

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

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

Commission File No. 1-13219

Ocwen Financial Corporation

(Exact name of registrant as specified in its charter)

Florida

65-0039856

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

1661 Worthington Road, Suite 100, West Palm Beach, Florida 33409

(Address of principal executive offices) (Zip Code)

(561) 682-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large Accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

Number of shares of Common Stock, \$0.01 par value, outstanding as of August 3,
2006: 62,430,116 shares.

OCWEN FINANCIAL CORPORATION
FORM 10-Q

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PART I - FINANCIAL INFORMATION
ITEM 1. INTERIM FINANCIAL STATEMENTS (Unaudited)

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| | ----- | ----- |
| Assets | | |
| Cash | \$ 193,129 | \$ 269,611 |
| Trading securities, at fair value | | |
| Investment grade | 202,444 | 1,685 |
| Subordinates and residuals | 57,421 | 30,277 |
| Loans held for resale, at lower of cost or market value | 114,485 | 624,671 |
| Advances | 263,963 | 219,716 |
| Match funded advances | 351,593 | 377,105 |
| Mortgage servicing rights | 151,501 | 148,663 |
| Receivables | 60,738 | 68,266 |
| Deferred tax assets, net | 171,300 | 20,270 |
| Premises and equipment, net | 37,446 | 40,108 |
| Other assets | 55,655 | 53,761 |
| | ----- | ----- |
| Total assets | \$ 1,659,675 | \$ 1,854,133 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Match funded liabilities | \$ 313,963 | \$ 339,292 |
| Servicer liabilities | 395,936 | 298,892 |
| Lines of credit and other secured borrowings | 187,835 | 626,448 |
| Debt securities | 150,329 | 154,329 |
| Other liabilities | 93,283 | 85,912 |
| | ----- | ----- |
| Total liabilities | 1,141,346 | 1,504,873 |
| | ----- | ----- |
| Minority interest in subsidiaries | 1,892 | 1,853 |
| Commitments and Contingencies (Note 9) | | |
| Stockholders' Equity | | |
| Common stock, \$.01 par value; 200,000,000 shares authorized; 62,429,907 and 63,133,471 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively | 624 | 631 |
| Additional paid-in capital | 176,320 | 184,262 |
| Retained earnings | 338,817 | 163,198 |
| Accumulated other comprehensive income (loss), net of taxes | 676 | (684) |
| | ----- | ----- |
| Total stockholders' equity | 516,437 | 347,407 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 1,659,675 | \$ 1,854,133 |
| | ===== | ===== |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)

| | Three months | | Six months | |
|---|--------------|------------|------------|------------|
| For the periods ended June 30, | 2006 | 2005 | 2006 | 2005 |
| Revenue | | | | |
| Servicing and subservicing fees | \$ 82,772 | \$ 71,651 | \$ 162,857 | \$ 144,031 |
| Process management fees | 18,837 | 17,454 | 38,149 | 34,406 |
| Other revenues | 3,527 | 2,910 | 6,580 | 5,066 |
| Total revenue | 105,136 | 92,015 | 207,586 | 183,503 |
| Operating expenses | | | | |
| Compensation and benefits | 22,006 | 24,355 | 47,707 | 48,727 |
| Amortization of servicing rights | 27,663 | 24,930 | 53,952 | 50,045 |
| Servicing and origination | 12,707 | 15,148 | 25,904 | 29,181 |
| Technology and communications | 6,034 | 7,862 | 12,673 | 15,261 |
| Professional services | 7,620 | 5,715 | 15,399 | 10,733 |
| Occupancy and equipment | 4,823 | 4,571 | 9,799 | 8,813 |
| Other operating expenses | 3,561 | 3,468 | 6,294 | 7,978 |
| Total operating expenses | 84,414 | 86,049 | 171,728 | 170,738 |
| Other income (expense) | | | | |
| Interest income | 6,298 | 6,764 | 24,411 | 13,096 |
| Interest expense | (10,062) | (9,072) | (27,316) | (17,512) |
| Gain (loss) on trading securities | 1,701 | (1,269) | 1,327 | (2,667) |
| Loss on loans held for resale, net | (3,437) | -- | (1,221) | -- |
| Other, net | 2,172 | 2,784 | 5,793 | 2,428 |
| Other income (expense), net | (3,328) | (793) | 2,994 | (4,655) |
| Income before income taxes | 17,394 | 5,173 | 38,852 | 8,110 |
| Income tax expense (benefit) | (141,692) | 2,265 | (136,767) | 2,815 |
| Net income | \$ 159,086 | \$ 2,908 | \$ 175,619 | \$ 5,295 |
| Earnings per share | | | | |
| Basic | \$ 2.53 | \$ 0.05 | \$ 2.79 | \$ 0.08 |
| Diluted | \$ 2.23 | \$ 0.05 | \$ 2.47 | \$ 0.08 |
| Weighted average common shares outstanding | | | | |
| Basic | 62,821,428 | 62,809,286 | 63,033,454 | 62,776,469 |
| Diluted | 71,767,873 | 63,709,246 | 71,876,666 | 63,864,247 |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

| For the periods ended June 30, | Three months | | Six months | |
|---|-------------------|-----------------|-------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 159,086 | \$ 2,908 | \$ 175,619 | \$ 5,295 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Change in unrealized foreign currency translation adjustment arising during the period (1) | 996 | (541) | 1,360 | (239) |
| Comprehensive income | <u>\$ 160,082</u> | <u>\$ 2,367</u> | <u>\$ 176,979</u> | <u>\$ 5,056</u> |

(1) Net of tax benefit (expense) of \$(585) and \$305 for the three months and of \$(799) and \$127 for the six months ended June 30, 2006 and 2005, respectively.

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(Dollars in thousands)

| | Common Stock | | Additional | Retained | Accumulated Other Comprehensive | |
|--|--------------|--------|--------------------|------------|---------------------------------------|------------|
| | Shares | Amount | Paid-in Capital | Earnings | Income (Loss), Net of Taxes | Total |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2005 | 63,133,471 | \$ 631 | \$ 184,262 | \$ 163,198 | \$ (684) | \$ 347,407 |
| Net income | -- | -- | -- | 175,619 | -- | 175,619 |
| Issuance of common stock awards to employees | 77,011 | 1 | 660 | -- | -- | 661 |
| Exercise of common stock options | 217,096 | 2 | 1,141 | -- | -- | 1,143 |
| Repurchase of common stock | (1,000,000) | (10) | (10,990) | -- | -- | (11,000) |
| Purchase of fractional shares in connection with a reverse/forward stock split | (1,259) | -- | (14) | -- | -- | (14) |
| Excess tax benefits related to share- based awards | -- | -- | 422 | -- | -- | 422 |
| Employee compensation - Share-based awards | -- | -- | 819 | -- | -- | 819 |
| Director's compensation - Common stock | 3,588 | -- | 20 | -- | -- | 20 |
| Other comprehensive income, net of taxes | -- | -- | -- | -- | 1,360 | 1,360 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at June 30, 2006 | 62,429,907 | \$ 624 | \$ 176,320 | \$ 338,817 | \$ 676 | \$ 516,437 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

For the six months ended June 30,

| | 2006 | 2005 |
|--|------------|------------|
| Cash flows from operating activities | | |
| Net income | \$ 175,619 | \$ 5,295 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities | | |
| Net cash provided (used) by trading activities | (116,354) | 73,872 |
| Purchases of loans held for resale | (191,425) | -- |
| Originations of loans held for resale | (397,707) | (77,309) |
| Principal payments received on loans held for resale | 48,630 | -- |
| Proceeds from sales and securitizations of loans held for resale | 1,048,027 | 71,030 |
| Premium amortization (discount accretion) on securities, net | (3,360) | 384 |
| Amortization of servicing rights | 53,952 | 50,045 |
| Depreciation and other amortization | 6,785 | 6,578 |
| Provision for bad debts | 1,242 | 3,032 |
| Loss (gain) on trading securities | (1,327) | 2,667 |
| Gain on sale of deposits | -- | (1,750) |
| Loss on loans held for resale, net | 1,221 | -- |
| Gain on sale of real estate | (1,342) | (48) |
| Reversal of valuation allowance on deferred tax asset | (145,211) | (843) |
| Excess tax benefits from the exercise of stock options | (422) | -- |
| Decrease (increase) in advances and match funded advances | (18,735) | (1,704) |
| Decrease (increase) in deferred tax asset other than reversal of valuation allowance | (5,818) | 1,951 |
| Decrease (increase) in receivables and other assets, net | 5,633 | (8,291) |
| Increase in servicer liabilities | 17,385 | 19,103 |
| Increase in other liabilities, net | 4,027 | 5,884 |
| Other | (428) | 2,806 |
| Net cash provided by operating activities | 480,392 | 152,702 |
| Cash flows from investing activities | | |
| Principal payments received on match funded loans | -- | 499 |
| Purchase of mortgage servicing rights | (52,706) | (50,969) |
| Principal payments received on loans | 3 | 461 |
| Purchases, originations and funded commitments on loans | -- | (219) |
| Additions to premises and equipment | (2,215) | (6,828) |
| Proceeds from the sale of real estate | 2,005 | -- |
| Proceeds from the sale of a subsidiary | -- | 4,337 |
| Net cash from consolidated VIE | 247 | -- |
| Net cash used by investing activities | (52,666) | (52,719) |
| Cash flows from financing activities | | |
| Decrease in deposits and escrow deposits | -- | (210,850) |
| Sale of deposits | -- | (165,741) |
| Premium received on sale of deposits | -- | 1,500 |
| Proceeds from (repayments of) lines of credit and other secured borrowings, net | (465,296) | 1,913 |
| Proceeds from (repayments of) match funded liabilities, net | (25,329) | 40,495 |
| Repayment of debt securities | (3,865) | -- |
| Excess tax benefits from the exercise of stock options | 422 | -- |
| Repurchase of common stock | (11,014) | -- |
| Exercise of common stock options | 874 | 42 |
| Net cash used by financing activities | (504,208) | (332,641) |
| Net decrease in cash | (76,482) | (232,658) |
| Cash at beginning of period | 269,611 | 542,891 |
| Cash at end of period | \$ 193,129 | \$ 310,233 |
| | ===== | ===== |

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

OCWEN FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006
(Dollars in thousands, except share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Ocwen Financial Corporation ("OCN"), through its subsidiaries, is engaged in business activities related to residential and commercial servicing, consumer unsecured debt collections, loan origination services and business process outsourcing. At June 30, 2006, OCN owned all of the outstanding stock of its primary subsidiaries: Ocwen Loan Servicing, LLC ("OLS"), Investors Mortgage Insurance Holding Company and Ocwen Financial Solutions, Private Limited ("India"). Effective June 30, 2005, Ocwen Federal Bank FSB (the "Bank"), a wholly owned subsidiary, voluntarily terminated its status as a federal savings bank and dissolved, a process we referred to as "debanking".

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with the instructions of the Securities and Exchange Commission ("SEC") to Form 10-Q and SEC Regulation S-X, Article 10, Rule 10-01 for interim financial statements. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, the accompanying unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation. The results of operations and other data for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for any other interim period or for the entire year ending December 31, 2006. The unaudited consolidated financial statements presented herein should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

In preparing the consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the balance sheet and revenues and expenses for the periods covered. Material estimates that are particularly significant in the near or medium term relate to our valuation of securities, servicing rights, intangibles and deferred tax assets, as well as to our determination of valuation allowances for other asset categories. Actual results could differ from those estimates and assumptions.

Prior to debanking, our consolidated financial statements followed the presentation requirements of Regulation S-X, Article 9, Bank Holding Companies. As a result of debanking, effective December 31, 2005, we revised the presentation of our consolidated financial statements to better align our presentation with the growth and significance of loan servicing and loan origination and outsourcing services, our principal businesses. The principal change in our consolidated financial statements for the periods presented as compared to the presentation in prior periods is in the format of our consolidated statement of operations. In adopting the new format for our consolidated statement of operations, we have made a number of reclassifications of expenses. The most significant of these reclassifications has been to report as operating expenses amounts that were netted against the revenues that were previously reported as servicing and related fees. These expenses are directly related to the generation of revenues and are reported in our consolidated statement of operations as amortization of servicing rights and as components of servicing and origination. Servicing and origination includes expenses of \$9,144 and \$17,787 for the three and six months ended June 30, 2005, respectively, that had previously been netted against revenues reported in servicing and other fees. Similarly, expenses previously included in loan expenses on the consolidated statement of operations are also principally reported as components of servicing and origination expense.

Revenues that are associated with our Residential Origination Services and Business Processing Outsourcing business segments are reported in a separate revenue category, process management fees. These revenues were previously reported as a component of servicing and related fees. Other categories of income, including interest income and interest expense, which were previously reported as revenues but which were not related to the operations of our principal business segments, are reported in other income (expense).

In addition, we created a new liability caption, servicer liabilities, in our consolidated balance sheet. This caption represents amounts that we have collected from borrowers that will be remitted to off-balance sheet custodial accounts, paid directly to investment trusts or refunded to borrowers. Previously, the amounts included in servicer liabilities had been reported either as escrow deposits or as reductions of our cash balances.

Amounts included in our 2005 consolidated financial statements have been reclassified to conform to these changes in presentation in our consolidated statement of operations as well as to conform to certain other, less significant, reclassifications that have been made in our consolidated financial statements in 2006.

Principles of Consolidation

We evaluate special purpose entities first for classification as a "qualifying special purpose entity" ("QSPE") as specified by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140"). Where we determine that a special purpose entity is classified as a QSPE, it is excluded from our consolidated financial statements. Where we determine that a special purpose entity is not classified as a QSPE, it is further evaluated for classification as a variable interest entity ("VIE") as specified by FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", as revised. When a special purpose entity meets the definition of a VIE, and OCN is identified as the primary beneficiary of the entity, it is included in our consolidated financial statements. The most significant of the VIEs identified during the reported periods is engaged in the origination, acquisition and subsequent securitization or sale of subprime single family residential loans. During the second quarter of 2006, our voting interest in this consolidated VIE exceeded 50%, and we now treat it as a majority-owned subsidiary. The creditors of the remaining VIEs have no recourse against OCN.

All material intercompany accounts and transactions have been eliminated in consolidation. We report minority interests in our majority-owned subsidiaries as a separate item on our consolidated balance sheets. Minority interest in our earnings is included in other income (expense), net, on our consolidated statements of operations.

NOTE 2 CURRENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 123(R), "Share-Based Payment" and Staff Accounting Bulletin No. 107 (SAB 107), "Share-Based Payment". SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period. The determination of compensation expense under SFAS 123(R) also includes the estimation of expected forfeitures, which we previously recognized as incurred. Prior to January 1, 2006, we followed the guidance of Accounting Principles Board ("APB") Opinion No. 25, which provided for accounting for share-based compensation using the intrinsic value method and recognizing compensation costs for such stock options to the extent that the exercise price was less than the price of the stock at the grant date.

Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), using the modified prospective method. Accordingly, results for prior periods have not been restated. Compensation and benefits expense for the six months ended June 30, 2006 includes \$530 (\$345 after tax) related to stock options. As a result of adopting FAS 123(R), incremental compensation expense related to stock options for the six months ended June 30, 2006 was \$248 (\$161 after tax).

There were no new option grants during the six months ended June 30, 2006, however, 217,096 stock options were exercised and 35,459 were forfeited during that period. At June 30, 2006, a total of 3,977,919 stock options were outstanding, of which 3,152,235 were exercisable. Cash received from the exercise of stock options during the six months ended June 30, 2006 was \$874. Financing cash inflows for that same period include \$422 of tax benefits arising from related tax deductions that reduce the amount of income taxes that would otherwise be payable. The total intrinsic value of stock options exercised, which is defined as the amount by which the market value of the stock on the date of exercise exceeds the exercise price, was \$1,362 for the six months ended June 30, 2006. As of June 30, 2006, unrecognized compensation costs related to non-vested stock options amounted to \$2,379, which will be recognized over a weighted-average remaining requisite service period of approximately 2.7 years.

