to repurchase and cancel any outstanding share equivalency units or shares of the division that have been issued in payment of redeemed share equivalency units, and the applicable plan administrator will have the discretion to adjust the terms of the applicable division EAR plan and any outstanding EARs.

The following table reflects outstanding EARs (expressed as a percentage of each of the divisions):

	Consumer Analytics	Document Solutions	Marketplace Solutions
Outstanding at December 31, 2015	5.6 %	5.6 %	5.3 %
Granted	—	—	—
Forfeited	(0.5)	—	(0.1)
Outstanding at June 30, 2016	5.1 %	5.6 %	5.2 %

Share-based compensation expense for stock options, restricted shares and EARs is recorded net of estimated forfeiture rates ranging from 0% to 40%.

NOTE 16 — REVENUE

Revenue includes service revenue, reimbursable expenses and non-controlling interests. Service revenue 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 and Wholesale One, consolidated entities not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource (see Note 1). The components of revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Service revenue	$241,324	$236,595	$475,604	$444,411
Reimbursable expenses	13,783	30,830	29,237	62,786
Non-controlling interests	692	896	1,090	1,606
Total	$255,799	$268,321	$505,931	$508,803

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

NOTE 17 — COST OF REVENUE
Cost of revenue principally includes payroll and employee benefits associated with personnel employed in customer service and operations roles, fees paid to external providers related to the provision of services, reimbursable expenses, technology and telecommunications costs as well as depreciation and amortization of operating assets. The components of cost of revenue were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Compensation and benefits	$69,773	$64,890	$134,836	$134,216
Outside fees and services	73,326	54,822	145,129	108,069
Reimbursable expenses	13,783	30,830	29,237	62,786
Technology and telecommunications	10,703	10,355	20,643	22,248
Depreciation and amortization	6,786	7,262	13,389	13,666
Total	$174,371	$168,159	$343,234	$340,985

NOTE 18 — SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
Selling, general and administrative expenses include payroll and employee benefits associated with personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, professional fees, marketing costs, depreciation and amortization of non-operating assets and other expenses. The components of selling, general and administrative expenses were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Compensation and benefits	$14,324	$13,636	$28,315	$26,399
Occupancy related costs	8,799	10,047	17,882	20,701
Amortization of intangible assets	12,756	8,986	24,967	17,877
Professional services	6,696	6,639	13,436	14,629
Marketing costs	5,671	5,920	12,163	11,273
Depreciation and amortization	2,352	2,344	4,957	4,766
Other	3,609	3,994	6,103	8,327
Total	$54,207	$51,566	$107,823	$103,972

NOTE 19 — GAIN (LOSS) ON HLSS EQUITY SECURITIES AND DIVIDENDS RECEIVED
During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million. This investment was classified as available for sale. On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. (“NRZ”) and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million. As a result of these transactions, we recognized a net gain of $1.4 million in the second quarter of 2015 and a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

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ALTISOURCE PORTFOLIO SOLUTIONS S.A.

Notes to Condensed Consolidated Financial Statements (Continued)

NOTE 20 — OTHER INCOME (EXPENSE), NET

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

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Gain on early extinguishment of debt	$5,464	$1,114	$5,464	$1,114
Expenses related to the purchase of available for sale securities	(3,356)	—	(3,356)	—
Interest income	6	31	17	62
Other, net	630	(324)	592	(352)
Total	$2,744	$821	$2,717	$824

NOTE 21 — EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities using the treasury stock method.

Basic and diluted EPS are calculated as follows:

(in thousands, except per share data)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income attributable to Altisource	$19,994	$45,950	$38,488	$49,648
Weighted average common shares outstanding, basic	18,437	19,571	18,646	19,870
Dilutive effect of stock options and restricted shares	1,167	1,098	1,176	960
Weighted average common shares outstanding, diluted	19,604	20,669	19,822	20,830
Earnings per share:				
Basic	$1.08	$2.35	$2.06	$2.50
Diluted	$1.02	$2.22	$1.94	$2.38

For the six months ended June 30, 2016 and 2015, 0.4 million options and 0.7 million options, respectively, that were anti-dilutive have been excluded from the computation of diluted EPS (0.4 million options and 0.7 million options for the second quarter of 2016 and 2015, respectively). These options were anti-dilutive and excluded from the computation of diluted EPS because their exercise price was greater than the average market price of our common stock. Also excluded from the computation of diluted EPS are 0.4 million options and 0.3 million options for the six months ended June 30, 2016 and 2015, respectively (0.4 million and 0.3 million options for the second quarter of 2016 and 2015, respectively), granted for shares that begin to vest upon the achievement of certain market and performance criteria related to our common stock price and an annualized rate of return to investors that have not yet been met.

NOTE 22 — COMMITMENTS, CONTINGENCIES AND REGULATORY MATTERS

Litigation

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

On September 8, 2014, the West Palm Beach Firefighters’ Pension Fund filed a putative securities class action suit against Altisource Portfolio Solutions S.A. and certain of its current or former officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource Portfolio Solutions S.A. share prices. The Court subsequently appointed the Pension Fund for the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund for the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which added Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of Altisource Portfolio Solutions S.A. securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource Portfolio Solutions S.A. moved to dismiss the suit on March 23, 2015. On September 4, 2015, the Court granted the defendants’ motion to dismiss, finding that the Lead Plaintiffs’ amended complaint failed to state a claim as to any of the defendants, but permitting the Lead Plaintiffs to file another amended complaint. Lead Plaintiffs subsequently filed second and third amended complaints with substantially similar claims and theories. Altisource Portfolio Solutions S.A. moved to dismiss the third amended complaint on October 22, 2015. On December 22, 2015, the Court issued an order dismissing with prejudice all claims against Ocwen Financial Corporation and certain claims against Altisource Portfolio Solutions S.A. and the officer and director defendants, but denying the motion to dismiss as to other claims. Altisource Portfolio Solutions S.A. intends to continue to vigorously defend this suit.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen Financial Corporation’s officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. Altisource Portfolio Solutions S.A. filed a motion to dismiss the complaint on November 9, 2015. While that motion was pending, additional lawsuits alleging similar claims for alleged breaches of fiduciary duties by current or former Ocwen Financial Corporation officers and directors were filed in or transferred to the Court. The Court subsequently consolidated these actions and denied Altisource Portfolio Solutions S.A.’s motion to dismiss the Sokolowski complaint without prejudice to re-file following appointment of lead counsel for the consolidated action and the filing or designation of an operative complaint. Lead counsel for plaintiffs filed their Consolidated Verified Shareholder Derivative Complaint (the “Consolidated Complaint”) on March 8, 2016. The Consolidated Complaint alleges claims that Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants aided and abetted alleged breaches of fiduciary duties by Ocwen Financial Corporation officers and directors and/or were unjustly enriched in connection with business dealings with Ocwen Financial Corporation. The Consolidated Complaint also seeks contribution from Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants for amounts Ocwen Financial Corporation paid in connection with a settlement with the New York State Department of Financial Services. Altisource Portfolio Solutions S.A. and Beltline Road Insurance Agency, Inc. filed motions to dismiss the Consolidated Complaint on May 13, 2016 and intend to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duties by the current or former Ocwen Financial Corporation officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. On November 9, 2015, the Court entered an order staying all proceedings in the case pending further order of the Court. If the litigation proceeds, Altisource Portfolio Solutions S.A. intends to vigorously defend the lawsuit and to move to dismiss all claims against it.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that the motion to dismiss in the second case has not been adjudicated, a stay has been entered in the third case and significant legal and factual issues remain to be determined in all three cases.

In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

Regulatory Matters

Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities

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relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

Ocwen Related Matters

Ocwen is our largest customer and 55% of our revenue for the six months ended June 30, 2016 (55% of our revenue for the second quarter of 2016) was from Ocwen. Additionally, 19% of our revenue for the six months ended June 30, 2016 (20% of our revenue for the second quarter of 2016) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions and is subject to pending legal proceedings that have or could result in adverse regulatory or other actions against Ocwen. While not all inclusive, regulatory actions to date have included subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights. Ocwen may become subject to future federal and state regulatory investigations, inquiries, requests for information and legal proceedings, any of which could also result in adverse regulatory or other actions against Ocwen.

As a result of the sale of substantially all of the assets of HLSS to NRZ in April of 2015, NRZ owns the rights to approximately 78% of Ocwen's non-government-sponsored enterprise ("non-GSE") servicing rights as of March 31, 2016. Under an agreement between NRZ and Ocwen, NRZ has the right (not necessarily the obligation or ability) to transfer servicing away from Ocwen if Ocwen fails to achieve and maintain certain minimum servicer ratings on or after April 6, 2017.

Ocwen has also disclosed that in 2015 certain bondholders of Ocwen-serviced residential mortgage-backed securities ("RMBS") alleged that Ocwen, as servicer defaulted on these servicing agreements. Ocwen has further disclosed that it has been directed by the trustee for two of the RMBS trusts to transfer servicing to another loan servicing company based on rating downgrades. Additional bondholders of RMBS may attempt to replace Ocwen as servicer as a result of such ratings downgrades or the alleged defaults.

All of the foregoing may have significant adverse effects on Ocwen's business and our continuing relationships with Ocwen. For example, Ocwen may be required to alter the way it conducts business, including the parties it contracts with for services (including information technology and software services), it may be required to seek changes to its existing pricing structure with us, it may lose or sell some or all of its non-GSE servicing rights or subservicing arrangements or may lose one or more of its state servicing licenses. Additional regulatory actions or adverse financial developments may impose additional restrictions on or require changes in Ocwen's business that could require it to sell assets or change its business operations. Any or all of these effects could result in our eventual loss of Ocwen as a customer or a reduction in the number and/or volume of services they purchase from us or the loss of other customers.

If any of the following events occurred, Altisource's revenue would be significantly lower and our results of operations would be materially adversely affected, including from the possible impairment or write-off of goodwill, intangible assets, property and equipment, other assets and accounts receivable:

- Altisource loses Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us
- Ocwen loses or sells a significant portion or all of its non-GSE servicing rights or subservicing arrangements and Altisource fails to be retained as a service provider
- Ocwen loses state servicing licenses in states with a significant number of loans in Ocwen's servicing portfolio
- Altisource fails to be retained as a service provider
- The contractual relationship between Ocwen and Altisource changes significantly or there are significant changes to our pricing to Ocwen for services from which we generate material revenue

Management cannot predict the outcome of the Ocwen Related Matters or the impact they may have on Altisource. However, in the event these Ocwen Related Matters materially negatively impact Altisource, we believe the impact to

Altisource would occur over an extended period of time and the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that we believe would allow us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, RMBS trustees, lenders and others. During this period of time, we believe we would continue to generate revenue from the services we provide to the transferred portfolio. Additionally, we have several strategic initiatives that focus on diversifying and growing our revenue and customer base. Our major strategic initiatives include:

- Continue to grow our Servicer Solutions business
- Continue to grow our Origination Solutions business
- Continue to grow our Consumer Real Estate Solutions business
- Continue to grow our Real Estate Investor Solutions business

We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs. However, there can be no assurance that our plans would be successful or our operations would be profitable.

Escrow and Trust Balances

We hold customers' assets in escrow and trust accounts at various financial institutions pending completion of certain real estate activities. We also hold cash in trust accounts at various financial institutions where contractual obligations mandate maintaining dedicated bank accounts for our Financial Services segment's collections. These amounts are held in escrow and trust accounts for limited periods of time and are not included in the condensed consolidated balance sheets. Amounts held in escrow and trust accounts were $86.2 million and $66.6 million at June 30, 2016 and December 31, 2015, respectively.

NOTE 23 — SEGMENT REPORTING

Our business segments are based upon our organizational structure, which focuses primarily on the services offered, and are consistent with the internal reporting used by our Chief Executive Officer (our Chief Operating Decision Maker) to evaluate operating performance and to assess the allocation of our resources.

We classify our businesses into three reportable segments. The Mortgage Services segment provides services that span the mortgage and real estate lifecycle and are typically outsourced by loan servicers, loan originators, home investors and other sellers and buyers of 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 and mortgage) and the utility, insurance and hotel industries. The Technology Services segment provides a portfolio of software, data analytics and information technology infrastructure management services that support the management of mortgage and real estate activities and marketplace transactions across the lifecycle. In addition, Corporate Items and Eliminations include eliminations of transactions between the reportable segments, interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk and sales and marketing costs not allocated to the business units. Intercompany transactions primarily consist of information technology infrastructure management services.

Financial information for our segments is as follows:

	Three months ended June 30, 2016				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$208,561	$19,758	$38,100	$(10,620)	$255,799
Cost of revenue	127,626	14,149	42,424	(9,828)	174,371
Gross profit (loss)	80,935	5,609	(4,324)	(792)	81,428
Selling, general and administrative expenses	28,607	4,204	7,440	13,956	54,207
Income (loss) from operations	52,328	1,405	(11,764)	(14,748)	27,221
Total other income (expense), net	35	22	93	(3,394)	(3,244)

Income (loss) before income taxes and non-controlling interests	$52,363	$1,427	$(11,671)	$(18,142)	$23,977

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

	Three months ended June 30, 2015				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$197,361	$23,389	$55,992	$(8,421)	$268,321
Cost of revenue	112,710	15,537	47,423	(7,511)	168,159
Gross profit (loss)	84,651	7,852	8,569	(910)	100,162
Selling, general and administrative expenses	25,228	4,588	7,246	14,504	51,566
Change in the fair value of Equator Earn Out	—	—	(7,591)	—	(7,591)
Income (loss) from operations	59,423	3,264	8,914	(15,414)	56,187
Total other income (expense), net	23	2	(18)	(4,950)	(4,943)
Income (loss) before income taxes and non-controlling interests	$59,446	$3,266	$8,896	$(20,364)	$51,244

	Six months ended June 30, 2016				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$407,547	$39,862	$78,747	$(20,225)	$505,931
Cost of revenue	249,144	28,407	84,317	(18,634)	343,234
Gross profit (loss)	158,403	11,455	(5,570)	(1,591)	162,697
Selling, general and administrative expenses	55,576	8,513	13,998	29,736	107,823
Income (loss) from operations	102,827	2,942	(19,568)	(31,327)	54,874
Total other income (expense), net	49	35	100	(9,996)	(9,812)
Income (loss) before income taxes and non-controlling interests	$102,876	$2,977	$(19,468)	$(41,323)	$45,062

	Six months ended June 30, 2015				
(in thousands)	Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue	$374,367	$45,743	$107,962	$(19,269)	$508,803
Cost of revenue	227,514	30,640	100,146	(17,315)	340,985
Gross profit (loss)	146,853	15,103	7,816	(1,954)	167,818
Selling, general and administrative expenses	45,789	9,303	14,561	34,319	103,972
Change in the fair value of Equator Earn Out	—	—	(7,591)	—	(7,591)
Income (loss) from operations	101,064	5,800	846	(36,273)	71,437
Total other income (expense), net	19	(10)	(17)	(15,377)	(15,385)
Income (loss) before income taxes and non-controlling interests	$101,083	$5,790	$829	$(51,650)	$56,052

(in thousands) Mortgage Financial Technology Consolidated

	Services	Services	Services	Corporate Items and Eliminations	Altisource
Total assets:					
June 30, 2016	$333,136	$46,348	$ 144,719	$ 151,273	$ 675,476
December 31, 2015	325,461	53,757	165,778	176,802	721,798

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

Our services are provided to customers primarily located in the United States. Premises and equipment, net consist of the following, by country:

(in thousands)	June 30, 2016	December 31, 2015
United States	$81,540	$ 85,021
India	17,370	21,187
Luxembourg	12,650	9,944
Philippines	2,777	2,664
Uruguay	239	305
Total	$114,576	$ 119,121

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations ("MD&A") is a supplement to the accompanying interim condensed 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. Our MD&A should be read in conjunction with our Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on March 15, 2016.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q regarding anticipated financial outcomes, business and market conditions, outlook and other similar statements related to Altisource's future financial and operational performance are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of terminology such as "anticipate," "intend," "expect," "may," "could," "should," "would," "plan," "estimate," "believe," "predict," "potential" or "continue" or the negativ and other comparable terminology. Forward-looking statements are not guarantees of future performance and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. The following are examples of such items and are not intended to be all inclusive:

- assumptions related to the sources of liquidity and the adequacy of financial resources;
- assumptions about our ability to grow our business, including executing on our strategic initiatives;
- assumptions about our ability to improve margins;
- expectations regarding collection rates and placements in our Financial Services segment;
- assumptions regarding the impact of seasonality;
- estimates regarding the calculation of our effective tax rate; and
- estimates regarding our reserves and valuations.

Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section of our Form 10-K for the year ended December 31, 2015 and include the following:

- if, as a result of difficulties faced by Ocwen Financial Corporation and its subsidiaries ("Ocwen"), we were to lose Ocwen as a customer or there is a significant reduction in the volume of services they purchase from us;
- our ability to execute on our strategic initiatives;
- our ability to retain our existing customers, expand relationships and attract new customers;
- the level of loan delinquencies and charge-offs;
- the level of origination volume;
- technology failures;
- the trend toward outsourcing;
- our ability to raise debt;
- our ability to retain our directors, executive officers and key personnel;
- our ability to integrate acquired businesses;
- our ability to comply with and burdens imposed by governmental regulations and policies and any changes in such regulations and policies; and
- significant changes in the Luxembourg tax regime or interpretations of the Luxembourg tax regime.

We caution you not to place undue reliance on these forward-looking statements as they 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 any change in events, conditions or circumstances on which any such statement is based.

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OVERVIEW

Our Business

When we refer to “Altisource,” the “Company,” “we,” “us” or “our” we mean Altisource Portfolio Solutions S.A., a Luxembou société anonyme, or public limited liability company, and its wholly-owned subsidiaries.

We are a premier marketplace and transaction solutions provider for the real estate, mortgage and consumer debt industries. Altisource’s proprietary business processes, vendor and electronic payment management software and behavioral science-based analytics improve outcomes for marketplace participants.

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, loan originators, home investors and other sellers and buyers of single family homes. The majority of these services are provided to Ocwen. We also have longstanding relationships with commercial banks, insurance companies, mortgage bankers and other companies involved in the mortgage industry. Within the Mortgage Services segment, we provide the following services:

Asset management services - Asset management services principally include property preservation, property inspection, real estate owned (“REO”) asset management, the Hubzu® and Owners.com® consumer real estate portals and real estate brokerage services. We also provide property management, lease management and renovation management services for single family rental properties. Through RentRange and Investability, we provide rental home data and information to the financial services and real estate industries and an online residential real estate investor search and acquisition platform.

Insurance services - Insurance services principally include an array of insurance services including pre-foreclosure, REO and refinance title searches, title insurance agency services, settlement and escrow services and loss draft claims processing. Through CastleLine, we provide financial products (including insurance) and services to parties involved in the origination, underwriting, purchase and securitization of residential mortgages.

Residential property valuation services - Residential property valuation services principally include traditional appraisal products through our licensed appraisal management company and alternative valuation products, some of which are provided through our network of real estate professionals. We generally provide these services for residential loan servicers, residential lenders and investors in single family homes.

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.

Origination management services - Origination management services principally include products, services and solutions utilized in the origination, underwriting and purchase of primarily residential mortgages. Through the Mortgage Partnership of America, L.L.C. (“MPA”) and our Altisource Origination Services business, which provides loan due diligence, fulfillment, contract underwriting and quality control services, we are focused largely on the residential mortgage market. MPA serves as the manager of Best Partners Mortgage Cooperative, Inc., doing business as the Lenders One® mortgage cooperative (“Lenders One”) and Best Partners Mortgage Brokers Cooperative, Inc., doing business as the Wholesale One® mortgage cooperative (“Wholesale One”). Lenders One is a national end-to-end marketplace for mortgage bankers and other mortgage market participants. Wholesale One assists mortgage brokers and other third party originators with tools to improve their businesses and obtain better access to the capital markets. We provide other origination related services in the residential property valuation services business and insurance services businesses. In the second quarter of 2016, we introduced Vendorly™, a comprehensive vendor oversight service initially being sold to the mortgage banking community.