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." In February 2006, the FASB issued SFAS No. 155 as an amendment to SFAS No. 133 and SFAS No. 140. SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. The standard also: a) Clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; b) Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; c) Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and d) Amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial

instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006.

SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." FASB issued SFAS No. 156 in March 2006 as an amendment to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and liabilities. Recognition of a servicing asset or liability would be required each time an entity commits to service a financial asset through a servicing contract that: a) represents a transfer of the servicer's financial assets that meets the requirements for sale accounting, b) represents a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS 115. "Accounting for Certain Investments in Debt and Equity Securities", or c) represents an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

SFAS 156 also requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable, and allows an entity to choose from two subsequent measurement methods for each class of separately recognized servicing assets and liabilities. The two methods are: a) the amortization method which amortizes servicing assets or liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assesses servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date, and b) the fair value measurement method which measures servicing assets or liabilities at fair value each reporting date and reports changes in fair value in earnings in the period in which the changes occur.

A prospective application of SFAS 156 is required as of the beginning of an entity's first fiscal year that begins after September 15, 2006. As of June 30, 2006, the estimated fair value of our mortgage servicing rights was \$222,479 as compared to a carrying value of \$151,501. These amounts include \$2,003 of commercial mortgage servicing rights that were acquired on June 20, 2006. The fair market value of these servicing rights approximates carrying value at June 30, 2006.

NOTE 3 BASIC AND DILUTED EARNINGS PER SHARE

We are required to present both basic and diluted earnings per share ("EPS") on the face of our statement of operations. Basic EPS excludes common stock equivalents and is calculated by dividing net income by the weighted average number of common shares outstanding during the year. We calculate diluted EPS by dividing net income, as adjusted to add back interest expense on the 3.25% Contingent Convertible Senior Unsecured Notes due 2024 ("Convertible Notes"), by the weighted average number of common shares outstanding including the potential dilutive common shares related to outstanding stock options, restricted stock awards and the Convertible Notes.

The following is a reconciliation of the calculation of basic EPS to diluted EPS for the periods ended June 30:

| | Three months | | Six months | |
|---|--------------|------------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Basic EPS: | | | | |
| Net income | \$ 159,086 | \$ 2,908 | \$ 175,619 | \$ 5,295 |
| Weighted average shares of common stock | 62,821,428 | 62,809,286 | 63,033,454 | 62,776,469 |
| Basic EPS | \$ 2.53 | \$ 0.05 | \$ 2.79 | \$ 0.08 |
| Diluted EPS: | | | | |
| Net income | \$ 159,086 | \$ 2,908 | \$ 175,619 | \$ 5,295 |
| Interest expense on Convertible Notes, net of income tax (1) | 779 | -- | 1,572 | -- |
| Adjusted net income | \$ 159,865 | \$ 2,908 | \$ 177,191 | \$ 5,295 |
| Weighted average shares of common stock | 62,821,428 | 62,809,286 | 63,033,454 | 62,776,469 |
| Effect of dilutive elements: | | | | |
| Convertible Notes (1) | 7,962,205 | -- | 7,962,205 | -- |
| Stock options (2) | 913,125 | 798,015 | 817,563 | 856,606 |
| Common stock awards | 71,115 | 101,945 | 63,444 | 231,172 |
| Dilutive weighted average shares of common stock | 71,767,873 | 63,709,246 | 71,876,666 | 63,864,247 |
| Diluted EPS | \$ 2.23 | \$ 0.05 | \$ 2.47 | \$ 0.08 |

- (1) The effect of our Convertible Notes on diluted EPS is computed using the if-converted method. Interest expense and related amortization costs applicable to the Convertible Notes, net of income tax, are added back to net income. Conversion of the Convertible Notes into shares of common stock has not been assumed for purposes of computing diluted EPS for the three and six months ended June 30, 2005 because the effect would be anti-dilutive. The effect is anti-dilutive whenever interest expense on the Convertible Notes, net of income tax, per common share obtainable on conversion exceeds basic EPS.
- (2) Excludes an average of 1,085,903 and 1,629,171 of options that were anti-dilutive for the second quarter of 2006 and 2005, respectively, because their exercise price was greater than the average market price of our stock. Year to date, an average of 1,301,693 and 1,630,605 options were anti-dilutive for 2006 and 2005, respectively.

At OCN's Annual Meeting on May 4, 2006, the shareholders approved a proposal to amend OCN's Articles of Incorporation to effect a 1-for-10 reverse stock split, followed immediately by a 10-for-1 forward stock split (the "Reverse/Forward Split"). We completed the Reverse/Forward Split on May 12, 2006 (the "Effective Date").

As a result of the Reverse/Forward Split, accounts with less than ten shares of common stock were converted on the Effective Date into the right to receive a cash payment for each share held equal in value to the average official closing price of the common stock on The New York Stock Exchange over the ten trading days immediately preceding the Effective Date. A total of 1,259 shares have been retired to date at a cost of \$11.29 per share. Ultimately, a total of 2,385 shares held by 1,127 shareholders will be retired. All shareholder accounts holding ten shares or more were unaffected, and the total number of shares held by such accounts did not change. The Reverse/Forward Split had an insignificant effect on EPS.

NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative contracts are exchange-traded; therefore, holders of these instruments look to the exchange for performance under these contracts and not to the holders of the offsetting futures contracts. Using exchange-traded instruments minimizes our exposure to risk from nonperformance under these contracts. The notional amount of our contracts does not represent our exposure to credit loss.

Foreign Currency Exchange Rate Risk Management

Our primary exposure to foreign currency exchange rates relates to the British Pound versus the U.S. Dollar. We entered into foreign currency futures contracts to hedge our net investment in a foreign subsidiary that owns residual securities backed by subprime residential loans originated in the United Kingdom ("UK"). Currency futures are commitments to either purchase or sell foreign currency at a future date for a specified price. Our policy is to periodically adjust the amount of foreign currency derivative contracts we have entered into in response to changes in both our recorded investment in the subsidiary and to changes in our assets denominated in a foreign currency.

We have determined that the local currency of our investment in UK residuals is the functional currency. The foreign currency derivative financial instrument related to our investment in the UK residuals was designated as a hedge. Accordingly, for this instrument we include the gains or losses in the net unrealized foreign currency translation in accumulated other comprehensive income in stockholders' equity.

The following table sets forth the terms and values of the British Pound foreign currency futures at the dates indicated:

| | Position | Maturity | Notional Amount | Strike Rate | Fair Value |
|--|----------|------------|-----------------|-------------|-------------------|
| June 30, 2006: | | | | | |
| British Pound currency futures (1) | Short | Sept. 2006 | (pound) 12,875 | \$ 1.8421 | \$ (112) ===== |
| December 31, 2005: | | | | | |
| British Pound currency futures (1) | Short | March 2006 | (pound) 13,438 | \$ 1.7692 | \$ 726 ===== |

- (1) The U.S. Dollar equivalent notional amount of the British Pound currency futures was \$23,796 and \$23,148 at June 30, 2006 and December 31, 2005, respectively.

Beginning in the second quarter of 2005, Bankhaus Oswald Kruber GmbH & Co. KG ("BOK"), entered into Euro foreign exchange forward ("FX Forward") contracts in order to hedge its investment in U.S. dollar-denominated servicing advances that it acquired from OLS. The remaining advances were repurchased by OLS in the second quarter of 2006. The following table sets forth the terms and value of the foreign exchange forward contracts at the dates indicated:

| Maturity | Notional Amount | | Contract Rate | Fair Value |
|----------------------|-----------------|--------------|-------------------|------------|
| | Sell | Buy | | |
| June 30, 2006: | | | | |
| August 2006 | \$ 3,000 | (euro) 2,440 | 1.2291 to 1.22304 | \$ 110 |
| December 31, 2005: | | | | |
| April to August 2006 | \$ 7,464 | (euro) 6,111 | 1.1854 to 1.2590 | \$ (189) |

The fair value of our FX Forward contracts represents the estimated amount that we would receive or pay to terminate these agreements taking into account current interest rates. Since the FX Forward contracts were not designated as hedges, changes in the fair value of the contracts and gains and losses from these instruments are included in earnings in the period in which they occur, and we report them as a component of other income (expense), net. The net realized and unrealized gains included in earnings to record these contracts at fair value were \$311 during the second quarter of 2006 and \$464 for the six months ended June 30, 2006.

Interest Rate Risk Management

In connection with our Residential Origination Services business, we acquire certain mortgage loan portfolios with the intention of selling or securitizing them within a short period of time. Since the value of the mortgage loans is subject to interest rate risk prior to being sold or securitized, we have sold short a series of three-month Eurodollar interest rate futures contracts to hedge the exposure to interest rate risk represented by our loans held for resale. Our policy is to adjust the amount of Eurodollar futures contracts that we sell short to accommodate changes in the amount of our mortgage loans held for resale. Since the Eurodollar interest rate futures contracts were not designated as hedges, changes in the fair value of the contracts and gains and losses from these instruments are included in earnings in the period in which they occur, and we report them as a component of other income (expense), net.

The following table sets forth the terms and values of our Eurodollar interest rate futures contracts as at the dates indicated:

| Position | Maturity | Notional Amount | Contract Price | Fair Value |
|--------------------|------------------------------|-----------------|----------------|------------|
| June 30, 2006: | | | | |
| Short | September 2006 to June 2010 | \$ 1,154,000 | 94.32 to 95.40 | \$ 1,152 |
| December 31, 2005: | | | | |
| Short | March 2006 to September 2010 | \$ 3,261,000 | 94.92 to 95.46 | \$ 731 |

The fair value of our Eurodollar interest rate futures contracts represents the estimated amount that we would receive or pay to terminate these agreements taking into account current interest rates. The net realized and unrealized gains included in earnings to record these contracts at fair value were \$1,251 during the second quarter of 2006 and \$2,898 for the six months ended June 30, 2006. The following table summarizes our use of interest rate risk management instruments:

| | Notional Amount Short Eurodollar Interest Rate Futures |
|-----------------------------------|--|
| Balance at December 31, 2005..... | \$ 3,261,000 |
| Sales..... | 1,914,000 |
| Maturities..... | (639,000) |
| Terminations..... | (3,382,000) |
| Balance at June 30, 2006 | \$ 1,154,000 |
| | ===== |

NOTE 5 REGULATORY MATTERS

Effective June 30, 2005, the Bank terminated its status as a federal savings bank. Prior to returning its original thrift charter to the Office of Thrift Supervision ("OTS"), the Bank operated as a federal savings bank, and OCN was a registered savings and loan holding company. Our primary regulatory authority was the OTS.

Pursuant to the conditions set forth in the OTS Approval, OCN entered into an agreement (the "Guaranty") in favor of the OTS and any holders of claims with respect to liabilities assumed by OLS from the Bank (the "Assumed Liabilities"). Assumed Liabilities include all legal actions against the Bank. Assumed liabilities do not include the customer deposit and other liabilities that were assumed by Marathon National Bank of New York ("Marathon") in

connection with the Branch Purchase and Deposit Assumption agreement. The Guaranty contains affirmative covenants relating to the maintenance of a \$5,000 cash collateral account, reporting requirements, transactions with affiliates, preservation of the existence of our subsidiaries and maintenance of not less than \$35,000 of unencumbered financial assets. Pursuant to the Guaranty, we have also agreed to certain limits on the incurrence of debt, merger or sale transactions, disposition of assets and payment of dividends. As of June 30, 2006, we were in compliance with all of the covenants specified in the Guaranty.

The Guaranty will remain in effect until the later of (a) the sixth anniversary of the date on which the Bank's federal bank charter was cancelled or (b) the date on which we have paid in full (i) any obligations that arise out of the Assumed Liabilities with respect to which a claim has been asserted on or prior to the sixth anniversary of the date on which the Bank's federal bank charter was cancelled and (ii) all other amounts payable by us under the Guaranty.

Effective June 30, 2005, the Supervisory Agreement that the Bank and OTS had entered into on April 19, 2004 terminated because we were no longer a FDIC-insured institution. The OTS retains, for a period of six years after termination of the Supervisory Agreement, the right to bring enforcement actions in respect of any breach or noncompliance by the Bank with the Supervisory Agreement, or other applicable regulations, that may have occurred prior to debanking.

We have continued the Bank's residential mortgage servicing business under OLS, which is a licensed servicer in all fifty states, the District of Columbia and Puerto Rico. As a result of debanking, we are no longer able to accept deposits in the U.S or benefit from federal preemption with regard to post-debanking activities. OLS is subject to the rules and regulations of various Federal agencies, Fannie Mae, Freddie Mac, Ginnie Mae and state regulatory authorities

BOK is licensed as a credit institution (Kreditinstitut) under the laws of the Federal Republic of Germany and is supervised and regulated in Germany by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, or BaFin), the German Central Bank (Deutsche Bundesbank) and, in respect of minimum reserves on deposits, the European Central Bank. BOK, under its license, may engage not only in a number of traditional banking activities such as deposit and lending business, but also in investment banking, underwriting and securities trading transactions, both for its own account and for customers. BOK is currently not material to our operations.

NOTE 6 INCOME TAXES

The following table provides details of our income tax expense for the periods indicated:

| | Three months | | Six months | |
|---|--------------|----------|--------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| For the periods ended June 30, | | | | |
| Income tax expense on income before taxes | \$ 3,519 | \$ 1,141 | \$ 8,444 | \$ 1,691 |
| Reversal of valuation allowance on deferred tax assets | (145,211) | (843) | (145,211) | (843) |
| Provision for recapture of base year bad debt reserves | -- | 1,967 | -- | 1,967 |
| Total income tax expense (benefit) | \$ (141,692) | \$ 2,265 | \$ (136,767) | \$ 2,815 |

In the second quarter of 2006, we reversed \$145,211 of valuation allowances on our deferred tax assets in order to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods. In addition, \$4,794 of capital losses expired which resulted in equal and offsetting declines in both the gross deferred tax asset and valuation allowance but had no impact on the net deferred tax asset balance or income tax expense. As a result, our valuation allowance declined from \$163,802 at December 31, 2005 to \$13,797 at June 30, 2006. The remaining valuation allowance includes \$5,115 related to capital loss carryforwards.

We maintain a valuation allowance in an amount sufficient to reduce our deferred tax asset to the amount that is more likely than not to be realized. The amount of the valuation allowance is based on consideration of all available evidence, both positive and negative, including our recent earnings history, current tax position and estimates of future taxable income. The tax character (ordinary versus capital) and the carry forward and carry back periods of certain tax attributes (e.g., capital losses and tax credits) are also considered. We assess the amount of our valuation allowance each quarter.

In assessing the amount of the valuation allowance in the second quarter of 2006, our determination that it was appropriate to reverse \$145,211 was primarily based on the following:

- o Cumulative earnings in recent periods;
- o Positive outlook for future earnings, including positive changes in the market factors affecting our Residential Servicing business that suggest continued strong earnings performance;
- o The disposal of nearly all of our non-core assets.

In the second quarter of 2005, we recorded a one-time provision of \$1,967 (\$1,124 net of a related reversal of the valuation allowance on the deferred tax asset) to recognize a deferred tax liability arising from the recapture of bad debt reserves in connection with our termination of the Bank's status as a federal savings bank.

Income tax expense on income before income taxes differs from amounts that would be computed by applying the Federal corporate income tax rate of 35% primarily because of the effect of foreign taxes, foreign income with an indefinite deferral from U.S. taxation, losses from consolidated VIEs, state taxes, low-income housing tax credits and changes in the deferred tax valuation allowance. Excluding the effect of the reversal of valuation allowances on deferred tax assets in the second quarter of 2006, our effective tax rate was 21.73% for the first six months of 2006. Excluding the effect of the one-time provision for the recapture of bad debt reserves in the second quarter of 2005, our effective tax rate was 20.85% for the first six months of 2005. We estimate our effective tax rate based on projected full-year results, and we revise the estimate quarterly during the year.

NOTE 7 BUSINESS SEGMENT REPORTING

A brief description of our business segments, aligned within our two areas of focus, is as follows:

Servicing

- o Residential Servicing. Through this business we provide loan servicing including asset management and resolution services to third party owners of subprime residential mortgage and high loan-to-value loans for a fee. We acquire the rights to service loans by purchasing them or by entering into subservicing contracts. This segment also includes our residential loan servicing system product (REALServicing).
- o Commercial Servicing. This segment includes the results of both our domestic and international servicing of commercial assets (loans and real estate), as well as our commercial loan servicing product (REALSynergy). International servicing is conducted through Global Servicing Solutions, LLC ("GSS").
- o Ocwen Recovery Group. This business primarily conducts collection activities for third party owners of unsecured receivables and for a portfolio of unsecured credit card receivables that we acquired during the period 1998 through 2000.

Loan Processing and Origination Services

- o Residential Origination Services. This business provides various loan origination services, including residential property valuation services, mortgage due diligence, fulfillment, title services and loan refinancing for Residential Servicing customers. This segment also includes our subprime loan origination activities, internet-based vendor management system product (REALTrans) and subprime residual trading securities.
- o Business Process Outsourcing. This business segment began operations in December 2002. Business Process Outsourcing provides outsourcing services to third parties including mortgage underwriting, data entry, call center services and mortgage research.

Corporate Items and Other. This segment includes items of revenue and expense that are not directly related to a business including business activities that are individually insignificant, interest income on short-term investments of cash and the related costs of financing these investments and certain other corporate expenses.

We allocate interest income and expense to each business segment for the investment of funds raised or funding of investments made. We also allocate expenses generated by corporate support services to each business segment.

Financial information for our segments is as follows at the dates and for the periods indicated:

| | Total Assets | |
|--|------------------|----------------------|
| | June 30, 2006 | December 31, 2005 |
| Residential Servicing | \$ 804,709 | \$ 783,560 |
| Commercial Servicing | 9,462 | 6,433 |
| Ocwen Recovery Group | 874 | 1,002 |
| Residential Origination Services | 189,713 | 679,432 |
| Business Process Outsourcing | 2,008 | 1,193 |
| | 1,006,766 | 1,471,620 |
| Corporate Items and Other | 652,909 | 382,513 |
| | \$ 1,659,675 | \$ 1,854,133 |
| | ===== | ===== |

| | Revenue | Operating Expenses | Other Income (Expense) | Pre-Tax Income (Loss) |
|--|------------|--------------------|------------------------|-----------------------|
| | ----- | ----- | ----- | ----- |
| For the three months ended June 30, 2006 | | | | |
| Residential Servicing | \$ 82,969 | \$ 58,658 | \$ (6,163) | \$ 18,148 |
| Commercial Servicing | 3,084 | 2,784 | (18) | 282 |
| Ocwen Recovery Group | 1,856 | 1,928 | 192 | 120 |
| Residential Origination Services | 14,431 | 17,551 | 1,037 | (2,083) |
| Business Process Outsourcing | 2,656 | 1,963 | (7) | 686 |
| | ----- | ----- | ----- | ----- |
| | 104,996 | 82,884 | (4,959) | 17,153 |
| Corporate Items and Other | 140 | 1,530 | 1,631 | 241 |
| | ----- | ----- | ----- | ----- |
| | \$ 105,136 | \$ 84,414 | \$ (3,328) | \$ 17,394 |
| | ===== | ===== | ===== | ===== |
| For the three months ended June 30, 2005 | | | | |
| Residential Servicing | \$ 68,459 | \$ 60,644 | \$ (5,215) | \$ 2,600 |
| Commercial Servicing | 4,558 | 4,025 | (198) | 335 |
| Ocwen Recovery Group | 3,274 | 3,057 | 27 | 244 |
| Residential Origination Services | 12,870 | 13,259 | 2,113 | 1,724 |
| Business Process Outsourcing | 2,858 | 2,575 | (19) | 264 |
| | ----- | ----- | ----- | ----- |
| | 92,019 | 83,560 | (3,292) | 5,167 |
| Corporate Items and Other | (4) | 2,489 | 2,499 | 6 |
| | ----- | ----- | ----- | ----- |
| | \$ 92,015 | \$ 86,049 | \$ (793) | \$ 5,173 |
| | ===== | ===== | ===== | ===== |
| For the six months ended June 30, 2006 | | | | |
| Residential Servicing | \$ 162,911 | \$ 114,288 | \$ (12,607) | \$ 36,016 |
| Commercial Servicing | 6,199 | 5,634 | (18) | 547 |
| Ocwen Recovery Group | 4,057 | 4,561 | 274 | (230) |
| Residential Origination Services | 29,006 | 38,310 | 12,244 | 2,940 |
| Business Process Outsourcing | 5,379 | 4,688 | (17) | 674 |
| | ----- | ----- | ----- | ----- |
| | 207,552 | 167,481 | (124) | 39,947 |
| Corporate Items and Other | 34 | 4,247 | 3,118 | (1,095) |
| | ----- | ----- | ----- | ----- |
| | \$ 207,586 | \$ 171,728 | \$ 2,994 | \$ 38,852 |
| | ===== | ===== | ===== | ===== |
| For the six months ended June 30, 2005 | | | | |
| Residential Servicing | \$ 136,906 | \$ 122,040 | \$ (9,319) | \$ 5,547 |
| Commercial Servicing | 8,999 | 8,398 | (245) | 356 |
| Ocwen Recovery Group | 7,086 | 6,454 | 117 | 749 |
| Residential Origination Services | 25,137 | 24,340 | 3,761 | 4,558 |
| Business Process Outsourcing | 5,443 | 5,030 | (51) | 362 |
| | ----- | ----- | ----- | ----- |
| | 183,571 | 166,262 | (5,737) | 11,572 |
| Corporate Items and Other | (68) | 4,476 | 1,082 | (3,462) |
| | ----- | ----- | ----- | ----- |
| | \$ 183,503 | \$ 170,738 | \$ (4,655) | \$ 8,110 |
| | ===== | ===== | ===== | ===== |

NOTE 8 ACQUISITION

OCN and Charlesbank Equity Fund VI, Limited Partnership and related funds (collectively, "Charlesbank") recently formed BMS Holdings, Inc. ("BMS Holdings") for the purpose of effecting the purchase of Bankruptcy Management Solutions, Inc. ("BMS"), a leading provider of bankruptcy case management software solutions to Chapter 7 Bankruptcy Trustees. On July 31, 2006, the acquisition of all of the issued and outstanding shares of BMS from its stockholders and a warrant holder was completed. The total amount of the investment in this acquisition was approximately \$445,000, including the purchase price of the BMS shares and related fees and expenses. OCN and Charlesbank each contributed approximately \$45,000 in equity. Approximately \$347,000 of the purchase price was funded by BMS through the issuance of senior and subordinated debt. We do not anticipate that we will be required to include BMS Holdings in our consolidated financial statements. We will account for our investment in BMS Holdings using the equity method of accounting.

The acquisition will be accounted for by BMS Holdings as a purchase, and, accordingly, BMS Holdings will allocate the purchase price to the underlying tangible and identifiable intangible assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The allocation of the purchase price may be subject to change based on final estimates of fair value.

NOTE 9 COMMITMENTS AND CONTINGENCIES

At June 30, 2006, we had commitments of \$52,764 to fund loans secured by mortgages on single family residential properties. We also have commitments to sell \$22,293 of loans held for resale, generally within 30 days of funding.

Through our investment in subordinated residual securities, which had a fair value of \$57,421 at June 30, 2006, we support senior classes of securities. Principal from the underlying mortgage loans generally is allocated first to the senior classes, with the most senior class having a priority right to the cash flow from the mortgage loans until its payment requirements are satisfied. To the extent that there are defaults and unrecoverable losses on the underlying mortgage loans, resulting in reduced cash flows, the most subordinate security will be the first to bear this loss. Because subordinate and residual interests generally have no credit support, to the extent there are realized losses on the mortgage loans comprising the mortgage collateral for such debt securities, we may not recover our remaining investment.

Under the terms of the sales agreements entered into in connection with the sale of certain of our affordable housing properties, we have a commitment to fund cash deficits that may arise from the operations of those properties. The remaining term of these commitments ranges from one to six years. The obligation under these commitments was \$3,789 as of June 30, 2006. Any operating deficits we fund are supported by a promissory note to be repaid to us from future cash flows of the property. In addition, we have provided to the purchasers of certain affordable housing properties guaranties against the possible recapture of future tax credits. We have never experienced a recapture of tax credits on any of the affordable housing properties in which we invested or sold. We have not recognized these guaranties as a liability because the probability of recapture is considered remote.

Under the terms of the Assignment and Assumption agreement, OLS has become the successor to the Bank with respect to all legal actions. Therefore, any references to the Bank in connection with the following legal matters pertain to OLS as successor.

On April 13, 2004, the United States Judicial Panel on Multi-district Litigation granted our petition to transfer and consolidate a number of lawsuits against the Bank, OCN and various third parties arising out of the servicing of plaintiffs' mortgage loans into a single case to proceed in the United States District Court for the Northern District of Illinois under caption styled: In re Ocwen Federal Bank FSB Mortgage Servicing Litigation, MDL Docket No. 1604 (the "MDL Proceeding"). Currently, there are approximately 48 lawsuits consolidated in the MDL Proceeding involving 64 mortgage loans that we currently or previously serviced. Additional similar lawsuits have been brought in other courts, some of which may be transferred to and consolidated in the MDL Proceeding. The borrowers in many of these lawsuits seek class action certification. Others have brought individual actions. No class has been certified in the MDL Proceeding or any related lawsuits. On May 19, 2006, plaintiffs filed an Amended Consolidated Class Action Complaint containing various claims under federal statutes, including the Real Estate Settlement Procedures Act and Fair Debt Collection Practices Act, federal bankruptcy laws, state deceptive trade practices statutes and common law. The claims are generally based on allegations of improper loan servicing practices, including (i) charging borrowers allegedly improper or unnecessary fees such as breach letter fees, hazard insurance premiums, foreclosure-related fees, late fees, property inspection fees and bankruptcy-related fees; (ii) untimely posting and misapplication of borrower payments; and (iii) improperly treating borrowers as in default on their loans. While the Consolidated Complaint does not set forth any specific amounts of claimed damages, plaintiffs are not precluded from requesting leave from the court to amend the Consolidated Complaint or otherwise seeking damages should the matter proceed to trial. On April 25, 2005, the court entered an Opinion and Order granting the Bank partial summary judgment finding that, as a matter of law, the mortgage loan contracts signed by plaintiffs authorize the imposition of breach letter fees and other legitimate default or foreclosure related expenses. The court explained that its ruling was in favor of defendants to the specific and limited extent that plaintiffs' claims challenge the propriety of the above-mentioned fees. On May 16, 2006, after having denied defendants' motions to dismiss various portions of the Consolidated Complaint on federal preemption and procedural grounds, as well as our motion to dismiss OCN from the case for lack of personal jurisdiction, the court granted our motion to take an interlocutory appeal on the federal preemption issue. On July 29, 2006, the United States Court of Appeals for the Seventh Circuit granted our request to hear our appeal on the federal preemption issue.

On June 2, 2006, settlements in principle were reached with the law firms representing plaintiff-borrowers in 23 of the cases consolidated in the MDL Proceeding and in a number of similar filed and threatened cases primarily in the states of Alabama and Mississippi. None of these cases sought class certification. The settlements in principle are subject to the completion of definitive settlement and release agreements to be separately entered into with each of the individual plaintiff-borrowers involved. We cannot currently determine the ultimate outcome of the remaining cases in the MDL Proceeding or the other matters described above and have not established additional accruals in respect thereof. We believe the allegations in the MDL Proceeding are without merit and will continue to vigorously defend against them.

On November 3, 2004, the trial judge in litigation brought by Cartel Asset Management, Inc. ("Cartel") against OCN, the Bank and Ocwen Technology

Xchange, Inc. ("OTX"), a subsidiary that has been dissolved, in federal court in Denver, Colorado entered final judgment in the amount of \$520 against OTX and

nominal damages of two dollars against the Bank. In the November 3, 2004 order, the judge reduced a prior jury verdict in the amount of \$9,320 after trial on this matter involving allegations of misappropriation of trade secrets and contract-related claims brought by a former vendor. The litigation does not relate to our Residential Servicing business. Notwithstanding the nominal damage award against the Bank, it was assessed a statutory award to Cartel of attorneys' fees in an additional amount of \$170, and the Bank and OTX were further assessed costs in the amount of \$9. Cartel and defendants are pursuing cross-appeals in the United States Court of Appeals for the Tenth Circuit. We intend to continue to vigorously defend this matter.

On February 8, 2005, a jury in Circuit Court for Palm Beach County, Florida returned verdicts of \$1,000 and \$1,056 in compensatory damages in favor of two former employees of the Bank in a lawsuit against OCN and the Bank. The jury rejected plaintiffs' request for punitive damages. The plaintiffs brought claims under the Florida Civil Rights Act, the Florida Whistleblower Act and state tort law, arising out of an alleged invasion of privacy and related incidents allegedly committed by other former employees of the Bank in 1998 for which plaintiffs sought to hold the Ocwen defendants vicariously liable. We believe the verdicts, which were reduced to final judgments on May 20, 2005, as well as an additional award of \$900 in plaintiffs' attorneys' fees, are against the weight of evidence and contrary to law. We intend to continue to vigorously defend this matter and have taken an appeal to the Florida Court of Appeals.

On February 9, 2006, the County Court for Galveston County, Texas entered judgment in the amount of \$1,830 against Ocwen and in favor of a plaintiff-borrower who defaulted on a mortgage loan that we serviced. The plaintiff claimed that Ocwen's foreclosure on the loan violated the Texas Deceptive Trade Practices Act and other state statutes and common law. This judgment reduced a prior jury verdict of \$11,500. We believe the judgment, comprised of \$5 in actual damages, approximately \$675 in emotional distress, statutory and other damages and interest, and \$1,150 for attorneys' fees, is against the weight of evidence and contrary to law. We intend to continue to vigorously defend this matter and have taken an appeal to the Texas Court of Appeals.

OCN is subject to various other pending legal proceedings. In our opinion, the resolution of these proceedings will not have a material effect on our financial condition, results of operations or cash flows. We continuously monitor the status of our litigation, including advice from external legal counsel, and perform periodic assessments of our litigation for potential loss accrual and disclosure. We accrue for judgments and maintain litigation accruals when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Accordingly, in the second quarter, we increased our accrual by \$2,950, primarily in anticipation of the June 2, 2006 settlements in principle referred to above.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousand, except share data)

The following discussion of our results of operations, consolidated financial condition and capital resources and liquidity should be read in conjunction with our Selected Consolidated Financial Information, Consolidated Financial Statements and the related notes, all included elsewhere herein.

RISK FACTORS AND CRITICAL ACCOUNTING POLICIES

Risk Factors

We include a discussion of the principal risks and uncertainties that affect or could affect our business operations under Item 1A on pages 8 through 12 of our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes to this information during 2006.

Critical Accounting Policies

Our ability to measure and report our operating results and financial position is heavily influenced by the need to estimate the impact or outcome of risks in the marketplace or other future events. Our critical accounting policies are those that relate to the estimation and measurement of these risks. Because they inherently involve significant judgments and uncertainties, an understanding of these policies is fundamental to understanding Management's Discussion and Analysis of Results of Operations and Financial Condition. Our significant accounting policies are discussed in detail on pages 17 through 19 of Management's Discussion and Analysis of Results of Operations and Financial Condition and in Note 1 of our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes to this information during 2006.