Financial Services: Provides collection and customer relationship management services primarily to debt originators and servicers (e.g., credit card, auto lending, retail credit and mortgage) and the utility, insurance and hotel industries. Within the Financial Services segment, we provide the following services:

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

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Customer relationship management - Customer relationship management principally includes customer care, technical support and early stage collections services as well as insurance call center services and administrative support.
Technology Services: Provides a portfolio of software, data analytics and infrastructure management services that support the management of mortgage and real estate activities and marketplace transactions across the mortgage and real estate lifecycles. We provide our information technology ("IT") infrastructure management services to Ocwen, Altisource Residential Corporation ("Residential") and Altisource Asset Management Corporation ("AAMC") through managed services agreements, and our other segments in a shared services model. Our software and analytics solutions primarily include the following software solutions, as described briefly below:
REALServicing® - An enterprise residential mortgage loan servicing platform that offers a platform for loan servicing, including loss mitigation and loan modifications. This solution spans the loan servicing lifecycle from loan boarding to satisfaction including automation for collections, borrower communications, payment processing and reporting.
REALSynergy® - A commercial real estate and multi-family loan servicing application that provides servicing and asset management capabilities.
REALResolution™- A technology platform that provides servicers with an automated default management and home retention solution for delinquent and defaulted loans.
REALTrans® - A patented electronic services marketplace platform that automates vendor selection and the ordering, tracking and fulfilling of vendor provided services principally related to real estate and mortgage marketplaces. This technology solution, whether accessed through the web or integrated into existing business processing applications, connects to a marketplace of services through a single platform and delivers a 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, provides payors with the ability to automatically adjudicate invoices according to user defined rules and for electronic payments to be fulfilled subject to approval review rules and workflows.
REALDoc® - An automated document management platform that consists of three primary modules: REALDoc Capture, which converts document images into processable data, indexes documents and provides customizable workflows based on data attributes; REALDoc Correspondence, which provides a scalable correspondence generation, management and delivery platform; and REALDoc Vault, which provides a scalable and distributed storage platform and secure document viewer.
Equator® - An integrated real estate management platform consisting of the following modules: EQ Workstation®, EQ Marketplace®, EQ Midsource® and EQ Portal™ that can be used separately or together as an end-to-end solution. EQ Workstation provides comprehensive, end-to-end workflow and transaction services to manage real estate and foreclosure related activities. EQ Marketplace provides a coordinated means of purchasing a variety of real estate services from vendors including real estate brokerage, title, closing, inspection and valuation. EQ Midsource allows users of EQ Workstation to outsource all or specific components of real estate related activities. EQ Portal provides realtors direct access to process real estate transactions with secure exchange of data and documents along with realtor marketing, training and certification.
Mortgage Builder® - A loan origination platform consisting of the following modules: Architect®, Surveyance®, Colonnade® and LoanXEngine™ for mortgage banks, community banks, credit unions and other financial institutions. The Architect platform is a cloud-based, all-inclusive origination platform that manages loans from prequalification through interim servicing and delivery. The Surveyance platform is a mobile origination solution that provides originators with the ability to service their clients remotely. The Colonnade platform is a loan servicing solution and the LoanXEngine platform provides customer relationship management and product pricing and eligibility solutions.
REALAnalytics™- A data analytics and delivery platform that utilizes advanced econometric modeling and behavioral economics to assist mortgage and real estate service providers in optimizing risk management, value measurement, loss mitigation and consumer behavior outcomes across the mortgage and real estate lifecycle.
Pointillist™- A cloud-based customer intelligence platform that empowers marketers to identify critical customer paths to purchase, upsell and increase customer satisfaction. The Pointillist marketing analytics platform is designed to reveal how consumer experiences drive business outcomes and analyze customer behavior to drive results across channels and over time.

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Corporate Items and Eliminations: Includes interest expense and costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk and sales and marketing costs not allocated to the business units, and also includes eliminations of transactions between the reportable segments. Corporate Items and Eliminations also include the cost of certain facilities.

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. Service revenue 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 and Wholesale One, consolidated entities not owned by Altisource, and are included in revenue and reduced from net income to arrive at net income attributable to Altisource.

Stock Repurchase Plan

On May 18, 2016, our shareholders approved a new share repurchase program, which replaced the previous share repurchase program. Under the new program, we are authorized to purchase up to 4.6 million shares of our common stock, based on a limit of 25% of the outstanding shares of common stock on the date of approval at a minimum price of $1.00 per share and a maximum price of $500.00 per share. This is in addition to amounts previously purchased under prior programs. Under the existing and prior programs, we purchased 0.8 million shares of common stock at an average price of $25.79 per share during the six months ended June 30, 2016 and 1.6 million shares at an average price of $28.02 per share during the six months ended June 30, 2015 (0.3 million shares at an average price of $26.74 per share for the second quarter of 2016 and 1.4 million shares at an average price of $28.57 per share for the second quarter of 2015). As of June 30, 2016, approximately 4.5 million shares of common stock remain available for repurchase under the new program. Our senior secured term loan limits the amount we can spend on share repurchases and may prevent repurchases in certain circumstances. As of June 30, 2016, approximately $333 million was available to repurchase our common stock under our senior secured term loan.

Strategy and Growth Initiatives

Altisource provides a suite of mortgage, real estate and consumer debt services, leveraging our technology platform and global operations. Altisource is focused on becoming the premier provider of real estate and mortgage marketplaces and related services to a broad and diversified customer base. Within the real estate and mortgage markets, we facilitate transactions and provide products, solutions and services related to home sales, home purchases, home rentals, home maintenance, mortgage origination and mortgage servicing.

Strategically, we are focused on (1) our four key business initiatives discussed below, (2) continuing to strengthen our compliance management system and (3) maintaining strong performance and relationships with our strategic customers.

Each of our four key business initiatives positions Altisource to grow and diversify our customer and revenue base. We believe these initiatives address very large markets and directly leverage our core competencies and distinct competitive advantages. Our four strategic initiatives and a brief description of each follow:

Mortgage market:

1. Continue to grow our Servicer Solutions business (the products, services and certain technologies typically used or licensed by loan servicers): We are focused on expanding services purchased by our existing customer base and attracting new customers. Even as delinquencies return to historical norms, we believe there is a very large addressable market for the services we provide, as well as a strong and increasing customer focus on regulatory compliance and operational quality. We are one of only a few service providers with a comprehensive offering of services and technologies on a national scale. We believe we are well positioned to gain market share as customers consolidate to larger, full-service vendors and continue to outsource services that have historically been performed in-house.

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2. Continue to grow our Origination Solutions business (the products, services and technologies typically used or licensed by participants in the loan origination market): We are focused on building an industry leading, integrated origination services platform that provides end-to-end solutions to our customers, expand our product offerings to our existing client base and actively add new customers. We are leveraging our enterprise wide sales organization to offer our origination services to larger bank and non-bank originators and correspondents and plan to expand our middle market sales organization to address other prospects. We believe we are well positioned to gain market share as customers consolidate to larger full-service vendors and by offering our existing customers (e.g., the members of Lenders One, the customers of Mortgage Builder and CastleLine and our preferred vendors and partners) an attractive suite of products and services that meet their growing needs.

Real estate market:

3. Continue to grow our Consumer Real Estate Solutions business (an online marketplace that connects consumer home buyers and home sellers and offers the related services) primarily through Owners.com: Owners.com provides self-directed home buyers and sellers with a full suite of real estate services from which to choose. We are focused on growing Owners.com by building brand awareness, driving customer engagement and increasing consumer adoption of our buy side and sell side brokerage services. With a growing segment of the population demonstrating a desire to engage in self-directed transactions, we believe Owners.com is well positioned to become a market leader.
4. Continue to grow our Real Estate Investor Solutions business (an online marketplace that connects home buyers and home sellers of one to four family rental homes and offers the related services to buy, manage and sell homes): We are focused on supporting the growth of our existing customers, expanding services purchased by our existing customer base and attracting new customers. With our real estate brokerage operation, vendor network, property management and renovation footprint, existing customer base and growing suite of technologies (e.g., Investability and RentRange), we believe we are well positioned to grow.

There can be no assurance that growth from our strategic initiatives will be successful or our operations will be profitable.

Ocwen Related Matters

Revenue from Ocwen represented 55% of our revenue for the six months ended June 30, 2016 (55% of consolidated revenue for the second quarter of 2016). Additionally, 19% of our revenue for the six months ended June 30, 2016 (20% of consolidated revenue for the second quarter of 2016) was earned on the portfolios serviced by Ocwen, when a party other than Ocwen selected Altisource as the service provider.

Ocwen has disclosed that it is subject to a number of ongoing federal and state regulatory examinations, consent orders, inquiries, requests for information and other actions and is subject to pending legal proceedings that have or could result in adverse regulatory or other actions against Ocwen. While not all inclusive, regulatory actions to date have included subjecting Ocwen to independent oversight of its operations and placing certain restrictions on its ability to acquire servicing rights. Ocwen may become subject to future federal and state regulatory investigations, inquiries, requests for information and legal proceedings, any of which could also result in adverse regulatory or other actions against Ocwen (see Note 22 to the condensed consolidated financial statements). Management cannot predict the outcome of the Ocwen Related Matters or the impact they may have on Altisource. However, in the event these Ocwen Related Matters materially negatively impact Altisource, we believe the impact to Altisource would occur over an extended period of time and the variable nature of our cost structure would allow us to realign our cost structure in line with remaining revenue.

In this regard, we have a plan that we believe would allow us to efficiently execute on this realignment. We believe that transfers of Ocwen's servicing rights to a successor servicer(s) would take an extended period of time because of the approval required from many parties, including regulators, rating agencies, residential mortgage-backed securities trustees, lenders and others. During this period of time, we believe we would continue to generate revenue from the services we provide to the transferred portfolio. Additionally, we have several strategic initiatives that focus on diversifying and growing our revenue and customer base. Our major strategic initiatives are described in the Strategy and Growth Initiatives section above. We have an established sales and marketing strategy to support each of these initiatives.

Management believes our plans, together with current liquidity and cash flows from operations will be sufficient to meet working capital, capital expenditures, debt service and other cash needs. However, there can be no assurance that our plans will be successful or our operations will be profitable.