Forward Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, but not limited to the following:

- o projections for growth of the residential loan servicing business and business opportunities in other core businesses;

- o assumptions related to the sources of liquidity and the adequacy of financial resources;
- o assumptions related to prepayment speeds and delinquency rates and the value of mortgage servicing rights;
- o estimates regarding interest rates and foreign currency transactions; and
- o expectations related to pending litigation.

Forward-looking statements are not guarantees of future performance, and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially. Important factors that could cause actual results to differ materially from those suggested by the forward-looking statements include, but are not limited to, the following:

- o general economic and market conditions,
- o prevailing interest or currency exchange rates,
- o availability of servicing rights for purchase,
- o governmental regulations and policies,
- o international political and economic uncertainty,
- o availability of adequate and timely sources of liquidity,
- o uncertainty related to dispute resolution and litigation, and
- o real estate market conditions and trends.

Further information on the risks specific to our business are detailed within this report and our other reports and filings with the Securities and Exchange Commission, including our periodic report on Form 10-K for the year ended December 31, 2005, Form 10-Q for the quarter ended March 31, 2006 and our Forms 8-K filed during 2006. The forward-looking statements speak only as of the date they are made and should not be relied upon. OCN undertakes no obligation to update or revise the forward-looking statements.

OVERVIEW

Changes in Financial Condition

| | June 30, 2006 | December 31, 2005 | Increase (Decrease) |
|---|------------------|----------------------|------------------------|
| Assets | \$ 1,659,675 | \$ 1,854,133 | \$ (194,458) |
| Liabilities | 1,141,346 | 1,504,873 | (363,527) |
| Minority interest in subsidiaries | 1,892 | 1,853 | 39 |
| Stockholder's equity | 516,437 | 347,407 | 169,030 |

- o The \$194,458 decrease in total assets is primarily due to a \$510,186 reduction in loans held for resale, largely reflecting two securitization transactions that closed during the first six months of the year. This reduction was partially offset by a \$151,030 increase in net deferred tax assets, a \$124,277 increase in cash and investment grade securities and a \$27,144 increase in subordinate and residual securities. The increase in deferred tax assets, net, resulted primarily from the reversal of \$145,211 of valuation allowances in the second quarter.
- o The \$363,527 decrease in total liabilities is largely the result of a \$438,613 decline in amounts due under lines of credit and other secured borrowings, primarily reflecting reduced funding requirements on the lower balance of loans held for resale. At June 30, 2006 we had \$215,161 of unused stated borrowing capacity on our existing credit facilities.
- o The \$169,030 increase in stockholder's equity is primarily due to net income of \$175,619 partially offset by the repurchase of 1,000,000 shares of common stock.

Results of Operations

| For the periods ended June 30, | Three Months | | Favorable (Unfavorable) | Six Months | | Favorable (Unfavorable) |
|----------------------------------|--------------|-----------|----------------------------|------------|------------|----------------------------|
| | 2006 | 2005 | | 2006 | 2005 | |
| Revenue | \$ 105,136 | \$ 92,015 | \$ 13,121 | \$ 207,586 | \$ 183,503 | \$ 24,083 |
| Operating expenses | 84,414 | 86,049 | 1,635 | 171,728 | 170,738 | (990) |
| Other income (expense), net | (3,328) | (793) | (2,535) | 2,994 | (4,655) | 7,649 |
| Income before income taxes | 17,394 | 5,173 | 12,221 | 38,852 | 8,110 | 30,742 |
| Income tax expense (benefit) ... | (141,692) | 2,265 | 143,957 | (136,767) | 2,815 | 139,582 |
| Net income | \$ 159,086 | \$ 2,908 | \$ 156,178 | \$ 175,619 | \$ 5,295 | \$ 170,324 |
| Earnings per share: | | | | | | |
| Basic | \$ 2.53 | \$ 0.05 | \$ 2.48 | \$ 2.79 | \$ 0.08 | \$ 2.71 |
| Diluted | \$ 2.23 | \$ 0.05 | \$ 2.18 | \$ 2.47 | \$ 0.08 | \$ 2.39 |

- o The improvement in revenue primarily reflects increased revenue from the Residential Servicing segment due to higher servicing fees on a larger servicing portfolio and the positive impact of rising short-term interest rates on revenue from custodial accounts ("float earnings").
- o Income before income taxes in 2006 primarily reflects the continued strong performance of our Residential Servicing segment. Pre-tax income of this segment was \$18,148 and \$36,016 for the second quarter and first six months of 2006, respectively, as compared to \$2,600 and \$5,547 for the same periods of 2005. This improvement is due to higher revenues, as discussed above, and a reduction in total operating expenses, including a reduction in interest paid to investors related to loan pay-offs. All of our other segments were profitable in the second quarter of 2006 except for Residential Origination Services, which incurred a pre-tax loss of \$(2,083), although year to date results are profitable with pre-tax income of \$2,940. The loss for the quarter primarily relates to loan securitization and origination activities, which are profitable year to date.
- o The net tax benefit for the 2006 periods includes the reversal of \$145,211 of deferred tax asset valuation allowances during the second quarter to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods.

We provide additional financial information and discuss our segment results in the following section.

SEGMENTS

We are reviewing our business segment reporting structure based on the evolving alignment of our business activities and may elect to modify our reporting segments in the future. The following section provides a discussion of the changes in financial condition of our business segments during the six months ended June 30, 2006 and a discussion of pre-tax results of operations of our business segments for the three and six-month periods ended June 30, 2006 and 2005.

The following table presents the assets and liabilities of each of our business segments at June 30, 2006:

| | Residential Servicing | Commercial Servicing | Ocwen Recovery Group | Residential Origination Services | Business Process Outsourcing | Corporate Items and Other | Business Segments Consolidated |
|---------------------------------|--------------------------|-------------------------|----------------------------|--|------------------------------------|---------------------------------|--------------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Assets | | | | | | | |
| Cash | \$ -- | \$ 3,694 | \$ -- | \$ 361 | \$ -- | \$ 189,074 | \$ 193,129 |
| Trading securities: | | | | | | | |
| Investment grade | -- | -- | -- | -- | -- | 202,444 | 202,444 |
| Subordinates and residuals .. | -- | -- | -- | 56,631 | -- | 790 | 57,421 |
| Loans held for resale | -- | -- | -- | 114,485 | -- | -- | 114,485 |
| Advances | 258,989 | 156 | -- | 3,712 | -- | 1,106 | 263,963 |
| Match funded advances | 351,593 | -- | -- | -- | -- | -- | 351,593 |
| Mortgage servicing rights | 149,498 | 2,003 | -- | -- | -- | -- | 151,501 |
| Receivables | 23,999 | 3,153 | 791 | 9,662 | 2,004 | 21,129 | 60,738 |
| Deferred tax asset, net | -- | -- | -- | -- | -- | 171,300 | 171,300 |
| Premises and equipment | 1,568 | 226 | 75 | 1,115 | 4 | 34,458 | 37,446 |
| Other assets | 19,062 | 230 | 8 | 3,747 | -- | 32,608 | 55,655 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total assets | \$ 804,709 | \$ 9,462 | \$ 874 | \$ 189,713 | \$ 2,008 | \$ 652,909 | \$ 1,659,675 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Liabilities | | | | | | | |
| Match funded liabilities | \$ 313,963 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ 313,963 |
| Servicer liabilities | 395,936 | -- | -- | -- | -- | -- | 395,936 |
| Lines of credit and other | | | | | | | |
| secured borrowings | 103,528 | -- | -- | 69,826 | -- | 14,481 | 187,835 |
| Debt securities | -- | -- | -- | -- | -- | 150,329 | 150,329 |
| Other liabilities | 41,767 | 3,207 | 2,444 | 3,559 | 135 | 42,171 | 93,283 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total liabilities | \$ 855,194 | \$ 3,207 | \$ 2,444 | \$ 73,385 | \$ 135 | \$ 206,981 | \$ 1,141,346 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The following tables present the pre-tax statements of operations for each of our business segments for the six months ended June 30, 2006:

| | Residential Servicing | Commercial Servicing | Ocwen Recovery Group | Residential Origination Services | Business Process Outsourcing | Corporate Items and Other | Business Segments Consolidated |
|---|--------------------------|-------------------------|----------------------------|--|------------------------------------|---------------------------------|--------------------------------------|
| Revenue | | | | | | | |
| Servicing and subservicing fees | \$ 155,733 | \$ 3,079 | \$ 4,057 | \$ 315 | \$ -- | \$ (327) | \$ 162,857 |
| Process management fees | 4,032 | 2 | -- | 28,507 | 5,379 | 228 | 38,149 |
| Other revenues | 3,146 | 3,118 | -- | 184 | -- | 133 | 6,580 |
| Total revenue | 162,911 | 6,199 | 4,057 | 29,006 | 5,379 | 34 | 207,586 |
| Operating expenses | | | | | | | |
| Compensation and benefits | 15,447 | 3,066 | 1,869 | 12,204 | 2,314 | 12,807 | 47,707 |
| Amortization of servicing rights | 53,938 | 14 | -- | -- | -- | -- | 53,952 |
| Servicing and origination | 12,752 | 14 | 206 | 12,932 | -- | -- | 25,904 |
| Technology and communications | 10,352 | 967 | 822 | 3,897 | 1,062 | (4,427) | 12,673 |
| Professional services | 8,048 | 353 | 88 | 3,036 | 9 | 3,865 | 15,399 |
| Occupancy and equipment | 5,401 | 322 | 511 | 1,323 | 278 | 1,964 | 9,799 |
| Other operating expenses | 8,350 | 898 | 1,065 | 4,918 | 1,025 | (9,962) | 6,294 |
| Total operating expenses ... | 114,288 | 5,634 | 4,561 | 38,310 | 4,688 | 4,247 | 171,728 |
| Other income (expense) | | | | | | | |
| Interest income | 262 | 18 | -- | 20,075 | -- | 4,056 | 24,411 |
| Interest expense | (13,111) | (7) | (4) | (12,246) | (17) | (1,931) | (27,316) |
| Gain (loss) on trading securities | -- | -- | -- | 1,910 | -- | (583) | 1,327 |
| Gain (loss) on loans held for resale, net | -- | -- | -- | (1,221) | -- | -- | (1,221) |
| Other, net | 242 | (29) | 278 | 3,726 | -- | 1,576 | 5,793 |
| Other income (expense), net | (12,607) | (18) | 274 | 12,244 | (17) | 3,118 | 2,994 |
| Pre tax income (loss) | \$ 36,016 | \$ 547 | \$ (230) | \$ 2,940 | \$ 674 | \$ (1,095) | \$ 38,852 |

Residential Servicing

The following table sets forth information regarding residential loans and real estate serviced for others:

| | Loans (1)(2)(3) | | Real Estate | | Total (4) | |
|----------------------|-----------------|---------|--------------|--------|---------------|---------|
| | Amount | Count | Amount | Count | Amount | Count |
| June 30, 2006: | | | | | | |
| Performing | \$ 40,341,746 | 332,879 | \$ -- | -- | \$ 40,341,746 | 332,879 |
| Non-Performing | 5,510,538 | 57,030 | 1,234,812 | 13,947 | 6,745,350 | 70,977 |
| | \$ 45,852,284 | 389,909 | \$ 1,234,812 | 13,947 | \$ 47,087,096 | 403,856 |
| December 31, 2005: | | | | | | |
| Performing | \$ 36,532,664 | 297,649 | \$ -- | -- | \$ 36,532,664 | 297,649 |
| Non-performing | 5,125,116 | 57,420 | 1,121,268 | 13,733 | 6,246,384 | 71,153 |
| | \$ 41,657,780 | 355,069 | \$ 1,121,268 | 13,733 | \$ 42,779,048 | 368,802 |

- At June 30, 2006 we serviced 289,312 subprime loans with a total unpaid principal balance of \$ 37,751,125 as compared to 304,234 subprime loans with an unpaid principal balance of \$37,429,090 at December 31, 2005. Subprime loans represent residential loans we service that were made to borrowers who generally did not qualify under guidelines of Fannie Mae and Freddie Mac ("nonconforming loans").
- Non-performing loans have been delinquent for 90 days or more. Performing loans are current or have been delinquent for less than 90 days.
- We serviced under subservicing contracts 124,565 residential loans with an unpaid principal balance of \$12,520,215 as of June 30, 2006. This compares to 105,873 residential loans with an unpaid principal balance of \$10,983,237 serviced under subservicing contracts at December 31, 2005.
- At June 30, 2005, we serviced a total of 346,708 assets with an unpaid principal balance of \$38,662,177. The average unpaid principal balance serviced was \$46,257,247 and \$44,647,625 for the three and six months ended June 30, 2006, respectively, as compared to \$37,624,152 and \$37,210,939 for the same periods of 2005.

The following table sets forth information regarding the changes in our portfolio of residential assets serviced for others:

| For the six months ended June 30, | Amount | | Count | |
|---|---------------|---------------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Servicing portfolio at beginning of period | \$ 42,779,048 | 34,524,491 | 368,802 | 320,185 |
| Additions | 18,004,632 | 18,198,257 | 136,257 | 130,164 |
| Less: Runoff | (13,696,584) | (14,060,571) | (101,203) | (103,641) |
| Servicing portfolio at end of period | \$ 47,087,096 | \$ 38,662,177 | 403,856 | 346,708 |

Additions primarily represent servicing purchased from the owners of the mortgages, servicing retained in connection with the securitization of our own loans and servicing obtained by entering into subservicing agreements with other entities that own the servicing rights.

Comparative selected balance sheet data is as follows:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Total assets | \$ 804,709 | \$ 783,560 |
| Advances | 258,989 | 215,207 |
| Match funded advances | 351,593 | 377,105 |
| Mortgage servicing rights | 149,498 | 148,663 |
| Receivables | 23,999 | 23,323 |
| Total liabilities | \$ 855,194 | \$ 745,760 |
| Match funded liabilities | 313,963 | 339,292 |
| Servicer liabilities | 395,936 | 298,892 |
| Lines of credit and other secured borrowings | 103,528 | 81,218 |

Advances. During any period in which the borrower is not making payments, we are required under certain servicing agreements to advance our own funds to meet contractual principal and interest remittance requirements for investors, pay property taxes and insurance premiums and process foreclosures. Advances on loans serviced for others consist of the following:

| | June 30, 2006 | December 31, 2005 |
|------------------------------|------------------|----------------------|
| Principal and interest | \$ 67,132 | \$ 40,201 |
| Taxes and insurance | 92,875 | 98,331 |
| Other | 98,982 | 76,675 |
| | \$ 258,989 | \$ 215,207 |

We are entitled to recover advances from borrowers for reinstated and performing loans and from investors for foreclosed loans. We record a charge to earnings to the extent that advances are uncollectible under provisions of the servicing contracts, taking into consideration historical loss and delinquency experience, length of delinquency and the amount of the advance. Advances on loans serviced for others are net of reserves of \$490 and \$570 as of June 30, 2006 and December 31, 2005, respectively.

Match Funded Advances. Match funded advances consist of the following:

| | June 30, 2006 | December 31, 2005 |
|------------------------------|------------------|----------------------|
| Principal and interest | \$ 148,787 | \$ 174,252 |
| Taxes and insurance | 125,799 | 129,700 |
| Other | 77,007 | 73,153 |
| | \$ 351,593 | \$ 377,105 |

Match funded advances on loans serviced for others resulted from our transfers of residential loan servicing related advances to third parties in exchange for cash. We retain control of the advances, and therefore the transfers do not qualify as sales for accounting purposes. As a result, we report the amount of proceeds received from the transfers as secured borrowings with a pledge of collateral (match funded liabilities). Match funded advances are owned by special purpose entities and are, therefore, not available to satisfy general claims of creditors.