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Factors Affecting Comparability

The following items may impact the comparability of our results:

- The average number of loans serviced by Ocwen on REALServicing was 1.5 million for the six months ended June 30, 2016 compared to 2.3 million for the six months ended June 30, 2015 (1.5 million for the second quarter of 2016 and 2.2 million for the second quarter of 2015). The average number of delinquent non-GSE loans serviced by Ocwen on REALServicing was 230 thousand for the six months ended June 30, 2016 compared to 295 thousand for the six months ended June 30, 2015 (222 thousand for the second quarter of 2016 and 279 thousand for the second quarter of 2015);
- In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt; in the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9.0% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt;
- During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million. In the second quarter of 2016, we incurred expenses of $3.4 million and earned dividends of $1.0 million related to this investment (no comparative amounts in 2015);
- On October 9, 2015, we acquired GoldenGator, LLC (doing business as RentRange) (“RentRange”), REIsmart, LLC (doing business as Investability) (“Investability”) and Onit Solutions, LLC, a support company for RentRange and Investability, for $24.8 million, composed of $17.5 million in cash and 247 thousand shares of restricted common stock of the Company with a value of $7.3 million as of the closing date;
- On July 17, 2015, we acquired CastleLine Holdings, LLC and its subsidiaries (“CastleLine”) for $33.4 million. The purchase consideration was composed of $12.3 million of cash at closing, $10.5 million of cash payable over four years from the acquisition date and 495 thousand shares of restricted common stock of the Company with a value of $14.4 million as of the closing date. Of the cash payable following acquisition, $3.8 million is contingent on certain future employment conditions of certain of the sellers, and therefore excluded from the purchase price;
- In the second quarter of 2015, we paid the former owners of Equator, LLC (“Equator”) $0.5 million to extinguish any liability for Equator related contingent consideration (“Equator Earn Out”). In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings;
- During the six month ended June 30, 2015, we recognized a loss on the sale of Home Loan Servicing Solutions, Ltd. (“HLSS”) equity securities, net of dividends received, of $1.9 million (during the second quarter of 2015, we recognized a gain on the sale of HLSS equity securities and dividends of $1.4 million); and
- Effective March 31, 2015, we terminated the Data Access and Services Agreement with Ocwen.

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CONSOLIDATED RESULTS OF OPERATIONS

Summary Consolidated Results

The following is a discussion of our consolidated results of operations for the periods indicated. 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:

	Three months ended June 30,			Six months ended June 30,		
(in thousands, except per share data)	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Service revenue						
Mortgage Services	$194,110	$165,674	17	$377,272	$310,055	22
Financial Services	19,734	23,350	(15)	39,810	45,663	(13)
Technology Services	38,100	55,992	(32)	78,747	107,962	(27)
Eliminations	(10,620)	(8,421)	26	(20,225)	(19,269)	5
Total service revenue	241,324	236,595	2	475,604	444,411	7
Reimbursable expenses	13,783	30,830	(55)	29,237	62,786	(53)
Non-controlling interests	692	896	(23)	1,090	1,606	(32)
Total revenue	255,799	268,321	(5)	505,931	508,803	(1)
Cost of revenue	174,371	168,159	4	343,234	340,985	1
Gross profit	81,428	100,162	(19)	162,697	167,818	(3)
Selling, general and administrative expenses	54,207	51,566	5	107,823	103,972	4
Change in the fair value of Equator Earn Out	—	(7,591)	(100)	—	(7,591)	(100)
Income from operations	27,221	56,187	(52)	54,874	71,437	(23)
Other income (expense), net:						
Interest expense	(5,988)	(7,195)	(17)	(12,529)	(14,355)	(13)
Gain (loss) on HLSS equity securities and dividends received	—	1,431	(100)	—	(1,854)	(100)
Other income (expense), net	2,744	821	234	2,717	824	230
Total other income (expense), net	(3,244)	(4,943)	(34)	(9,812)	(15,385)	(36)
Income before income taxes and non-controlling interests	23,977	51,244	(53)	45,062	56,052	(20)
Income tax provision	(3,291)	(4,398)	(25)	(5,484)	(4,798)	14
Net income	20,686	46,846	(56)	39,578	51,254	(23)
Net income attributable to non-controlling interests	(692)	(896)	(23)	(1,090)	(1,606)	(32)
Net income attributable to Altisource	$19,994	$45,950	(56)	$38,488	$49,648	(22)
Margins:						
Gross profit/service revenue	34%	42%		34%	38%	
Income from operations/service revenue	11%	24%		12%	16%	
Earnings per share:						
Basic	$1.08	$2.35	(54)	$2.06	$2.50	(18)
Diluted	$1.02	$2.22	(54)	$1.94	$2.38	(18)

Revenue

We recognized service revenue of $475.6 million for the six months ended June 30, 2016, a 7% increase compared to the six months ended June 30, 2015 ($241.3 million for the second quarter of 2016, a 2% increase compared to the second quarter of 2015). The increases were driven by revenue growth in the asset management services businesses from higher volumes of property preservation referrals, growth in the percentage of homes sold through auction on Hubzu and growth in the number of non-Ocwen properties sold on Hubzu in the Mortgage Services segment. These increases were partially offset by decreases in IT infrastructure services in the Technology Services segment, which are typically billed on a cost plus basis, decreases in software services revenue due to lower rates charged to Ocwen for certain services and a decline in the number of loans on REALServicing in the Technology Services segment and lower customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us as well as lower mortgage charge-off collections in the Financial Services segment. During the fourth quarter of 2015, we began transitioning resources supporting technology infrastructure to Ocwen as a part of the previously announced separation of technology infrastructure. We anticipate this transition will be largely complete during the fourth quarter of 2016. In addition, in early 2015, the pricing model to Ocwen for REO preservation services within asset management services changed. Historically, we billed (1) a fixed fee per REO asset (which was recognized as service revenue) and (2) actual vendor costs (which were recognized as reimbursable expenses revenue). For new REO referrals, beginning in early 2015, our pricing is on a per service basis (which is recognized as service revenue). This change results in certain services that were historically reimbursable expenses revenue becoming service revenue. As a result, service revenue in the Mortgage Services segment asset management services businesses increased and reimbursable expenses revenue decreased.

Certain of our revenues are impacted by seasonality. More specifically, Mortgage Services' revenue is impacted by REO sales and lawn maintenance, which tend to be at their lowest level during the fall and winter months and at their highest level during the spring and summer months. Financial Services' asset recovery management 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.

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 telecommunications costs, and depreciation and amortization of operating assets.

We recognized cost of revenue of $343.2 million for the six months ended June 30, 2016, a 1% increase compared to the six months ended June 30, 2015 ($174.4 million for the second quarter of 2016, a 4% increase compared to the second quarter of 2015). The increases were driven by higher outside fees and services, partially offset by decreases in reimbursable expenses. Outside fees and services increased due to higher volumes of property preservation referrals and the change in billing discussed in the revenue section above, partially offset for the six months ended June 30, 2016 by the March 31, 2015 termination of the Data Access and Services Agreement. Reimbursable expenses declined as a result of the change in billing discussed in the revenue section above. Compensation and benefits cost increased, particularly in the second quarter of 2016, to support certain of our growth initiatives in the Mortgage Services segment, partially offset by cost savings initiatives and the transition of resources supporting technology infrastructure to Ocwen.

Gross profit decreased to $162.7 million, representing 34% of service revenue, for the six months ended June 30, 2016 compared to $167.8 million, representing 38% of service revenue, for the six months ended June 30, 2015 (decreased to $81.4 million representing 34% of service revenue, for the second quarter of 2016 compared to $100.2 million, representing 42% of service revenue for the second quarter of 2015). Gross profit as a percentage of service revenue decreased for the six months ended June 30, 2016 and the second quarter of 2016 primarily due to higher growth in the lower margin property preservation services in Mortgage Services and from declines in revenue in Technology Services that exceeded the decline in expenses. These decreases for the six months ended June 30, 2016 were partially offset by the March 31, 2015 termination of the Data Access and Services Agreement with Ocwen.

Selling, General and Administrative Expenses, Other Operating Expenses and Income from Operations

Selling, general and administrative expenses (“SG&A”) include payroll for personnel employed in executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing roles. This category also includes occupancy costs, amortization of intangible assets, professional services, marketing costs, and depreciation and amortization.

We recognized SG&A of $107.8 million for the six months ended June 30, 2016, a 4% increase compared to the six months ended June 30, 2015 ($54.2 million for the second quarter of 2016, a 5% increase compared to the second quarter of 2015). The increases were primarily due to higher amortization of intangible assets, partially offset by lower occupancy costs due to the completion of several office relocations in 2015.

We recognized a gain in other operating expenses on the change in the fair value of the Equator Earn Out of $7.6 million for the six months ended June 30, 2015 ($7.6 million for the second quarter of 2015) (no comparative amount in 2016). The liability for contingent consideration was reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. In 2015, we reached an agreement with the former owners of Equator to extinguish any liability for the Equator Earn Out. In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings.

Income from operations decreased to $54.9 million, representing 12% of service revenue, for the six months ended June 30, 2016 compared to $71.4 million, representing 16% of service revenue, for the six months ended June 30, 2015 (decreased to $27.2 million, representing 11% of service revenue, for the second quarter of 2016 compared to $56.2 million, representing 24% of service revenue, for the second quarter of 2015). The decrease in operating income margin was primarily the result of the decrease in gross profit margin, higher SG&A expenses and the 2015 Equator Earn Out gain, as discussed above.

Other Income (Expense), net

Other income (expense), net principally includes interest expense and other non-operating gains and losses. Interest expense was $12.5 million for the six months ended June 30, 2016, a decrease of $1.8 million compared to the six months ended June 30, 2015 ($6.0 million for the second quarter of 2016, a decrease of $1.2 million compared to the second quarter of 2015), primarily from the 2016 and 2015 repurchases of portions of our senior secured term loan with an aggregate par value of $100.0 million.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9.0% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt. In the third and fourth quarters of 2015, we repurchased portions of our senior secured term loan with an aggregate par value of $33.0 million at a weighted average discount of 11.0%.

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million. In the second quarter of 2016, we incurred expenses of $3.4 million and earned dividends of $1.0 million related to this investment (no comparative amounts in 2015).

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million. This investment was classified as available for sale. On April 6, 2015, HLSS completed the sale of substantially all of its assets to New Residential Investment Corp. ("NRZ") and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million. As a result of these transactions, we recognized a net gain of $1.4 million in the second quarter of 2015 and a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

Income Tax Provision

We recognized an income tax provision of $5.5 million for the six months ended June 30, 2016 compared to $4.8 million for the six months ended June 30, 2015 ($3.3 million and $4.4 million for the second quarter of 2016 and 2015, respectively). Our effective tax rate was 12.2% and 8.6% for the six months ended June 30, 2016 and June 30, 2015, respectively (13.7% and 8.6% for the second quarter of 2016 and 2015, respectively). Our effective tax rate differs from the Luxembourg statutory tax rate of 29.2% primarily due to the effect of certain deductions in Luxembourg and the mix of income and losses with varying tax rates in multiple taxing jurisdictions. The higher effective income tax rates for the six months ended June 30, 2016 and the second quarter of 2016 were primarily the result of a change in the mix of revenue across jurisdictions. 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 and our ability to utilize net operating loss and tax credit carryforwards.