Mortgage Servicing Rights. The unamortized balance of mortgage servicing rights is primarily related to subprime residential loans. Mortgage servicing rights increased by \$835 during the first six months of 2006 as purchases were slightly higher than amortization.

| | | |
|---|----|----------|
| Balance at December 31, 2005 | \$ | 148,663 |
| Purchases | | 50,689 |
| Retained from the securitization of loans | | 4,084 |
| Amortization | | (53,938) |
| | | ----- |
| Balance at June 30, 2006 | \$ | 149,498 |
| | | ===== |

We purchase servicing rights from the owners of the mortgages or retain them in connection with the securitization of our own loans. At June 30, 2006 we serviced loans under 459 servicing agreements for 30 investors. This compares to 466 servicing agreements for 22 investors at December 31, 2005.

Receivables. Receivables related to the Residential Servicing business include \$8,547 and \$15,674 at June 30, 2006 and December 31, 2005, respectively, representing fees earned from the servicing of loans and real estate. The remaining balance consists principally of reimbursable expenses due from loan servicing investors. The total balance of receivables for this segment is net of reserves of \$5,710 and \$6,509 at June 30, 2006 and December 31, 2005, respectively.

Match Funded Liabilities. Match funded liabilities are obligations secured by the collateral underlying the related match funded assets, and are repaid through the cash proceeds arising from those assets. We account for and report match funded liabilities as secured borrowings with pledges of collateral. We are currently negotiating enhanced funding provisions and other revisions to one of our match funded agreements. If these revisions are approved, future transfers of advances under this facility may qualify as sales for accounting purposes, which would result in a loss, although such a change would also eliminate the interest expense we currently record related to these transactions.

| Collateral | Interest Rate | Unused Borrowing Capacity | Balance Outstanding | |
|--------------|----------------------------------|---------------------------------|---------------------|----------------------|
| | | | June 30, 2006 | December 31, 2005 |
| Advances (1) | See (1) below | \$ 54,743 | \$ 220,257 | \$ 238,943 |
| Advances (2) | 1-Month LIBOR + 175 basis points | 31,294 | 93,706 | 100,349 |
| | | \$ 86,037 | \$ 313,963 | \$ 339,292 |
| | | ===== | ===== | ===== |

(1) In November 2004, we executed a servicing advance securitization. This transaction involved the issuance of a term note for \$100,000 and a one-year variable funding note for a maximum of \$75,000. On March 31, 2005, we executed an indenture supplement to the November 2004 securitization with a closing date of April 6, 2005. This supplement included the issuance of a second term note for \$75,000. In addition, the maximum amount of the variable funding note was increased to \$100,000. The original term note bears interest at LIBOR plus 50 basis points, and the second term note bears interest at LIBOR plus 40 basis points. The variable funding note bears interest at a commercial paper rate plus a margin. This rate approximates LIBOR plus 50 basis points. The original term note under this facility has a stated maturity of October 2013, and the second term note has a stated maturity of March 2014. The variable funding note has a stated maturity of November 2011. The 1-Month LIBOR was 5.33% and 4.39% at June 30, 2006 and December 31, 2005, respectively.

(2) Under the terms of the agreement, we are eligible to finance additional advances on loans serviced for others up to a maximum balance of \$125,000. This facility will mature in January 2007.

Servicer Liabilities. Servicer liabilities represent amounts that we have collected, primarily from Residential Servicing borrowers, that will be deposited in custodial accounts and excluded from our balance sheet, paid directly to an investment trust or refunded to borrowers. The principal components of servicer liabilities are as follows:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| | ----- | ----- |
| Borrower payments due to custodial accounts | \$ 323,071 | \$ 225,862 |
| Escrow payments due to custodial accounts | 8,563 | 22,573 |
| Partial payments and other unapplied balances | 64,302 | 50,457 |
| | ----- | ----- |
| | \$ 395,936 | \$ 298,892 |
| | ===== | ===== |

Lines of Credit and Other Secured Borrowings. Secured line of credit arrangements are as follows:

| Borrowing Type | Interest Rate | Maturity | Unused Borrowing Capacity | Balance Outstanding | |
|-------------------------------------|---|-----------------|---------------------------------|---------------------|-------------------|
| | | | | June 30, 2006 | December 31, 2005 |
| Senior secured credit agreement (1) | 1-Month LIBOR + 162.5 or 225 basis points | August 2006 (2) | \$ 36,472 | \$ 103,528 | \$ 81,218 |

(1) Secured by mortgage servicing rights and advances on loans serviced for others. Borrowing secured by mortgage servicing rights is at LIBOR plus 225 basis points. Borrowing secured by advances is at LIBOR plus 162.5 basis points. The interest rate may be reduced to 1.625% or 2.25% to the extent that we have available balances on deposit with the lender.

(2) The lenders agreed to extend the maturity of this facility from June 30, 2006 to August 31, 2006. We are currently negotiating to renew and increase the size of this facility and expect to complete these negotiations before the current maturity date.

Comparative selected operations data is as follows:

| For the periods ended June 30, | Three months | | Six months | |
|--|--------------|------------|-------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income | \$ 18,148 | \$ 2,600 | \$ 36,016 | \$ 5,547 |
| Revenue: | | | | |
| Servicing and subservicing fees | \$ 79,720 | \$ 65,736 | \$ 155,733 | \$ 131,254 |
| Process management fees | 1,964 | 1,753 | 4,032 | 3,841 |
| Other | 1,285 | 970 | 3,146 | 1,811 |
| Total revenue | \$ 82,969 | \$ 68,459 | \$ 162,911 | \$ 136,906 |
| Operating expenses: | | | | |
| Compensation and benefits | \$ 7,602 | \$ 9,117 | \$ 15,447 | \$ 19,027 |
| Amortization of servicing rights | 27,649 | 24,930 | 53,938 | 50,045 |
| Servicing and origination | 6,641 | 9,271 | 12,752 | 18,133 |
| Technology and communications | 5,376 | 5,948 | 10,352 | 12,018 |
| Professional services | 4,999 | 3,687 | 8,048 | 6,371 |
| Occupancy and equipment | 2,710 | 2,645 | 5,401 | 4,851 |
| Other | 3,681 | 5,046 | 8,350 | 11,595 |
| Total operating expenses | \$ 58,658 | \$ 60,644 | \$ 114,288 | \$ 122,040 |
| Other income (expense): | | | | |
| Interest income | \$ 145 | \$ 77 | \$ 262 | \$ 143 |
| Interest expense | (6,549) | (5,284) | (13,111) | (9,456) |
| Other | 241 | (8) | 242 | (6) |
| Total other income (expense) | \$ (6,163) | \$ (5,215) | \$ (12,607) | \$ (9,319) |

Servicing and Subservicing Fees. The principal components of servicing and subservicing fees are provided in the table below:

| For the periods ended June 30, | Three months | | Six months | |
|--|--------------|-----------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Servicing and subservicing fees | \$ 50,247 | \$ 44,143 | \$ 100,511 | \$ 87,650 |
| Late charges | 9,096 | 8,624 | 18,287 | 17,750 |
| Revenue from custodial accounts (float earnings) | 13,113 | 6,558 | 21,935 | 13,065 |
| Prepayment and collection related fees | 2,424 | 2,217 | 4,891 | 4,442 |
| Other fees | 4,840 | 4,194 | 10,109 | 8,347 |
| | \$ 79,720 | \$ 65,736 | \$ 155,733 | \$ 131,254 |

The increase in servicing and subservicing fees in the 2006 periods as compared to the same periods of 2005 is primarily due to the increase in the average balance of loans serviced. Total servicing and subservicing fees for the three and six months ended June 30, 2006 increased by 21% and 19%, respectively, as compared to the same periods of 2005. The increase in the average balance is due to growth in the loan servicing portfolio and reduced run-off of the existing portfolio due to slower prepayment speeds. The average balance of assets serviced during the three and six months ended June 30, 2006 increased by 23% and 20%, respectively, as compared to the 2005 periods. Second quarter and year to date 2006 prepayment speeds averaged 30%. This compares to an average of

40% and 38% in the second quarter and year to date periods of 2005. The decline in mortgage prepayment speeds is largely due to rising mortgage interest rates and a leveling off of the gains in housing values.

Increases in short-term interest rates have had a positive impact on float earnings. Although the average balance of funds that we have received from borrowers but which are held in custodial accounts until remitted to investors has declined in the 2006 periods, the average yield we earned on these funds increased. The following table summarizes information regarding float earnings:

| For the periods ended June 30, | Three months | | Six months | |
|--|--------------|--------------|------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Average custodial account balances | \$ 1,004,300 | \$ 1,270,400 | \$ 994,397 | \$ 1,140,200 |
| Float earnings | \$ 13,113 | \$ 6,558 | \$ 21,935 | \$ 13,065 |
| Annualized yield | 5.22% | 2.06% | 4.41% | 2.29% |

Custodial accounts are excluded from our balance sheet. The decline in the average balance in the 2006 periods is primarily due to a decline in mortgage prepayment speeds offset by the increase in the average balance of loans serviced. The underlying servicing agreements restrict the investment of float balances to certain types of instruments. We are responsible for any losses incurred on the investment of these funds.

Compensation and Benefits Expense. The decrease in compensation expense and benefits in the second quarter and first six months of 2006 as compared to the same periods of 2005 has occurred primarily due to a decline in the average number of employees in the U.S. as a result of cost reduction initiatives put in place in 2005, including a greater utilization of the lower cost workforce in India. Although average employment in India increased in the 2006 periods, total average employment declined, and the ratio of India employment to total employment increased as compared to the 2005 periods.

Average employment in the Residential Servicing segment is as follows:

| For the periods ended June 30, | Three months | | Six months | |
|--------------------------------|--------------|-------|------------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| India | 978 | 958 | 946 | 920 |
| United States | 418 | 536 | 430 | 573 |
| | 1,396 | 1,494 | 1,376 | 1,493 |
| | ===== | ===== | ===== | ===== |

Amortization of Servicing Rights. Amortization expense for the second quarter 2006 increased by \$2,719, or 11%, as compared to the second quarter of 2005. Year to date, amortization expense for 2006 increased by \$3,893, or 8%, as compared to 2005. This increase in amortization expense in the 2006 periods is due to an increase in our investment in mortgage servicing rights, offset by a reduction in the rate of amortization primarily as a result of slower mortgage prepayment speeds.

Servicing and Origination Expenses. The principal components of servicing and origination expenses are as follows:

| For the periods ended June 30, | Three months | | Six months | |
|-------------------------------------|--------------|----------|------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Compensating interest expense | \$ 3,645 | \$ 6,158 | \$ 6,660 | \$ 11,814 |
| Satisfaction expense | 1,358 | 1,779 | 2,954 | 3,299 |
| Other | 1,638 | 1,334 | 3,138 | 3,020 |
| | \$ 6,641 | \$ 9,271 | \$ 12,752 | \$ 18,133 |
| | ===== | ===== | ===== | ===== |

The primary reason for the decline in compensating interest expense in the second quarter and first six months of 2006 as compared to the same periods of 2005 is a shift towards a higher percentage of loans serviced under a mid-month structure versus a calendar month structure. Under a calendar month structure, compensating interest is paid to the securitization trust for a full month of interest on all loans that prepay during the month, whereas under a mid-month structure we are not obligated to pay the compensating interest on prepayments that occur during the first half of the month. The decline in compensating interest expense attributed to slower prepayment speeds experienced in 2006 has been largely offset by an increase in the average size of the loan servicing portfolio during that same period.

Professional Services Expenses. Professional services expense for the 2006 periods includes a provision of \$2,950 recorded in the second quarter to increase litigation accruals related to ongoing cases. This increase in litigation accruals is primarily related to settlements in principle that were reached on June 2, 2006 with the law firms representing plaintiff-borrowers in 23 of the cases consolidated in the MDL Proceeding and in a number of similar filed and threatened cases primarily in the states of Alabama and Mississippi. None of these cases sought class certification. The settlements in principle are subject to the completion of definitive settlement and release agreements to be

separately entered into with each of the individual plaintiff-borrowers involved.

Other Operating Expenses. Other consists primarily of overhead allocation charges and bad debt expense. The decrease in other operating expenses in the 2006 periods is due in large part to a decline in bad debt expense. Bad debt expense amounted to \$(59) and \$825 in the second quarter of 2006 and 2005, respectively. Year to date, bad debt expense amounted to \$202 and \$2,951 during 2006 and 2005, respectively. The higher bad debt expense in 2005 was primarily the result of providing for aged reimbursable expenses.

Interest Expense. The increase in interest expense in the 2006 periods primarily reflects an increase in financing costs associated with our servicing advances that is largely due to higher interest rates.

Commercial Servicing

Comparative selected balance sheet data is as follows:

| | June 30, 2006 | December 31, 2005 |
|---------------------------------|------------------|----------------------|
| Total assets | \$ 9,462 | \$ 6,433 |
| Cash | 3,694 | 3,057 |
| Mortgage servicing rights | 2,003 | -- |
| Receivables | 3,153 | 2,508 |
| Total liabilities | \$ 3,207 | \$ 3,220 |

Mortgage Servicing Rights. On June 20, 2006, our GSS Canada operations acquired the rights to service 75 commercial loans with an unpaid principal balance of \$531,079.

Comparative selected operations data is as follows:

| | Three months | | Six months | |
|---------------------------------------|--------------|----------|------------|----------|
| For the periods ended June 30, | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income | \$ 282 | \$ 335 | \$ 547 | \$ 356 |
| Revenue: | | | | |
| Servicing and subservicing fees | \$ 1,071 | \$ 2,708 | \$ 3,079 | \$ 5,795 |
| Other | 2,013 | 1,850 | 3,120 | 3,204 |
| Total revenue | \$ 3,084 | \$ 4,558 | \$ 6,199 | \$ 8,999 |
| Operating expenses | \$ 2,784 | \$ 4,025 | \$ 5,634 | \$ 8,398 |

The following table sets forth information regarding commercial loans and real estate serviced for others:

| | Loans | | Real Estate | | Total | |
|----------------------|--------------|-------|-------------|-------|--------------|-------|
| | Amount | Count | Amount | Count | Amount | Count |
| June 30, 2006: | | | | | | |
| Performing | \$ 2,727,569 | 348 | \$ -- | -- | \$ 2,727,569 | 348 |
| Non-performing | 304,140 | 372 | 7,427 | 2 | 311,567 | 374 |
| | \$ 3,031,709 | 720 | \$ 7,427 | 2 | \$ 3,039,136 | 722 |
| December 31, 2005: | | | | | | |
| Performing | \$ 1,389,787 | 300 | \$ -- | -- | \$ 1,389,787 | 300 |
| Non-performing | 193,635 | 274 | 56,719 | 69 | 250,354 | 343 |
| | \$ 1,583,422 | 574 | \$ 56,719 | 69 | \$ 1,640,141 | 643 |

At June 30, 2006, our international offices serviced a total of 508 loans with an unpaid principal balance of \$2,766,700. This compares to 272 loans with an unpaid principal balance of \$1,269,796 serviced at December 31, 2005. The increase in loans serviced by our international offices in 2006 is primarily attributed to our GSS Germany operations, which commenced servicing loans in late 2005. Loans serviced by our GSS Canada operations also increased in 2006 as a result of the acquisition of servicing rights discussed above.

Servicing Fees. The principal components of servicing and subservicing fees are as follows:

| | Three months | | Six months | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| For the periods ended June 30, | 2006 | 2005 | 2006 | 2005 |
| International servicing fees | \$ 565 | \$ 1,942 | \$ 1,963 | \$ 3,673 |
| Domestic servicing fees | 506 | 766 | 1,116 | 2,122 |
| | <u>\$ 1,071</u> | <u>\$ 2,708</u> | <u>\$ 3,079</u> | <u>\$ 5,795</u> |

The decline in international servicing fees in the 2006 periods primarily reflects the sale of our Japan operations in December 2005 partially offset by an increase in servicing fees earned by our GSS Germany and GSS Canada operations. Servicing fees earned by our GSS Japan operations were \$1,690 and \$3,009 for the three and six months ended June 30, 2005, respectively. The decline in domestic servicing fees in 2006 is primarily due to a decline in asset resolution fees.