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SEGMENT RESULTS OF OPERATIONS

The following section provides a discussion of pre-tax results of operations of our business segments. 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 management services and professional services billed by Technology Services. We reflect these as service revenue in the Technology Services segment and technology and telecommunications costs within cost of revenue and SG&A in the segment receiving the services. Certain prior year SG&A cost allocations from Corporate to the segments have been reclassified to conform to the current year presentation.

Financial information for our segments is as follows:

(in thousands)	Three months ended June 30, 2016 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$194,110	$19,734	$38,100	$(10,620)	$241,324
Reimbursable expenses	13,759	24	—	—	13,783
Non-controlling interests	692	—	—	—	692
	208,561	19,758	38,100	(10,620)	255,799
Cost of revenue	127,626	14,149	42,424	(9,828)	174,371
Gross profit (loss)	80,935	5,609	(4,324)	(792)	81,428
Selling, general and administrative expenses	28,607	4,204	7,440	13,956	54,207
Income (loss) from operations	52,328	1,405	(11,764)	(14,748)	27,221
Total other income (expense), net	35	22	93	(3,394)	(3,244)
Income (loss) before income taxes and non-controlling interests	$52,363	$1,427	$(11,671)	$(18,142)	$23,977
Margins:					
Gross profit (loss)/service revenue	42%	28%	(11)%	N/M	34%
Income (loss) from operations/service revenue	27%	7%	(31)%	N/M	11%

N/M — not meaningful.

(in thousands)	Three months ended June 30, 2015 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$165,674	$23,350	$55,992	$(8,421)	$236,595
Reimbursable expenses	30,791	39	—	—	30,830
Non-controlling interests	896	—	—	—	896
	197,361	23,389	55,992	(8,421)	268,321
Cost of revenue	112,710	15,537	47,423	(7,511)	168,159
Gross profit (loss)	84,651	7,852	8,569	(910)	100,162
Selling, general and administrative expenses	25,228	4,588	7,246	14,504	51,566
Change in the fair value of Equator Earn Out	—	—	(7,591)	—	(7,591)
Income (loss) from operations	59,423	3,264	8,914	(15,414)	56,187
Total other income (expense), net	23	2	(18)	(4,950)	(4,943)

Income (loss) before income taxes and non-controlling interests	$59,446	$3,266	$8,896	$(20,364)	$51,244
Margins:					
Gross profit/service revenue	51%	34%	15%	N/M	42%
Income (loss) from operations/service revenue	36%	14%	16%	N/M	24%

N/M — not meaningful.

(in thousands)	Six months ended June 30, 2016 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$377,272	$39,810	$78,747	$(20,225)	$475,604
Reimbursable expenses	29,185	52	—	—	29,237
Non-controlling interests	1,090	—	—	—	1,090
	407,547	39,862	78,747	(20,225)	505,931
Cost of revenue	249,144	28,407	84,317	(18,634)	343,234
Gross profit (loss)	158,403	11,455	(5,570)	(1,591)	162,697
Selling, general and administrative expenses	55,576	8,513	13,998	29,736	107,823
Income (loss) from operations	102,827	2,942	(19,568)	(31,327)	54,874
Total other income (expense), net	49	35	100	(9,996)	(9,812)
Income (loss) before income taxes and non-controlling interests	$102,876	$2,977	$(19,468)	$(41,323)	$45,062
Margins:					
Gross profit (loss)/service revenue	42%	29%	(7)%	N/M	34%
Income (loss) from operations/service revenue	27%	7%	(25)%	N/M	12%

N/M — not meaningful.

(in thousands)	Six months ended June 30, 2015 Mortgage Services	Financial Services	Technology Services	Corporate Items and Eliminations	Consolidated Altisource
Revenue					
Service revenue	$310,055	$45,663	$107,962	$(19,269)	$444,411
Reimbursable expenses	62,706	80	—	—	62,786
Non-controlling interests	1,606	—	—	—	1,606
	374,367	45,743	107,962	(19,269)	508,803
Cost of revenue	227,514	30,640	100,146	(17,315)	340,985
Gross profit (loss)	146,853	15,103	7,816	(1,954)	167,818
Selling, general and administrative expenses	45,789	9,303	14,561	34,319	103,972
Change in the fair value of Equator Earn Out	—	—	(7,591)	—	(7,591)
Income (loss) from operations	101,064	5,800	846	(36,273)	71,437
Total other income (expense), net	19	(10)	(17)	(15,377)	(15,385)
Income (loss) before income taxes and non-controlling interests	$101,083	$5,790	$829	$(51,650)	$56,052
Margins:					

Gross profit/service revenue	47	%	33	%	7	%	N/M	38	%
Income (loss) from operations/service revenue	33	%	13	%	1	%	N/M	16	%

N/M — not meaningful.

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Mortgage Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	% Increase (decrease)	Six months ended June 30, 2016	Six months ended June 30, 2015	% Increase (decrease)
Service revenue:						
Asset management services	$143,690	$114,435	26	$276,666	$204,019	36
Insurance services	22,051	24,837	(11)	44,728	48,479	(8)
Residential property valuation	17,596	13,994	26	35,129	33,441	5
Default management services	4,602	7,074	(35)	10,025	13,768	(27)
Origination management services	6,171	5,334	16	10,724	10,348	4
Total service revenue	194,110	165,674	17	377,272	310,055	22
Reimbursable expenses:						
Asset management services	10,432	27,835	(63)	22,495	57,838	(61)
Insurance services	2,668	1,833	46	5,235	3,182	65
Default management services	605	1,087	(44)	1,357	1,628	(17)
Origination management services	54	36	50	98	58	69
Total reimbursable expenses	13,759	30,791	(55)	29,185	62,706	(53)
Non-controlling interests	692	896	(23)	1,090	1,606	(32)
Total revenue	$208,561	$197,361	6	$407,547	$374,367	9

We recognized service revenue of $377.3 million for the six months ended June 30, 2016, a 22% increase compared to the six months ended June 30, 2015 ($194.1 million for the second quarter 2016, a 17% increase compared to the second quarter of 2015). The increases were primarily due to revenue growth in the asset management services businesses from higher volumes of property preservation referrals, growth in the percentage of homes sold through auction on Hubzu and growth in the number of non-Ocwen properties sold on Hubzu. In addition, in early 2015, the pricing model to Ocwen for REO preservation services within asset management services changed. Historically, we billed (1) a fixed fee per REO asset (which was recognized as service revenue) and (2) actual vendor costs (which were recognized as reimbursable expenses revenue). For new REO referrals, beginning in early 2015, our pricing is on a per service basis (which is recognized as service revenue). This change results in certain services that were historically reimbursable expenses revenue becoming service revenue. As a result, service revenue in the asset management services businesses increased and reimbursable expenses revenue decreased.

Certain of our Mortgage Services businesses are impacted by seasonality. REO sales and lawn maintenance services within the asset management services business are generally lowest during the fall and winter months and highest during the spring and summer months.

Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	% Increase (decrease)	Six months ended June 30, 2016	Six months ended June 30, 2015	% Increase (decrease)
Compensation and benefits	$29,809	$20,199	48	$55,434	$41,004	35
Outside fees and services	72,570	54,129	34	143,659	106,722	35
Reimbursable expenses	13,759	30,791	(55)	29,185	62,706	(53)
Technology and telecommunications	10,577	6,663	59	18,991	15,337	24

Depreciation and amortization	911	928	(2)	1,875	1,745	7
Cost of revenue	$127,626	$112,710	13	$249,144	$227,514	10

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Cost of revenue for the six months ended June 30, 2016 of $249.1 million increased by 10% compared to the six months ended June 30, 2015 ($127.6 million for the second quarter 2016, a 13% increase compared to the second quarter 2015). The increases were primarily attributable to higher outside fees and services and compensation and benefits costs, partially offset by a decrease in reimbursable expenses. Outside fees and services increased from a higher volume of property preservation referrals and the change in billing discussed in the revenue section above, partially offset for the six months ended June 30, 2016 by the termination of the Data Access and Services Agreement effective March 31, 2015. Compensation and benefits costs increased from higher headcount to support certain of our growth initiatives. Reimbursable expenses declined primarily as a result of the change in billing discussed in the revenue section above.

Gross profit increased to $158.4 million, representing 42% of service revenue, for the six months ended June 30, 2016 compared to $146.9 million, representing 47% of service revenue, for the six months ended June 30, 2015 (decreased to $80.9 million representing 42% of service revenue for the second quarter 2016, compared to $84.7 million representing 51% of service revenue for the second quarter 2015). Gross profit as a percentage of service revenue decreased from a change in revenue mix, as a higher percentage of revenue in 2016 was from lower margin property preservation services. For the six months ended June 30, 2016, this was partially offset by the March 31, 2015 termination of the Data Access and Services Agreement with Ocwen. For the second quarter of 2016, gross profit as a percentage of service revenue also decreased from increased revenue from lower margin property valuation services. Our margins can vary substantially depending upon service revenue mix.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Compensation and benefits	$2,772	$1,473	88	$5,842	$2,011	191
Professional services	2,948	3,568	(17)	6,650	8,110	(18)
Occupancy related costs	3,409	2,803	22	6,601	5,403	22
Amortization of intangible assets	10,809	6,779	59	21,321	13,217	61
Depreciation and amortization	748	600	25	1,452	1,154	26
Marketing costs	5,716	5,846	(2)	11,595	9,780	19
Other	2,205	4,159	(47)	2,115	6,114	(65)
Selling, general and administrative expenses	$28,607	$25,228	13	$55,576	$45,789	21

SG&A for the six months ended June 30, 2016 of $55.6 million increased by 21% compared to the six months ended June 30, 2015 ($28.6 million for the second quarter 2016, a 13% increase compared to the second quarter 2015). This increase was primarily driven by higher amortization of intangible assets, compensation and benefits costs and marketing costs, partially offset by lower other costs. Compensation and benefits costs increased primarily due to growth of the sales and marketing organizations to support our revenue and customer diversification initiatives and higher headcount to support certain of our growth initiatives. The increase in marketing costs relates primarily to Owners.com, as we launched our buy side brokerage marketing campaign in the first half of 2016. The decrease in other costs was primarily due to a favorable loss accrual adjustment for the three months ended March 31, 2016.

Income from operations increased to $102.8 million, representing 27% of service revenue, for the six months ended June 30, 2016 compared to $101.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 (decreased to $52.3 million representing 27% of service revenue for the second quarter 2016, compared to $59.4 million, representing 36% of service revenue for the second quarter 2015). The decrease in operating income margin was primarily the result of lower gross profit margins from the change in the revenue mix and higher SG&A expenses, as discussed above.

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Financial Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Service revenue:						
Customer relationship management	$9,374	$13,789	(32)	$20,275	$25,185	(19)
Asset recovery management	10,360	9,561	8	19,535	20,478	(5)
Total service revenue	19,734	23,350	(15)	39,810	45,663	(13)
Reimbursable expenses:						
Asset recovery management	24	39	(38)	52	80	(35)
Total reimbursable expenses	24	39	(38)	52	80	(35)
Total revenue	$19,758	$23,389	(16)	$39,862	$45,743	(13)

We recognized service revenue of $39.8 million for the six months ended June 30, 2016, a 13% decrease compared to the six months ended June 30, 2015 ($19.7 million for the second quarter of 2016, a 15% decrease compared to the second quarter of 2015), primarily due to lower customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us and, for the six months ended June 30, 2016, lower mortgage charge-off collections driven by a decline in referrals in the asset recovery management business.

Certain of our Financial Services businesses are impacted by seasonality. Revenue in the asset recovery management business 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.

Cost of Revenue and Gross Profit

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Compensation and benefits	$10,665	$11,967	(11)	$21,535	$22,954	(6)
Outside fees and services	784	733	7	1,521	1,430	6
Reimbursable expenses	24	39	(38)	52	80	(35)
Technology and telecommunications	2,239	2,332	(4)	4,419	5,240	(16)
Depreciation and amortization	437	466	(6)	880	936	(6)
Cost of revenue	$14,149	$15,537	(9)	$28,407	$30,640	(7)

Cost of revenue for the six months ended June 30, 2016 of $28.4 million decreased by 7% compared to the six months ended June 30, 2015 ($14.1 million for the second quarter of 2016, a 9% decrease compared to the second quarter of 2015). The decreases in cost of revenue were primarily due to a decrease in compensation and benefits costs and lower technology and telecommunications costs resulting from the implementation of cost savings initiatives in 2015. In addition, compensation and benefits costs were lower as a result of reduced headcount in the customer relationship management business as we have severed relationships with and reduced the volume of services provided to certain clients that were not profitable to us.

Gross profit decreased to $11.5 million, representing 29% of service revenue, for the six months ended June 30, 2016 compared to $15.1 million, representing 33% of service revenue, for the six months ended June 30, 2015 (decreased to $5.6 million, representing 28% of service revenue, for the second quarter of 2016 compared to $7.9 million, representing 34% of service revenue,

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for the second quarter of 2015). Gross profit margin decreased primarily due to revenue mix as a portion of the revenue decline was in the higher margin mortgage charge-off collections business.

Selling, General and Administrative Expenses and Income from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Compensation and benefits	$210	$339	(38)	$389	$352	11
Professional services	(54)	428	(113)	314	639	(51)
Occupancy related costs	1,651	1,951	(15)	3,341	3,846	(13)
Amortization of intangible assets	1,011	945	7	1,774	2,072	(14)
Depreciation and amortization	598	635	(6)	1,208	1,214	—
Other	788	290	172	1,487	1,180	26
Selling, general and administrative expenses	$4,204	$4,588	(8)	$8,513	$9,303	(8)

SG&A for the six months ended June 30, 2016 of $8.5 million decreased by 8% compared to the six months ended June 30, 2015($4.2 million for the second quarter of 2016, an 8% decrease compared to the second quarter of 2015). The decreases were primarily due to lower occupancy related costs driven by lower headcount in the customer relationship management business primarily the result of the reasons discussed above and lower professional services driven by lower legal costs.

Income from operations decreased to $2.9 million, representing 7% of service revenue, for the six months ended June 30, 2016 compared to $5.8 million, representing 13% of service revenue, for the six months ended June 30, 2015 (decreased to $1.4 million, representing 7% of service revenue, for the second quarter of 2016 compared to $3.3 million, representing 14% of service revenue, for the second quarter of 2015). The decreases in operating income as a percentage of service revenue were primarily the result of lower gross profit margins as discussed above.

Technology Services

Revenue

Revenue by service line was as follows:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Service revenue:						
Software services	$27,824	$38,587	(28)	$57,159	$71,211	(20)
IT infrastructure services	10,276	17,405	(41)	21,588	36,751	(41)
Total revenue	$38,100	$55,992	(32)	$78,747	$107,962	(27)

We recognized service revenue of $78.7 million for the six months ended June 30, 2016, a 27% decrease compared to the six months ended June 30, 2015 ($38.1 million for the second quarter of 2016, a 32% decrease compared to the second quarter of 2015). These decreases were was driven by lower IT infrastructure services due to the implementation of cost reduction initiatives and the transitioning of resources supporting Ocwen's technology infrastructure to Ocwen, both of which are typically billed on a cost plus basis, and a decrease in software services revenue due to lower rates charged to Ocwen for certain services and a decline in the number of loans on REALServicing.

For segment presentation purposes, revenue from services provided by Technology Services to our other reportable segments is eliminated in consolidation. This intercompany revenue is included as revenue in the Technology Services segment and as technology and telecommunications costs, a component of cost of revenue and SG&A, in our other reportable segments.

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Cost of Revenue and Gross Loss

Cost of revenue consists of the following:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Compensation and benefits	$29,299	$32,724	(10)	$57,867	$70,258	(18)
Outside fees and services	5	13	(62)	15	13	15
Technology and telecommunications	7,682	8,818	(13)	15,801	18,890	(16)
Depreciation and amortization	5,438	5,868	(7)	10,634	10,985	(3)
Cost of revenue	$42,424	$47,423	(11)	$84,317	$100,146	(16)

Cost of revenue for the six months ended June 30, 2016 of $84.3 million decreased by 16% compared to the six months ended June 30, 2015 ($42.4 million for the second quarter of 2016, an 11% decrease compared to the second quarter of 2015). These decreases were primarily due to lower compensation and benefits and technology and telecommunications costs as a result of the implementation of cost savings initiatives in 2015 and the transition of resources supporting technology infrastructure to Ocwen. In addition, compensation and benefits costs for the three months ended March 31, 2015 included $2.8 million of severance expense related to the reduction of staff.

Gross loss was $(5.6) million, representing (7)% of service revenue, for the six months ended June 30, 2016 compared to gross profit of $7.8 million, representing 7% of service revenue, for the six months ended June 30, 2015 (gross loss was $(4.3) million, representing (11)% of service revenue, for the second quarter of 2016 compared to gross profit of $8.6 million, representing 15% of service revenue, for the second quarter of 2015) as the decline in revenue exceeded the decline in expenses.

Selling, General and Administrative Expenses, Other Operating Expenses and Loss from Operations

SG&A expenses consist of the following:

(in thousands)	Three months ended June 30, 2016	2015	% Increase (decrease)	Six months ended June 30, 2016	2015	% Increase (decrease)
Compensation and benefits	$478	$995	(52)	$1,042	$1,873	(44)
Professional services	1,209	255	N/M	1,551	438	N/M
Occupancy related costs	2,680	3,350	(20)	5,430	7,129	(24)
Amortization of intangible assets	936	1,262	(26)	1,872	2,588	(28)
Depreciation and amortization	866	529	64	1,613	840	92
Marketing costs	305	208	47	490	322	52
Other	966	647	49	2,000	1,371	46
Selling, general and administrative expenses	$7,440	$7,246	3	$13,998	$14,561	(4)

N/M — not meaningful.

SG&A for the six months ended June 30, 2016 of $14.0 million decreased by 4% compared to the six months ended June 30, 2015($7.4 million for the second quarter of 2016, a 3% increase compared to the second quarter of 2015). The decrease was primarily driven by lower occupancy costs related to facility consolidation during 2015, lower compensation from the implementation of cost savings initiatives in 2015 and lower amortization of intangible assets driven by the write-off of certain intangible assets in the fourth quarter of 2015, partially offset by an increase in professional services due to higher legal and regulatory costs and higher depreciation and amortization related to the facility consolidations in 2015.

We recognized a gain in other operating expenses on the change in fair value of the Equator Earn Out of $7.6 million for the six months ended June 30, 2015 ($7.6 million for the second quarter of 2015) (no comparative amount in

2016). The liability for contingent consideration was reflected at fair value and adjusted each reporting period with the change in fair value recognized in earnings. In 2015, we reached an agreement with the former owners of Equator to extinguish any liability for the Equator Earn

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Out. In connection with this settlement, we reduced the liability for the Equator Earn Out to $0 and recognized a $7.6 million increase in earnings.

Loss from operations was $(19.6) million, representing (25)% of service revenue, for the six months ended June 30, 2016 compared to income from operations of $0.8 million, representing 1% of service revenue, for the six months ended June 30, 2015 (loss from operations was $(11.8) million, representing (31)% of service revenue, for the second quarter of 2016 compared to income from operations of $8.9 million, representing 16% of service revenue, for the second quarter of 2015). Loss from operations as a percentage of service revenue increased primarily due to the increase in gross loss and SG&A, as discussed above.

Corporate Items and Eliminations

Corporate Items and Eliminations include interest expense, costs related to corporate support functions including executive, finance, law, compliance, human resources, vendor management, risk, sales and marketing cost not allocated to the business units and non-operating items. It also includes eliminations of transactions between the reportable segments.