Operating Expenses. The decline in operating expenses in the 2006 periods is primarily due to the sale of our GSS Japan operations in December 2005. Operating expenses of the GSS Japan subsidiaries that we sold were \$1,083 and \$2,017 for the three and six months ended June 30, 2005, respectively.

Ocwen Recovery Group

Comparative selected operations data is as follows:

| | Three months | | Six months | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| For the periods ended June 30, | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income (loss) | \$ 120 | \$ 244 | \$ (230) | \$ 749 |
| Revenue: | | | | |
| Servicing fees: | | | | |
| Third-party collections | \$ 1,707 | \$ 2,912 | \$ 3,640 | \$ 6,374 |
| Proprietary collections | 149 | 362 | 417 | 712 |
| Total revenue | <u>\$ 1,856</u> | <u>\$ 3,274</u> | <u>\$ 4,057</u> | <u>\$ 7,086</u> |
| Operating expenses | \$ 1,928 | \$ 3,057 | \$ 4,561 | \$ 6,454 |

The decline in revenue in the 2006 periods reflects an ongoing shift in revenue from a maturing portfolio of higher margin proprietary assets to lower yielding third-party contracts. The decrease in operating expenses in 2006 is largely the result of ongoing process improvements, technology enhancements and a greater utilization of lower cost resources in India.

Residential Origination Services

Comparative selected balance sheet data is as follows:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Total assets | \$ 189,713 | \$ 679,432 |
| Subordinate and residual trading securities | 56,631 | 27,023 |
| Loans held for resale | 114,485 | 624,671 |
| Receivables | 9,662 | 18,497 |
| Total liabilities | \$ 73,385 | \$ 538,226 |
| Lines of credit and other secured borrowings | 69,826 | 530,569 |

Trading Securities. During the first six months of 2006, trading securities increased by \$29,608 largely due to residual securities with a fair value of \$18,919 at June 30, 2006 that were retained in connection with the first and second quarter loan securitizations. We also acquired residual and subordinate securities with a fair value of \$11,053 during the second quarter of 2006. In addition to providing various mortgage due diligence and loan origination services, our strategy in this business includes the targeted acquisition of residual securities. We acquire residual securities directly from third parties or retain them in connection with loan securitization transactions.

Subordinate and residual securities do not have a contractual maturity but are paid down over time as cash distributions are received. The weighted average remaining life of these securities was 3.54 years at June 30, 2006. The anticipated effective yield to maturity as of June 30, 2006 based on the purchase price, actual cash flows received to date and the current estimate of future cash flows under the pricing assumptions at June 30, 2006 was 22.94%. The original anticipated effective yield to maturity based on the purchase price and

anticipated future cash flows under pricing assumptions at the time of purchase was 17.87%. Differences in the June 30, 2006 anticipated yield to maturity from that originally anticipated are due to differences between estimated cash flows and actual cash flows. Each quarter, we update the assumptions used to estimate future cash flows based on the actual results to date. The primary assumptions include prepayment speeds, loss rates and the discount rate. The mortgages that underlie our residential trading unrated subprime subordinate and residual securities amounted to \$1,201,917 at June 30, 2006 and are secured by properties located in 50 states, one U.S. territory and the UK. The largest aggregate value of mortgages in any one state, territory or foreign country is \$172,278 in Florida.

Loans Held for Resale. Loans held for resale represent single-family residential loans originated or acquired by our Residential Origination Services segment that we intend to sell or securitize. The \$510,186 decline in loans held for resale during the first six months of 2006 is primarily due to the first quarter securitization of loans with a carrying value of \$428,168 that we had acquired during the fourth quarter of 2005. During the second quarter of 2006, we also completed the securitization of loans with a carrying value of \$214,522 that we had acquired primarily during the first quarter of 2006. The aggregate balances related to our other loan refinancing, origination and sale programs have also declined during 2006. Loans held for resale are carried at the lower of cost or market value and were comprised of the following at June 30, 2006:

- o Loans with a carrying value of \$79,148, net of a market valuation reserve of \$185, originated in connection with our subprime origination operations.
- o Loans with a carrying value of \$22,293 originated in response to requests from Residential Servicing customers to refinance their mortgages. Only loans with sales commitments prior to closing are originated under this program. Of the loans outstanding at June 30, 2006, nearly all were sold in July 2006.
- o Loans with a carrying value of \$13,044, net of a market valuation reserve of \$4,481, acquired as a part of our securitization activities. Loans with a carrying value of \$10,996 were acquired during the third quarter of 2005. The remaining loans were acquired during the second quarter of 2006. The carrying value at June 30, 2006 includes \$9,206 of non-performing loans.

Receivables. The \$8,835 decrease in receivables during the first six months of 2006 is primarily due to the collection of interest and other amounts related to loans held for resale, the balance of which has declined significantly since the end of the year, as discussed above.

Lines of Credit and Other Secured Borrowings. Lines of credit and other secured borrowings, which are secured by residential mortgage loans unless otherwise noted, are as follows:

| Borrowing Type | Interest Rate | Maturity | Unused Borrowing Capacity | Balance Outstanding at | |
|---|---|---------------|---------------------------------|------------------------|----------------------|
| | | | | June 30, 2006 | December 31, 2005 |
| Repurchase agreement (1) | 1-Month LIBOR + 75 | March 2006 | \$ -- | \$ -- | \$ 459,400 |
| Repurchase agreement (2) | Overnight LIBOR + 80 - 110 basis points | June 2007 | 68,178 | 6,822 | -- |
| Repurchase agreement | 1-Month LIBOR + 50 bps | February 2007 | 2,746 | 7,254 | -- |
| Repurchase agreement (3) | 1-month LIBOR +125 bps | April 2036 | N/A | 2,477 | -- |
| Master loan and security agreement (4) | 1-Month LIBOR + 55 or 355 to 1005 basis points | June 2007 | 21,728 | 53,272 | 71,169 |
| | | | \$ 92,652 | \$ 69,825 | \$ 530,569 |

- (1) This agreement matured on March 31, 2006 and was not extended. The loans we acquired in the fourth quarter of 2005 were funded through a transaction involving the sale of loans under this agreement to repurchase, which we accounted for as a collateralized financing. The loans were securitized in the first quarter of 2006, and the outstanding balance was repaid.
- (2) The interest rate on this agreement varies based on the type of loan sold. The size of this facility has been reduced to \$75,000, and the maturity date has been extended to June 29, 2007. Overnight LIBOR was 5.37% at June 30, 2006.
- (3) This agreement has no stated credit limit. Lending is determined for each transaction based on the acceptability of the securities presented as collateral.
- (4) We, together with two consolidated VIEs, one of which is now consolidated as a majority-owned subsidiary, entered into this agreement on October 11, 2005 and borrowings under this agreement are secured by mortgage loans. We can borrow up to 100% of the principal balance of the mortgage loans or 98% of the market value of the loans whichever is lower. Borrowing up to 90% of the unpaid principal balance of the loans or 88.2% of the market value of the loans bears interest at LIBOR plus 55 basis points. Borrowing above this level bears interest at LIBOR plus 355 to 1005 basis points, depending on the type of loan. Subsequently, the remaining VIE was removed from this facility, and the maximum amount of the facility was reduced to \$75,000.

Comparative selected operations data is as follows:

| For the periods ended June 30, | Three months | | Six months | |
|---|--------------|-----------|------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income (loss) | \$ (2,083) | \$ 1,724 | \$ 2,940 | \$ 4,558 |
| Revenue: | | | | |
| Process management fees | \$ 14,019 | \$ 12,833 | \$ 28,507 | \$ 25,103 |
| Other | 412 | 37 | 499 | 34 |
| Total revenue | \$ 14,431 | \$ 12,870 | \$ 29,006 | \$ 25,137 |
| Operating expenses: | | | | |
| Compensation and benefits | \$ 4,938 | \$ 2,747 | \$ 12,204 | \$ 5,421 |
| Servicing and origination | 5,978 | 5,740 | 12,932 | 10,702 |
| Technology and communications | 2,163 | 2,000 | 3,897 | 3,342 |
| Professional services | 703 | 265 | 3,036 | 407 |
| Occupancy and equipment | 716 | 449 | 1,323 | 785 |
| Other | 3,053 | 2,058 | 4,918 | 3,683 |
| Total operating expenses | \$ 17,551 | \$ 13,259 | \$ 38,310 | \$ 24,340 |
| Other income (expense): | | | | |
| Interest income: | | | | |
| Subordinate and residual trading securities | \$ 3,410 | \$ 3,301 | \$ 6,199 | \$ 6,755 |
| Loans held for resale | 875 | 4 | 13,668 | 9 |
| Other | 92 | 2 | 208 | 4 |
| Total interest income | 4,377 | 3,307 | 20,075 | 6,768 |
| Interest expense | (2,164) | (416) | (12,246) | (918) |
| Gain (loss) on trading securities | 1,774 | (1,380) | 1,910 | (2,708) |
| Gain (loss) on loans held for resale, net | (3,437) | -- | (1,221) | -- |
| Other, net | 487 | 602 | 3,726 | 619 |
| Total other income (expense) | \$ 1,037 | \$ 2,113 | \$ 12,244 | \$ 3,761 |

Process Management Fees. The principal components of process management fees are:

| For the periods ended June 30, | Three months | | Six months | |
|-----------------------------------|--------------|-----------|------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Property valuation fees | \$ 6,163 | \$ 7,497 | \$ 13,245 | \$ 14,302 |
| Mortgage due diligence fees | 2,681 | 2,176 | 5,450 | 3,989 |
| Loan refinancing fees | 2,232 | 1,294 | 4,468 | 2,557 |
| Other | 2,943 | 1,866 | 5,344 | 4,255 |
| | \$ 14,019 | \$ 12,833 | \$ 28,507 | \$ 25,103 |

Other process management fees primarily includes title service and other fees earned from vendors in the REALTrans network.

Compensation and Benefits Expense. Compensation and benefits expense for the 2006 periods include a VIE that we began consolidating as of the end of 2005. This entity is a small start-up subprime loan originator that commenced operations in July 2005. During the second quarter of 2006, our voting interest in this VIE exceeded 50%, and it is now consolidated as a majority-owned subsidiary. Compensation and benefits expense related to this entity amounted to \$1,198 and \$4,065 for the second quarter and first six months of 2006, respectively. In addition, compensation and benefit expenses associated with the mortgage fulfillment center and due diligence operation we acquired in December 2004 increased by \$1,279 and \$3,255 in the three and six month periods ended June 30, 2006, respectively, as compared to the same periods of the prior year. This increase is primarily due to increased staffing as a result of building capacity in this business.

Servicing and Origination Expenses. Servicing and origination expenses consist primarily of fees incurred in connection with the residential property valuation services that we provided. These fees amounted to \$3,868 and \$4,931 during the second quarter of 2006 and 2005, respectively. Year to date, such fees amounted to \$8,181 and \$8,985 during 2006 and 2005, respectively. Servicing and origination expenses also include expenses related to loan refinancing, title services and the subprime originations VIE that we began consolidating as of the end of 2005.

Professional Services Expenses. The increase in professional services in the 2006 periods is primarily due to underwriting fees and other direct costs incurred in connection with the two loan securitization transactions.

Interest Income. The increase in interest income in the second quarter and first six months of 2006 as compared to the same periods of 2005 is largely due to an increase in the average balance of loans held for resale, primarily as a result of acquisitions during the fourth quarter of 2005 and the first quarter of 2006. The consolidation of the subprime originations VIE as of the end of 2005 also contributed to the increase.

Interest Expense. The increase in interest expense in the second quarter and first six months of 2006 as compared to the same periods of 2005 reflects the additional funding requirements as a result of the increase in the average balance of loans held for resale. The increase is also partially attributed to the consolidation of the subprime originations VIE as of the end of 2005.

Gain (Loss) on Trading Securities. The net gains in the 2006 periods include unrealized gains of \$3,402 and \$2,606 during the second quarter and first six months, respectively, on subordinate and residual securities acquired or retained in connection with securitization transactions. These gains were partly offset by unrealized losses of \$(1,026) and \$(1,873) for the same periods, on unrated subprime residual securities backed by loans originated in the U.K. The net losses on trading securities in the 2005 periods represent unrealized losses on unrated subprime residual securities, primarily those backed by loans originated in the UK. A decline in cash flows from the UK securities as they mature has resulted in reduced interest income and a decline in fair value.

Gain (Loss) on Loans Held for Resale, Net. The components of gain (loss) on loans held for resale, net, are:

| For the periods ended June 30, | Three months | | Six months | |
|--|-------------------|--------------|-------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Gain (loss) on sales and securitizations | \$ (1,977) | \$ -- | \$ 1,128 | \$ -- |
| Valuation losses | (1,460) | -- | (2,349) | -- |
| | <u>\$ (3,437)</u> | <u>\$ --</u> | <u>\$ (1,221)</u> | <u>\$ --</u> |
| | ===== | ===== | ===== | ===== |

During the second quarter, we recorded a loss of \$(2,294) on the securitization of \$214,522 of loans, the majority of which we had acquired during the first quarter of 2006. A gain of \$3,105 was recognized in the first quarter on the securitization of loans with a carrying value of \$428,168 that we had acquired during the fourth quarter of 2005. We determine the gain by allocating the carrying value of the loans between loans sold and the interests retained, based on their relative estimated fair values. The gain on sale that we report represents the difference between the cash proceeds from the sale and the cost allocated to the loans sold. In connection with these securitizations, we retained the mortgage servicing rights and the residual securities. Valuation losses represent charges that we recorded to reduce loans held for resale to market value.

Other, Net. Other income for the second quarter and first six months of 2006 includes \$1,251 and \$2,898, respectively, of net realized and unrealized gains related to Eurodollar interest rate futures contracts.

Business Process Outsourcing

Comparative selected operations data is as follows:

| For the periods ended June 30, | Three months | | Six months | |
|--------------------------------|--------------|--------|------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income (loss) | \$ 686 | \$ 264 | \$ 674 | \$ 362 |
| Process management fees | 2,656 | 2,858 | 5,379 | 5,443 |
| Operating expenses | 1,963 | 2,575 | 4,688 | 5,030 |

The decline in process management fee revenue in the 2006 periods reflects the loss of a client due to a merger during the first quarter of 2006. Operating expenses have also declined in the 2006 periods, primarily as a result of cost reduction efforts initiated during the second quarter of 2006.

Corporate Items and Other

Comparative selected balance sheet data is as follows:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Total assets | \$ 652,909 | \$ 382,513 |
| Cash | 189,074 | 264,373 |
| Trading securities | 203,234 | 4,939 |
| Receivables | 21,129 | 21,891 |
| Deferred tax assets, net | 171,300 | 20,270 |
| Premises and equipment, net | 34,458 | 37,227 |
| Other assets | 32,608 | 32,716 |
| Total liabilities | \$ 206,981 | \$ 214,894 |
| Lines of credit and other secured borrowings | 14,482 | 14,661 |
| Debt securities | 150,329 | 154,329 |
| Other liabilities | 42,171 | 45,904 |

Trading Securities. The fair value of our trading securities in the Corporate Items and Other segment is as follows:

| | June 30, 2006 | December 31, 2005 |
|------------------------------|------------------|----------------------|
| Investment grade securities: | | |
| Commercial paper | \$ 121,232 | \$ -- |
| Investment funds | 73,389 | -- |
| Other | 7,823 | 1,685 |
| | 202,444 | 1,685 |
| Subordinates | 790 | 3,254 |
| | \$ 203,234 | \$ 4,939 |
| | ===== | ===== |

Receivables. Receivables in this segment consist of the following:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Amounts due from sales of affordable housing properties | \$ 12,783 | \$ 13,160 |
| Security deposits | 3,698 | 3,678 |
| Other | 4,648 | 5,053 |
| | \$ 21,129 | \$ 21,891 |
| | ===== | ===== |

Payments to be received in future years (through June 2014) from the sale of investments in affordable housing properties are net of unaccreted discounts of \$1,187 and \$1,530 and reserves for doubtful accounts of \$6,531 and \$6,150 at June 30, 2006 and December 31, 2005, respectively. Our final sale of an affordable housing limited partnership investment occurred during 2005.