Selling, General and Administrative Expenses and Other Income (Expense), net

Corporate costs consist of the following:

	Three months ended June 30,			Six months ended June 30,		
(in thousands)	2016	2015	% Increase (decrease)	2016	2015	% Increase (decrease)
Compensation and benefits	$10,864	$10,829	—	$21,042	$22,163	(5)
Professional services	2,593	2,388	9	4,921	5,442	(10)
Occupancy related costs	1,059	1,943	(45)	2,510	4,323	(42)
Depreciation and amortization	140	580	(76)	684	1,558	(56)
Marketing costs	(329)	(241)	(37)	66	1,061	(94)
Other	(371)	(995)	62	513	(228)	N/M
Selling, general and administrative expenses	13,956	14,504	(4)	29,736	34,319	(13)
Total other income (expense), net	3,394	4,950	(31)	9,996	15,377	(35)
Total corporate costs	$17,350	$19,454	(11)	$39,732	$49,696	(20)

N/M — not meaningful.

SG&A for the six months ended June 30, 2016 of $29.7 million decreased by 13% compared to the six months ended June 30, 2015 ($14.0 million for the second quarter 2016, a 4% decrease compared to the second quarter 2015). These decreases were primarily driven by increases in the allocations to the segments of occupancy related and marketing costs related to the sales and marketing functions.

Other income (expense), net principally includes interest expense and other non-operating gains and losses. Other income (expense), net for the six months ended June 30, 2016 of $10.0 million decreased by 35% compared to the six months ended June 30, 2015($3.4 million for the second quarter 2016, a 31% decrease compared to the second quarter 2015). Interest expense was $12.5 million for the six months ended June 30, 2016, a decrease of $1.8 million compared to the six months ended June 30, 2015 ($6.0 million for the second quarter of 2016, a decrease of $1.2 million compared to the second quarter of 2015), primarily from the 2016 and 2015 repurchases of our senior secured term loan with an aggregate par value of $100.0 million.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt. In the second quarter of 2015, we repurchased a portion of our senior secured term loan with a par value of $16.0 million at a 9.0% discount, recognizing a net gain of $1.1 million on the early extinguishment of debt. In the third and fourth quarters of 2015, we repurchased portions of our senior secured term loan with an aggregate par value of $33.0 million at a weighted average discount of 11.0%.

During the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million. In the second quarter of 2016, we incurred expenses of $3.4 million and earned dividends of $1.0 million related to this investment (no comparative amounts in 2015).

During March 2015, we purchased 1.6 million shares of HLSS common stock in the open market for $30.0 million. This investment was classified as available for sale. On April 6, 2015, HLSS completed the sale of substantially all of its assets to NRZ and adopted a plan of complete liquidation and dissolution. During April 2015, we received liquidating dividends and other dividends from HLSS totaling $20.4 million and we sold all of our 1.6 million shares of HLSS common stock in the open market for $7.7 million. As a result of these transactions, we recognized a net gain of $1.4 million in the second quarter of 2015 and a net loss of $1.9 million for the six months ended June 30, 2015 (no comparative amounts in 2016) in connection with our investment in HLSS.

Intercompany revenue that is eliminated in consolidation increased for the six months ended June 30, 2016 and the second quarter of 2016 compared to the six months ended June 30, 2015 and the second quarter of 2015, respectively. These intercompany transactions primarily consisted of IT infrastructure services which are billed on a cost plus basis and professional services billed by Technology Services. The increase is due to the increase in technology costs related to higher volume of activity primarily in Mortgage Services segment. While the expenses are recognized in the Mortgage Services and Financial Services segments above, the elimination of these expenses is reflected in Corporate Items and Eliminations.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our primary source of liquidity is cash flows from operations. We seek to deploy excess cash generated in a disciplined manner. Principally, we intend to use excess cash to develop complementary services and businesses that we believe will generate attractive margins in line with our core capabilities and strategy. We also use cash to repurchase and repay our senior secured term loan and repurchase shares of our common stock. We also consider and evaluate business acquisitions that may arise from time to time that are aligned with our strategy.

For the six months ended June 30, 2016, we used $47.8 million ($46.3 million for the second quarter of 2016) to repay and repurchase portions of the senior secured term loan and make contractual repayments of the senior secured term loan and $19.7 million ($8.1 million for the second quarter of 2016) to repurchase shares of our common stock.

Senior Secured Term Loan

On November 27, 2012, Altisource Solutions S.à r.l., a wholly-owned subsidiary of Altisource Portfolio Solutions S.A., entered into a senior secured term loan agreement with Bank of America, N.A., as administrative agent, and certain lenders. Altisource Portfolio Solutions S.A. and certain wholly-owned subsidiaries are guarantors of the term loan. We subsequently amended the senior secured term loan agreement to increase the principal amount of the senior secured term loan and, among other changes, re-establish the $200.0 million incremental term loan facility accordion, lower the interest rate, extend the maturity date by approximately one year and increase the maximum amount of Restricted Junior Payments (as defined in the senior secured term loan agreement; other capitalized terms, unless defined herein, are defined in the senior secured term loan agreement). The lenders of the senior secured term loan, as amended, have no obligation to provide any such additional debt under the accordion provision. As of June 30, 2016, $482.6 million was outstanding under the senior secured term loan agreement, as amended, compared to $536.6 million as of December 31, 2015.

After giving effect to the third amendment entered into on August 1, 2014, the term loan must be repaid in equal consecutive quarterly principal installments of $1.5 million, which commenced on September 30, 2014, with the balance due at maturity. All amounts outstanding under the senior secured term loan agreement will become due on the earlier of (i) December 9, 2020 and (ii) the date on which the loans are declared to be due and owing by the administrative agent at the request (or with the consent) of the Required Lenders or as otherwise provided in the loan agreement upon the occurrence of any event of default under the senior secured term loan agreement. However, if the leverage ratio exceeds 3.00 to 1.00, as calculated in accordance with the provisions of the senior secured term loan agreement, a percentage of cash flows must be used to repay principal (the percentage increases if the leverage ratio exceeds 3.50 to 1.00). No mandatory prepayments were required for the six months ended June 30, 2016. The interest rate as of June 30, 2016 was 4.50%.

In the second quarter of 2016, we repurchased portions of our senior secured term loan with an aggregate par value of $51.0 million at a weighted average discount of 13.2%, recognizing a net gain of $5.5 million on the early extinguishment of debt.

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The debt covenants in the senior secured term loan agreement limit, among other things, our ability to incur additional debt, pay dividends and repurchase shares of our common stock. In the event we require additional liquidity, our ability to obtain it may be limited by the senior secured term loan.

Cash Flows

The following table presents our cash flows for the six months ended June 30:

(in thousands)	2016	2015	% Increase (decrease)
Net income adjusted for non-cash items	$83,015	$85,280	(3)
Changes in operating assets and liabilities	(13,610)	(30,473)	55
Net cash flows provided by operating activities	69,405	54,807	27
Net cash flows used in investing activities	(60,670)	(23,279)	(161)
Net cash flows used in financing activities	(67,576)	(62,810)	(8)
Net decrease in cash and cash equivalents	(58,841)	(31,282)	(88)
Cash and cash equivalents at the beginning of the period	179,327	161,361	11
Cash and cash equivalents at the end of the period	$120,486	$130,079	(7)

Cash Flows from Operating Activities

Cash flows from operating activities generally consist of the cash effects of transactions and events that enter into the determination of net income. For the six months ended June 30, 2016, we generated cash flows from operating activities of $69.4 million, or approximately $0.15 for every dollar of service revenue ($0.17 for every dollar of service revenue for the second quarter of 2016) compared to cash flows from operating activities of $54.8 million, or approximately $0.12 for every dollar of service revenue for the six months ended June 30, 2015 ($0.30 for every dollar of service revenue for the second quarter of 2015). The increase in cash flows from operations for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 is principally driven by lower unfavorable working capital changes. Changes in working capital were principally driven by higher collections of accounts receivable and the timing of payment of accounts payable and other accrued expenses, partially offset by higher prepaid expenses and other current assets.

Operating cash flows per service revenue dollar can be negatively impacted because of the nature of some of our services. Certain services are performed immediately following or shortly after the referral, but the collection of the receivable does not occur until a specific event occurs (e.g., the foreclosure is complete, the REO asset is sold, etc.) and our cash flows from operations may be negatively impacted when comparing one interim period to another.

Cash Flows from Investing Activities

Cash flows from investing activities primarily include capital expenditures as well as purchases and sales of available for sale securities. For the six months ended June 30, 2016 and 2015, we spent $12.4 million and $21.4 million, respectively, primarily related to investments in IT infrastructure, the development of certain software applications and the completion of facility build-outs. Capital expenditures for the six months ended June 30, 2016 decreased primarily as a result of lower spending on IT infrastructure, software applications and facilities, as several projects were completed in 2015, including several office relocations. In addition, during the six months ended June 30, 2016, we purchased 4.1 million shares of Residential common stock for $48.2 million, including brokers' commissions. During the quarter ended March 31, 2015, we purchased 1.6 million shares of HLSS common stock for $30.0 million, including brokers' commissions, in the open market. Cash proceeds received from the liquidating dividends and sale of the HLSS common stock totaled $28.1 million during the second quarter of 2015.

Cash Flows from Financing Activities

Cash flows from financing activities for the six months ended June 30, 2016 and 2015 include activities associated with share repurchases, debt repayment, stock option exercises and payments to non-controlling interests. During the six months ended June 30, 2016 and 2015, we spent $19.7 million and $44.0 million, respectively, on repurchases of our common stock. During the six months ended June 30, 2016 and 2015, we used $47.8 million and $17.7 million, respectively, to repurchase portions of our senior secured term loan and make scheduled repayments of our senior secured term loan. Stock option exercises provided proceeds of $1.0 million and $0.2 million for the six months ended June 30, 2016 and 2015, respectively. Distributions to non-controlling interests were $1.1 million and $1.3 million for the six months ended June 30, 2016 and 2015, respectively.

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Liquidity Requirements after June 30, 2016

On September 12, 2014, we acquired certain assets and assumed certain liabilities of Mortgage Builder Software, Inc. ("Mortgage Builder"). The Mortgage Builder purchase agreement provides for the payment of up to $7.0 million in potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement). We have estimated the fair value of the Mortgage Builder potential additional consideration to be $1.8 million as of June 30, 2016. The amount ultimately paid will depend on Mortgage Builder's Adjusted Revenue in the three consecutive 12-month periods following acquisition.

On November 21, 2014, we acquired certain assets and assumed certain liabilities of Owners Advantage, LLC ("Owners"). The Owners purchase agreement provides for a payment of up to $7.0 million of potential additional consideration based on Adjusted Revenue (as defined in the purchase agreement) earned in the two consecutive 12-month periods following closing. We estimated the fair value of the Owners contingent consideration to be $2.3 million as of June 30, 2016. The amount ultimately paid will depend on Owners' Adjusted Revenue earned in the two consecutive 12-month periods following acquisition.

On July 17, 2015, we acquired CastleLine. A portion of the purchase consideration totaling $10.5 million is payable to the sellers over four years from the acquisition date, including $3.8 million to be paid to certain of the sellers that is contingent on future employment. As of June 30, 2016, $1.9 million of the $10.5 million that is payable over four years from the acquisition date and none of the $3.8 million purchase consideration that is contingent on future employment has been paid to the sellers.

During the third quarter of 2016, we expect to distribute $0.4 million to the Lenders One members representing non-controlling interests and repay $1.5 million of the senior secured term loan.

We believe that we will generate sufficient cash flows from operations to fund capital expenditures and required debt and interest payments for the next 12 months.

Contractual Obligations, Commitments and Contingencies

For the six months ended June 30, 2016, there were no significant changes to our contractual obligations from those identified in our Form 10-K for the fiscal year ended December 31, 2015, other than those that occur in the normal course of business. See Note 22 to the condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND RECENT ACCOUNTING PRONOUNCEMENT

We prepare our interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. In applying many of these accounting principles, we need to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses in our condensed consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and judgments, however, are often subjective. Actual results may be negatively affected based on changing circumstances. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Our critical accounting policies are described in the MD&A section of our Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016. Those policies have not changed during the six months ended June 30, 2016.

Future Adoption of New Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements for a discussion of the future adoption of new accounting pronouncements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk
Market Risk
Our financial market risk consists primarily of interest rate and foreign currency exchange risk.
Interest Rate Risk
As of June 30, 2016, the interest rate charged on the senior secured term loan was 4.50%. The interest rate is calculated based on the Adjusted Eurodollar Rate (as defined in the senior secured term loan agreement) with a minimum floor of 1.00% plus 3.50%.
Based on the principal amount outstanding at June 30, 2016, a one percentage point increase in the Eurodollar Rate would increase our annual interest expense by approximately $2.2 million, based on the June 30, 2016 Adjusted Eurodollar Rate. There would be no change in our annual interest expense if there was a one percentage point decrease in the Eurodollar Rate.
Currency Exchange Risk
We are exposed to currency risk from potential changes in currency values of our non-United States dollar denominated expenses, assets, liabilities and cash flows. Our most significant currency exposure relates to the Indian rupee. Based on expenses incurred in Indian rupees during the six months ended June 30, 2016, a one percentage point increase or decrease in value of the Indian rupee in relation to the United States dollar would increase or decrease our annual expenses by approximately $1.2 million.
Item 4. Controls and Procedures
Management, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this quarterly report. Based on such evaluation and solely because we have not completed remediation of the previously disclosed material weakness in internal control over financial reporting (see our Annual Report on Form 10-K for the year ended December 31, 2015) related to ineffective controls related to the review of impairment indicators of long-lived assets, including premises and equipment, and the impairment analysis of indefinite-lived assets, primarily goodwill, management concluded that our internal control over financial reporting was not effective as of June 30, 2016. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.
We intend to implement remediation measures to address the above-described material weakness and enhance the Company’s internal control over financial reporting related to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets by taking the following actions:

- Review the processes related to the impairment assessment of long-lived and indefinite-lived assets
- Enhance review controls relating to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets
- Test and evaluate the design and operating effectiveness of the control procedures
- Assess the effectiveness of the remediation plan

We intend to implement a remediation plan during the third and fourth quarters of 2016 and complete remediation of the material weakness by December 31, 2016. We believe the remediation measures will strengthen the Company’s internal control over financial reporting related to the review of impairment indicators of long-lived assets and the impairment analysis of indefinite-lived assets and remediate the material weakness identified. We will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that we deem appropriate given the circumstances. The material weakness will not be considered remediated until these plans have been fully implemented, tested and are operating effectively for a sufficient period of time.
There were no changes in our internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal and administrative proceedings arising in the course of our business. We record a liability for these matters if an unfavorable outcome is probable and the amount of loss can be reasonably estimated, including expected insurance coverage. For proceedings where the reasonable estimate of loss is a range, we record a best estimate of loss within the range.

On September 8, 2014, the West Palm Beach Firefighters' Pension Fund filed a putative securities class action suit against Altisource Portfolio Solutions S.A. and certain of its current or former officers and directors in the United States District Court for the Southern District of Florida alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 with regard to disclosures concerning pricing and transactions with related parties that allegedly inflated Altisource Portfolio Solutions S.A. share prices. The Court subsequently appointed the Pension Fund for the International Union of Painters and Allied Trades District Council 35 and the Annuity Fund for the International Union of Painters and Allied Trades District Council 35 as Lead Plaintiffs. On January 30, 2015, Lead Plaintiffs filed an amended class action complaint which added Ocwen Financial Corporation as a defendant, and seeks a determination that the action may be maintained as a class action on behalf of purchasers of Altisource Portfolio Solutions S.A. securities between April 25, 2013 and December 21, 2014 and an unspecified amount of damages. Altisource Portfolio Solutions S.A. moved to dismiss the suit on March 23, 2015. On September 4, 2015, the Court granted the defendants' motion to dismiss, finding that the Lead Plaintiffs' amended complaint failed to state a claim as to any of the defendants, but permitting the Lead Plaintiffs to file another amended complaint. Lead Plaintiffs subsequently filed second and third amended complaints with substantially similar claims and theories. Altisource Portfolio Solutions S.A. moved to dismiss the third amended complaint on October 22, 2015. On December 22, 2015, the Court issued an order dismissing with prejudice all claims against Ocwen Financial Corporation and certain claims against Altisource Portfolio Solutions S.A. and the officer and director defendants, but denying the motion to dismiss as to other claims. Altisource Portfolio Solutions S.A. intends to continue to vigorously defend this suit.

On February 11, 2015, W.A. Sokolowski, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the United States District Court for the Southern District of Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duty by Ocwen Financial Corporation's officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. Altisource Portfolio Solutions S.A. filed a motion to dismiss the complaint on November 9, 2015. While that motion was pending, additional lawsuits alleging similar claims for alleged breaches of fiduciary duties by current or former Ocwen Financial Corporation officers and directors were filed in or transferred to the Court. The Court subsequently consolidated these actions and denied Altisource Portfolio Solutions S.A.'s motion to dismiss the Sokolowski complaint without prejudice to re-file following appointment of lead counsel for the consolidated action and the filing or designation of an operative complaint. Lead counsel for plaintiffs filed their Consolidated Verified Shareholder Derivative Complaint (the "Consolidated Complaint") on March 8, 2016. The Consolidated Complaint alleges claims that Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants aided and abetted alleged breaches of fiduciary duties by Ocwen Financial Corporation officers and directors and/or were unjustly enriched in connection with business dealings with Ocwen Financial Corporation. The Consolidated Complaint also seeks contribution from Altisource Portfolio Solutions S.A., its subsidiary Beltline Road Insurance Agency, Inc. and other defendants for amounts Ocwen Financial Corporation paid in connection with a settlement with the New York State Department of Financial Services. Altisource Portfolio Solutions S.A. and Beltline Road Insurance Agency, Inc. filed motions to dismiss the Consolidated Complaint on May 13, 2016 and intend to vigorously defend the lawsuit.

On March 26, 2015, Robert Moncavage, an alleged shareholder of Ocwen Financial Corporation, filed an amended shareholder derivative complaint in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against Ocwen Financial Corporation (as a nominal defendant), certain of its current or former officers and directors, Altisource Portfolio Solutions S.A. and other companies. The suit seeks recovery of an unspecified amount of damages for alleged breaches of fiduciary duties by the current or former Ocwen Financial Corporation officers and directors, which were allegedly aided and abetted by Altisource Portfolio Solutions S.A. and other defendants. On November 9, 2015, the Court entered an order staying all proceedings in the case pending further order of the Court. If the litigation proceeds, Altisource Portfolio Solutions S.A. intends to vigorously defend the lawsuit and to move to dismiss all claims against it.

Altisource is unable to predict the outcomes of these lawsuits or reasonably estimate the potential loss, if any, arising from the suits, given that the motion to dismiss in the second case has not been adjudicated, a stay has been entered in the third case and significant legal and factual issues remain to be determined in all three cases.

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In addition to the matters referenced above, we are involved in legal actions in the course of our business, some of which seek monetary damages. We do not believe that the outcome of these proceedings, both individually and in the aggregate, will have a material impact on our financial condition, results of operations or cash flows.

Regulatory Matters

Periodically, we are subject to audits, examinations and investigations by federal, state and local governmental authorities and receive subpoenas, civil investigative demands or other requests for information from such governmental authorities in connection with their regulatory or investigative authority. We are currently responding to such inquiries from governmental authorities relating to certain aspects of our business. We believe it is premature to predict the potential outcome or to estimate any potential financial impact in connection with these inquiries.

Item 1A. Risk Factors

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information related to our repurchases of our equity securities during the three months ended June 30, 2016:

Period	Total number of shares purchased(1)	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans or programs(2)	Maximum number of shares that may yet be purchased under the plans or programs(2)
Common stock:				
April 1 — 30, 2016	164,988	$ 25.74	164,988	802,654
May 1 — 31, 2016	81,868	28.77	81,868	4,574,146
June 1 — 30, 2016	53,989	26.75	53,989	4,520,157
	300,845	$ 26.74	300,845	4,520,157

(1) May include shares withheld from employees to satisfy tax withholding obligations that arose from the exercise of stock options.

(2) On May 18, 2016, our shareholders authorized a new share repurchase program that replaces the prior program and authorizes us to purchase up to 4.6 million shares of our common stock in the open market.

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Item 6. Exhibits

*31.1	Section 302 Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)
*31.2	Section 302 Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
*32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016 is formatted in XBRL interactive data files: (i) Condensed Consolidated Balance Sheets at June 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Equity for the six months ended June 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015; and (v) Notes to Condensed Consolidated Financial Statements.

*Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALTISOURCE PORTFOLIO SOLUTIONS S.A.
(Registrant)

Date:	July 21, 2016	By:	/s/ Michelle D. Esterman
			Michelle D. Esterman
			Chief Financial Officer
			(On behalf of the Registrant and as its Principal Financial Officer)