Deferred tax assets, net. The \$151,030 increase in deferred tax assets, net, in 2006 is primarily due to the reversal of \$145,211 of valuation allowances during the second quarter. This reversal was recorded as an income tax benefit. Based on our positive earnings trend in recent periods and a more stable outlook for future taxable income, we determined that it was appropriate to reverse this portion of the deferred tax asset valuation allowance in order to increase the net deferred tax asset to the amount that we are more likely than not to realize in future periods. In addition, \$4,794 of capital losses expired which resulted in equal and offsetting declines in both the gross deferred tax asset and valuation allowance but had no impact on the net deferred tax asset balance. Deferred tax assets are net of valuation allowances totaling \$13,797 and \$163,802 at June 30, 2006 and December 31, 2005, respectively. See Note 6 to our Interim Consolidated Financial Statements.

Other Assets. Other assets held by this segment are comprised of the following:

| | June 30, 2006 | December 31, 2005 |
|--|------------------|----------------------|
| Interest earning collateral deposits | \$ 15,344 | \$ 15,164 |
| Deferred debt-related issuance costs | 4,213 | 4,755 |
| Goodwill and intangibles | 5,435 | 5,435 |
| Real estate | 3,382 | 4,062 |
| Prepaid expenses | 2,945 | 2,390 |
| Other | 1,289 | 910 |
| | <u>\$ 32,608</u> | <u>\$ 32,716</u> |
| | ===== | ===== |

Interest earning collateral deposits at both June 30, 2006 and December 31, 2005 include \$8,912 of deposits that were required in order to obtain surety bonds for affordable housing properties that we sold before the end of the fifteen-year tax credit amortization period and on which we have previously claimed tax credits on our income tax returns. Interest earning collateral deposit balances also include a \$5,000 cash collateral account required under the Guaranty we entered into in connection with debanking.

Lines of Credit and Other Secured Borrowings. Lines of credit and other secured borrowings in this segment represent a mortgage note collateralized by our loan servicing call center located in Orlando, Florida. This note has a fixed interest rate of 5.62% and matures in October 2014.

Debt Securities. Debt securities consist of the following:

| | June 30, 2006 | December 31, 2005 |
|---|-------------------|----------------------|
| 3.25% Contingent Convertible Senior Unsecured Notes due August 1, 2024 | \$ 96,900 | \$ 100,900 |
| 10.875% Capital Securities due August 1, 2027 | 53,429 | 53,429 |
| | <u>\$ 150,329</u> | <u>\$ 154,329</u> |
| | ===== | ===== |

The Convertible Notes declined by \$4,000 during 2006 as a result of repurchases during the first quarter that generated total gains of \$25, net of the write-off of unamortized issuance costs.

Other Liabilities. Other liabilities in this segment consist primarily of accruals for incentive compensation awards, audit fees, legal fees and settlements, interest on debt securities and other operating expenses. Other liabilities also include funds of third parties held on deposit by BOK.

Comparative selected operations data is as follows:

| For the periods ended June 30 | Three months | | Six months | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Pre-tax income (loss) | \$ 241 | \$ 6 | \$ (1,095) | \$ (3,462) |
| Revenue | \$ 140 | \$ (4) | \$ 34 | \$ (68) |
| Operating expenses | \$ 1,530 | \$ 2,489 | \$ 4,247 | \$ 4,476 |
| Other income (expense), net: | | | | |
| Interest income | \$ 1,764 | \$ 3,236 | \$ 4,056 | \$ 6,036 |
| Interest expense | (1,347) | (3,201) | (1,931) | (6,887) |
| Gain (loss) on trading securities | (74) | 111 | (583) | 41 |
| Other, net | 1,288 | 2,353 | 1,576 | 1,892 |
| Total other income (expense) | <u>\$ 1,631</u> | <u>\$ 2,499</u> | <u>\$ 3,118</u> | <u>\$ 1,082</u> |
| | ===== | ===== | ===== | ===== |

Operating Expenses. Operating expenses for the quarter ended June 30, 2006 and 2005 include \$1,301 and \$1,271, respectively, of expenses associated with business activities that are individually insignificant, primarily Affordable Housing, Commercial Assets and BOK. Year to date, the expenses associated with these business activities were \$2,633 and \$2,575 for 2006 and 2005, respectively.

Interest Income. The decline in interest income in the second quarter and first six months of 2006 as compared to the same periods of 2005 reflects a decline in cash, investment grade securities and other short-term investments after debanking, offset in part by an increase in interest income on a commercial unrated subordinate security arising out of a cash distribution in the first quarter of 2006.

Interest Expense. The decline in interest expense in the second quarter and first six months of 2006 as compared to the same periods of 2005 is partly due to a decline in interest expense on debt securities as a result of repurchases during the third and fourth quarters of 2005. Also, interest expense for the second quarter and first six months of 2005 included \$1,256 and \$2,915, respectively, on customer deposits prior to debanking. We retained a greater amount of interest expense in the Corporate Items and Other segment in the first six months of 2005, reflecting the high cash balances that we were holding in preparation for debanking.

Gain (Loss) on Trading Securities. The losses in the 2006 periods primarily reflect a decline in the fair value of a commercial unrated subordinate security as a result of a large cash distribution received in the first quarter of 2006. This distribution also resulted in an increase in interest income as previously disclosed.

Other, net. The 2006 periods include a gain of \$1,261 from the sale of a land parcel during the second quarter that had a carrying value of \$844. The 2005 periods include a gain of \$1,750 we recognized in the second quarter in connection with the assumption by Marathon of our customer deposit liabilities on June 30, 2005, as part of debanking.

MINORITY INTEREST IN SUBSIDIARY

Minority interest of \$1,892 and \$1,853 at June 30, 2006 and December 31, 2005, respectively, primarily represents the investment in GSS by Merrill Lynch, which owns 30% of GSS.

STOCKHOLDER'S EQUITY

Stockholders' equity amounted to \$516,437 at June 30, 2006 as compared to \$347,407 at December 31, 2005. The \$169,030 increase in stockholders' equity during first six months of 2006 was primarily due to net income of \$175,619 and the issuance of 294,107 shares of common stock to employees as a result of the exercise of stock options and the vesting of stock awards, offset in part by the repurchase of 1,000,000 shares for \$11,000.

Information regarding purchases of our common stock during the six months ended June 30, 2006 is as follows:

| Period | Number of shares | Average Share Price paid | Total number of shares purchased as part of publicly announced plans | Maximum number of shares that may yet be purchased under the plans |
|----------------|------------------|--------------------------|--|--|
| May 1 - May 31 | 1,001,259 | \$ 11.00 | -- | 5,568,900 |

A total of 1,000,000 shares were purchased on May 9, 2006 from a corporation controlled by a member of OCN's Board of Directors at a price of \$11.00 per share. As disclosed in Note 3 to the Interim Consolidated Financial Statements, we also purchased a total of 1,259 fractional shares on May 12, 2006 at a cost of \$11.29 per share in connection with the Reverse/Forward Split. Our ability to repurchase shares of our common stock is restricted under the terms of the Guaranty that we entered into with the OTS in connection with debanking.

INCOME TAX EXPENSE (BENEFIT)

The following table provides details of our income tax expense (benefit) for the periods indicated:

| For the periods ended June 30, | Three months | | Six months | |
|--|---------------------|-----------------|---------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Income tax expense (benefit) on income before taxes | \$ 3,519 | \$ 1,141 | \$ 8,444 | \$ 1,691 |
| Provision for (reversal of) valuation allowance on deferred tax assets ... | (145,211) | (843) | (145,211) | (843) |
| Provision for recapture of base year bad debt reserves | -- | 1,967 | -- | 1,967 |
| Total income tax expense (benefit) | <u>\$ (141,692)</u> | <u>\$ 2,265</u> | <u>\$ (136,767)</u> | <u>\$ 2,815</u> |

As disclosed in Note 6 to our Interim Consolidated Financial Statements, we reversed \$145,211 of valuation allowances on our deferred tax assets during the second quarter of 2006 in order to increase the net deferred tax asset to the amount that is more likely than not to be realized in future periods. Our determination that it was appropriate to reverse the valuation allowances in the second quarter of 2006 was primarily based on a positive trend in our recent earnings history and a more positive outlook for future earnings.

In the second quarter of 2005, we recorded a one-time provision of \$1,967 (\$1,124 net of a related reversal of the valuation allowance on the deferred tax asset) to recognize a deferred tax liability arising from the recapture of bad debt reserves in connection with our termination of the Bank's status as a federal savings bank.

Income tax expense on income before income taxes differs from amounts that would be computed by applying the Federal corporate income tax rate of 35% primarily because of the effect of foreign taxes, foreign income with an indefinite deferral from U.S. taxation, losses from consolidated VIEs, state taxes, low-income housing tax credits and changes in the deferred tax valuation allowance. Excluding the effect of the reversal of valuation allowances on deferred tax assets in the second quarter of 2006, our effective tax rate was 21.73% for the first six months of 2006. Excluding the effect of the one-time provision for the recapture of bad debt reserves in the second quarter of 2005, our effective tax rate was 20.85% for the first six months of 2005. We estimate our effective tax rate based on projected full-year results, and we revise the estimate quarterly during the year.

LIQUIDITY, COMMITMENTS AND OFF-BALANCE SHEET RISKS

Liquidity

Our primary sources of funds for liquidity are:

- o Lines of credit and other secured borrowings
- o Match funded liabilities
- o Debt securities
- o Servicing fees
- o Payments received on trading securities
- o Interest payments on and proceeds from sales of loans

We closely monitor our liquidity position and ongoing funding requirements. At June 30, 2006, we had \$191,919 of unrestricted cash, which represented 12% of total assets. We also had \$202,444 of investment grade securities at June 30, 2006. Total cash and investment grade securities comprised 24% of total assets at June 30, 2006. Under certain of our credit facilities, we are required to maintain minimum liquidity levels. Among the risks and challenges associated with our funding activities are the following:

- o Cash requirements to fund our acquisition of additional servicing rights and related advances and to fund existing operations and growth in other core business lines.
- o The maturity of existing lines of credit and other secured borrowings at various dates through June 2007, subject to the renewals of these agreements. We had an aggregate balance of \$170,876 outstanding under these agreements at June 30, 2006.

Our credit facilities are summarized as follows:

| | Maturity | Unused Borrowing Capacity | Balance Outstanding June 30, 2006 |
|-----------------------------------|-----------------------|---------------------------|-----------------------------------|
| | ----- | ----- | ----- |
| Residential Servicing: | | | |
| Match funded liability | Nov. 2011 - Mar. 2014 | \$ 54,743 | \$ 220,257 |
| Match funded liability | Jan. 2007 | 31,294 | 93,706 |
| Secured line of credit | Aug. 2006 | 36,472 | 103,528 |
| | | ----- | ----- |
| | | 122,509 | 417,491 |
| | | ----- | ----- |
| Residential Origination Services: | | | |
| Repurchase agreement | Jun. 2007 | 68,178 | 6,822 |
| Repurchase agreement | Feb. 2007 | 2,746 | 7,254 |
| Repurchase agreement | Apr. 2036 | N/A | 2,477 |
| Secured line of credit | Jun. 2007 | 21,728 | 53,272 |
| | | ----- | ----- |
| | | 92,652 | 69,825 |
| | | ----- | ----- |
| Corporate Items and Other: | | | |
| Mortgage | Oct. 2014 | -- | 14,482 |
| Convertible Notes | Aug. 2024 | -- | 96,900 |
| Capital Securities | Aug. 2027 | -- | 53,429 |
| | | ----- | ----- |
| | | -- | 164,811 |
| | | ----- | ----- |
| | | \$ 215,161 | \$ 652,127 |
| | | ===== | ===== |

We grow our Residential Servicing business primarily through the purchase of servicing rights or by entering into subservicing agreements. Servicing rights entitle us as the owner to earn servicing fees and other types of ancillary income, but they also impose on us various obligations as the servicer. Among these are the obligations to advance our own funds to meet contractual principal and interest payments for certain investors and to pay taxes, insurance and various other items that are required to preserve the assets being serviced.

Our ability to expand our Residential Servicing business depends in part on our ability to obtain additional financing to purchase new servicing rights and to fund servicing advances. We currently use a variety of sources of debt to finance these assets, including match funded agreements, credit facilities and seller financing. Our credit facilities provide funds to us in amounts that are less than the full value of the related servicing assets that serve as collateral for the credit facilities. If we cannot replace or renew these sources as they mature or obtain additional sources of financing, we may be unable to acquire new servicing rights or make the associated advances.

We believe that our existing sources of liquidity, including internally generated funds, will be adequate to fund planned activities, although there can be no assurances in this regard. At June 30, 2006, we had \$215,161 of unused stated borrowing capacity under existing credit agreements. We continue to evaluate other sources of liquidity, such as debt securities, lines of credit from unaffiliated parties, match funded debt and other secured borrowings. We are examining all of our asset classes to identify additional funding opportunities. This includes receivables, the balance of which amounted to \$60,738 at June 30, 2006. We are also examining opportunities to obtain additional funding on loans held for resale during the holding period and to increase financing on our servicing rights and advances.

Our operating activities provided \$480,392 and \$152,702 of cash flows during the six months ended June 30, 2006 and 2005, respectively. The increase in net cash flows provided by operating activities primarily reflects a significant decline in loans held for resale as a result of sales and securitizations during the first six months of 2006. During the first six months of 2006, proceeds from sales and securitizations of loans held for resale exceeded purchases and originations during the period by \$458,895. Also, \$48,630 of principal payments were received on loans held for resale during the first six months of 2006. During the first six months of 2005 purchases and originations exceeded sales and securitizations by \$6,279. Although net income for 2006 increased by \$170,324, it includes a tax benefit of \$136,767 primarily reflecting the reversal of \$145,211 of deferred tax asset valuation allowances, a non-cash item.

Our investing activities used cash flows totaling \$52,666 and \$52,719 during the six months ended June 30, 2006 and 2005, respectively. Although purchases of premises and equipment declined in the first six months of 2006 as compared to the same period in 2005, the impact on cash flow was largely offset by the effect on 2005 cash flow of the cash received from the sale of a subsidiary.

Our financing activities used cash flows of \$504,208 and \$332,641 during the six months ended June 30, 2006 and 2005, respectively. Cash flows used by financing activities in the first six months of 2006 primarily reflect a net decrease in collateralized borrowing agreements used to finance loans held for resale. Net repayments of lines of credit and other secured borrowings amounted to \$465,296 during the first six months of 2006 as compared to net proceeds from borrowings of \$1,913 for the same periods of 2005. Cash flows used by financing activities during the first six months of 2005 primarily reflect a decline in deposits as a result of maturing certificates of deposit prior to debanking and the cash payment to Marathon in connection with their assumption of our customer deposits on June 30, 2005.

Commitments

We believe that we have adequate resources to fund all unfunded commitments to the extent required and meet all contractual obligations as they come due. Such contractual obligations include our Convertible Notes, Capital Trust Securities, lines of credit and other secured borrowings and operating leases. See Note 9 to the Interim Consolidated Financial Statements for additional information regarding commitments and contingencies.

Off-Balance Sheet Risks

As of June 30, 2006 we had outstanding commitments to fund mortgage loans of \$52,764 and outstanding commitments to sell \$22,293 of our loans held for resale.

In addition to commitments to extend credit, we are party to various off-balance sheet financial instruments in the normal course of our business to manage our interest rate risk and foreign currency exchange rate risk. We have also committed to fund operating cash deficits of certain affordable housing properties that we have sold.

We conduct business with a variety of financial institutions and other companies in the normal course of business, including counterparties to our off-balance sheet financial instruments. We are subject to potential financial loss if the counterparty is unable to complete an agreed upon transaction. We seek to limit counterparty risk through financial analysis, dollar limits and other monitoring procedures.

RECENT ACCOUNTING DEVELOPMENTS

During the first quarter of 2006, we adopted SFAS No. 123(R), "Share-Based Payment", however it did not have a material effect on our consolidated financial statements. For additional information regarding recent accounting pronouncements, see Note 2 to the Interim Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk includes interest rate risk, foreign currency exchange rate risk and liquidity risk. We are exposed to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or different bases, than our interest-earning assets. We are exposed to foreign currency exchange rate risk in connection with our investment in non-U.S. dollar functional currency operations and to the extent our foreign exchange positions remain unhedged. Market risk also reflects the risk of declines in the valuation of trading securities, mortgage servicing rights and in the value of the collateral underlying loans.

We are also exposed to liquidity risk primarily because of the highly variable daily cash requirements to support the Residential Servicing business including acquisitions of mortgage servicing rights, the requirement to make advances pursuant to servicing contracts and the process of remitting borrower payments to the custodial accounts. In general, we finance our operations through operating cash flows and various other sources including long-term debt and financing facilities. See "Liquidity, Commitments and Off-Balance Sheet Risks" for additional discussion regarding liquidity.

The primary risk associated with mortgage servicing rights is that they will lose a portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates or because of higher than anticipated delinquency rates occasioned by deteriorating credit conditions. Interest rates, prepayment speeds and the payment performance of the underlying loans significantly affect both our initial and ongoing valuations and the rate of amortization of mortgage servicing rights. As of June 30, 2006, the carrying value and estimated fair value of our residential mortgage servicing rights were \$149,498 and \$220,476, respectively.

Our Residential Servicing business is characterized by non-interest earning assets financed by interest-bearing liabilities. Among the more significant non-interest earning assets are servicing advances and mortgage servicing rights. At June 30, 2006, we had residential servicing advances of \$610,852 consisting of advances on loans serviced for others of \$258,989 and match funded advances on loans serviced for others of \$351,593.

We are also exposed to interest rate risk because earnings on our residential servicing float balances are affected by short-term interest rates. These float balances, which are not included in our financial statements, amounted to \$671,579 at June 30, 2006. We report these earnings as a component of servicing and subservicing fees.

At June 30, 2006, the combined balance of our match funded liabilities, debt securities, lines of credit and other secured borrowings totaled \$652,127. Of this amount \$487,317 was variable rate debt, for which debt service costs are sensitive to changes in interest rates, and \$164,810 was fixed rate debt.

Our balance sheet at June 30, 2006 included interest-earning assets totaling \$425,715, including \$114,485 of loans held for resale.

Impact of Changes in Interest Rates on the Net Value of Interest Rate-Sensitive Financial Instruments

We perform an interest rate sensitivity analysis of our mortgage servicing rights portfolio every quarter. We currently estimate that the fair value of the portfolio increases or decreases by approximately 2% for every 50 basis point (bp) increase or decrease in interest rates. This sensitivity analysis is limited in that it was performed at a particular point in time; only contemplates certain movements in interest rates; does not incorporate changes in interest rate volatility; is subject to the accuracy of various assumptions used, including prepayment forecasts and discount rates; and does not incorporate other factors that would impact our overall financial performance in such scenarios. We carry mortgage servicing rights at the lower of amortized cost or fair value by strata. To the extent that fair value were to decline below amortized cost, we would record an impairment charge to earnings and establish a valuation allowance. A subsequent increase in fair value could result in the recovery of some or all of a previously established valuation allowance. However, an increase in fair value of a particular stratum above its amortized cost would not be reflected in current earnings. For these reasons, this interest rate sensitivity estimate should not be viewed as an earnings forecast.

Our Investment Management Committee is authorized to utilize a wide variety of off-balance sheet financial techniques to assist it in the management of interest rate risk and foreign currency exchange rate risk. These techniques include interest rate exchange contracts or "swap" agreements, interest rate caps and floors, U.S. Treasury interest rate futures contracts, Eurodollar futures contracts, foreign currency futures contracts, foreign currency forwards and European swaptions and put options.

We have entered into foreign currency futures to hedge our net investment in the foreign subsidiary that owns our UK subprime residual securities. The notional amount of these futures was (pound)12,875 (\$23,796) at June 30, 2006. Our principal exposure to foreign currency exchange rates exists with the British Pound versus the U.S. dollar. Our operations in India and the foreign operations of GSS and BOK also expose us to foreign currency exchange rate risk. However, this risk is insignificant.

We have also entered into Eurodollar interest rate futures to hedge our exposure to interest rate risk represented by our loans held for resale prior to their sale or securitization. The notional amount of these futures was \$1,154,000 at June 30, 2006.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act) as of June 30, 2006. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2006 our disclosure controls and procedures (1) were designed to ensure that material information relating to OCN, including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) were operating effectively, in that they provide reasonable assurance that information required to be disclosed by OCN in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the fiscal quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See "Note 9 Commitments and Contingencies" of the Interim Consolidated Financial Statements for information regarding legal proceedings.

ITEM 1A. RISK FACTORS

See our discussion of risk factors on page 17 of "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

At our Annual Meeting of Shareholders held on May 4, 2006, the following individuals were elected to the Board of Directors of OCN:

| | Votes For | Votes Withheld |
|-----------------------|------------|----------------|
| William C. Erbey..... | 55,496,275 | 335,945 |
| Ronald M. Faris..... | 55,448,845 | 383,375 |
| Martha C. Goss..... | 55,534,441 | 297,779 |
| Ronald J. Korn..... | 55,534,441 | 297,779 |
| William H. Lacy..... | 55,534,541 | 297,679 |
| W. Michael Linn..... | 53,498,694 | 2,333,526 |
| W.C. Martin..... | 55,533,541 | 298,679 |
| Barry N. Wish..... | 53,491,386 | 2,340,834 |

Additionally, amendments to our Amended and Restated Articles of Incorporation to provide for a one-for-ten (1-for-10) reverse stock split immediately followed by a ten-for-one (10-for-1) forward stock split of the issued and outstanding shares of our common stock was voted on and approved by the shareholders as follows:

| | |
|--------------------|------------|
| Votes for..... | 49,297,560 |
| Votes against..... | 10,604 |
| Abstentions..... | 11,444 |

Ratification of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2006 was also voted on and approved by the shareholders as follows:

| | |
|--------------------|------------|
| Votes for..... | 55,812,466 |
| Votes against..... | 11,127 |
| Abstentions..... | 8,627 |

ITEM 6. EXHIBITS

- (3) Exhibits. (Exhibits marked with a " * " denote management contracts or compensatory plans or agreements)
- 2.1 Agreement of Merger dated as of July 25, 1999 among Ocwen Financial Corporation, Ocwen Asset Investment Corp. and Ocwen Acquisition Company (1)
 - 2.2 Stock Purchase Agreement dated as of May 23, 2006 by and among Bankruptcy Management Solutions, Inc., Its Stockholders and Warrant Holder, and BMS Holdings, Inc. (filed herewith)
 - 2.3 Amendment No. 1 dated July 31, 2006 to the Stock Purchase Agreement by and among Bankruptcy Management Solutions, Inc., Its Stockholders and Warrant Holder, and BMS Holdings, Inc. (filed herewith). The company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.
 - 3.1 Amended and Restated Articles of Incorporation (2)
 - 3.2 Amended and Restated Bylaws (3)
 - 4.0 Form of Certificate of Common Stock (2)
 - 4.1 Certificate of Trust of Ocwen Capital Trust I (4)
 - 4.2 Amended and Restated Declaration of Trust of Ocwen Capital Trust I (4)
 - 4.3 Form of Capital Security of Ocwen Capital Trust I (included in Exhibit 4.4) (4)
 - 4.4 Form of Indenture relating to 10.875% Junior Subordinated Debentures due 2027 of OCN (4)
 - 4.5 Form of 10.875% Junior Subordinated Debentures due 2027 of OCN (included in Exhibit 4.6) (4)
 - 4.6 Form of Guarantee of OCN relating to the Capital Securities of Ocwen Capital Trust I (4)
 - 4.7 Registration Rights Agreement dated as of July 28, 2004, between OCN and Jeffries & Company Inc. (5)
 - 4.8 Indenture dated as of July 28, 2004, between OCN and the Bank of New York Trust Company, N.A., as trustee (5)
 - 10.1* Ocwen Financial Corporation 1996 Stock Plan for Directors, as amended (6)
 - 10.2* Ocwen Financial Corporation 1998 Annual Incentive Plan (7)
 - 10.3 Compensation and Indemnification Agreement, dated as of May 6, 1999, between OAC and the independent committee of the Board of Directors (8)
 - 10.4 Indemnity agreement, dated August 24, 1999, among OCN and OAC's directors (9)
 - 10.5* Amended Ocwen Financial Corporation 1991 Non-Qualified Stock Option Plan, dated October 26, 1999 (9)
 - 10.6 First Amendment to Agreement, dated March 30, 2000 between HCT Investments, Inc. and OAIC Partnership I, LP (9)
 - 10.7* Ocwen Financial Corporation Deferral Plan for Directors, dated March 7, 2005 (10)
 - 10.8 Collateral Trust Agreement, dated June 28, 2005, between OCN and the Bank of New York Trust Company, N.A. (11)
 - 10.9 Guaranty, dated June 28, 2005, from OCN to the Guaranteed Parties (11)
 - 10.10 Cash Collateral Agreement, dated June 28, 2005, among OCN, Bank of New York Trust Company, N.A. as collateral Trustee and Bank of New York Trust Company, N.A. as Account Bank (11)
 - 10.11 Stock Purchase Agreement, dated May 5, 2006, between Wishco, Inc. and OCN (12)
 - 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
 - 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

- (1) Incorporated by reference from a similarly described exhibit included with the Registrant's Current Report on Form 8-K filed with the Commission on July 26, 1999.
- (2) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-1 (File No. 333-5153) as amended, declared effective by the commission on September 25, 1996.
- (3) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.
- (4) Incorporated by reference from the similarly described exhibit filed in connection with our Registration Statement on Form S-1 (File No. 333-28889), as amended, declared effective by the Commission on August 6, 1997.
- (5) Incorporated by reference from the similarly described exhibit included with Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004.
- (6) Incorporated by reference from the similarly described exhibit filed in connection with the Registrant's Registration Statement on Form S-8 (File No. 333-44999), effective when filed with the Commission on January 28, 1998.
- (7) Incorporated by reference from the similarly described exhibit to our definitive Proxy Statement with respect to our 1998 Annual Meeting of Shareholders as filed with the Commission on March 31, 1998.

- (8) Incorporated by reference from OAC's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.
- (9) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.
- (10) Incorporated by reference from the similarly described exhibit included with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.
- (11) Incorporated by reference from the similarly described exhibit included with the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005.
- (12) Incorporated by reference from the similarly described exhibit included with the Registrant's Form 8-K filed with the Commission on May 11, 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OCWEN FINANCIAL CORPORATION

By: /s/ DAVID J. GUNTER

David J. Gunter, Senior Vice President
& Chief Financial Officer
(On behalf of the Registrant and as
its principal financial officer)

Date: August 9, 2006

STOCK PURCHASE AGREEMENT

by and among

BANKRUPTCY MANAGEMENT SOLUTIONS, INC.,

its STOCKHOLDERS and WARRANT HOLDER,

and

BMS HOLDINGS, INC.

May 23, 2006

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EXHIBITS

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Exhibit C - Form of Kirkland & Ellis LLP Opinion
Exhibit D - Form of FIRPTA Certificate
Exhibit E - Form Trustee Agreements
Exhibit F - Form of Goodwin Procter LLP Opinion

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement"), dated May 23, 2006, is made by and among BMS Holdings, Inc., a Delaware corporation ("Buyer"), Bankruptcy Management Solutions, Inc., a Delaware corporation (the "Company"), the Persons indicated on Schedule I attached hereto as holding Shares (the "Stockholders") and the Person indicated on Schedule I attached hereto as holding Warrants (the "Warrant Holder" and, together with the Stockholders, "Sellers" and each individually a "Seller"), and Lincolnshire Equity Fund II, L.P., a Delaware limited partnership ("LEF II"), solely with respect to Sections 2.05, 9.02 and 9.04 hereof. Each of Charlesbank Equity Fund VI, Limited Partnership and Ocwen Financial Corporation (each, a "Guarantor") is executing this document solely as guarantor of the obligations of Buyer as provided in Section 13.16 below. Capitalized terms used and not otherwise defined herein have the meanings set forth in Article I.

WHEREAS, as of the date hereof (i) the Stockholders own all of the issued and outstanding shares of capital stock of the Company (the "Shares"), and (ii) the Warrant Holder owns all of the issued and outstanding warrants to acquire shares of capital stock of the Company (the "Warrants"); and

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, Buyer desires to purchase from the Stockholders, and the Stockholders desire to sell to Buyer, all of the Shares; and

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, Buyer desires that any Warrants not exercised on or prior to the Closing be canceled, and the Warrant Holder agrees to cancel such Warrants, in exchange for the consideration specified herein.

NOW, THEREFORE, in consideration of the premises, representations and warranties and mutual covenants contained herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.01 Definitions.

For purposes hereof, the following capitalized terms shall have the respective meanings set forth in this Article I:

"30-day Revenue Target" means an amount equal to sum of the Revenue for each day during the 30-day period ending on and including the Closing Date.

"Accountants" has the meaning set forth in Section 2.05(b).

"Accounting Principles" means the principles, policies, procedures, practices, applications and methodologies used in preparing the Most Recent Balance Sheet.

"Adjustment Amount" means the net amount of all sums that are an increase or decrease to the Estimated Adjusted Purchase Price pursuant to Section 2.05(a) calculated using the final Closing Statement as provided in Section 2.05(b).

"Affiliate" of any particular Person means any other Person controlling, controlled by or under common control with such particular Person. For the purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person whether through contract, the ownership of voting securities or otherwise.

"Affiliated Group" shall mean an affiliated group as defined in Section 1504 of the Code (or any analogous combined, consolidated or unitary group defined under state, local or non-U.S. income tax law) of which the Company is or has been a member.

"Agreement" has the meaning set forth in the preamble hereto.

"Base Purchase Price" has the meaning set forth in Section 2.03(a).

"BMS LLC" has the meaning set forth in Section 11.01.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which commercial banks are required or authorized by applicable Law to be closed in New York, New York or Irvine, California.

"Buyer" has the meaning set forth in the preamble hereto.

"Buyer Adjustment Amount" has the meaning set forth in Section 2.05(c).

"Buyer Causes of Action" has the meaning set forth in Section 12.05.

"Buyer Indemnified Parties" has the meaning set forth in Section 9.02(a).

"Buyer Released Parties" has the meaning set forth in Section 12.05.

"Cap" has the meaning set forth in Section 9.04(b).

"Cash" means cash and cash equivalents (including marketable securities and short-term investments) calculated in accordance with GAAP.

"Class B Common Shares" has the meaning set forth in Section 5.02(a).

"Class C Common Shares" has the meaning set forth in Section 5.02(a).

"Closing" has the meaning set forth in Section 2.06.

"Closing Balance Sheet" has the meaning set forth in Section 2.05(b).

"Closing Cash Balance" means the amount of Cash held by the Company and the Company Subsidiary as of immediately prior to the Closing (but after giving effect to any payment by the Company at the Closing of (i) any Indebtedness of the Company as contemplated by Section 3.01(e), (ii) any Sale Bonus and (iii) any Closing Expenses).

"Closing Date" has the meaning set forth in Section 2.06.

"Closing Expenses" means (i) all out-of-pocket fees, costs and expenses of any Person (other than employees of the Company or the Company Subsidiary) incurred by the Company, the Company Subsidiary or any Sellers (to the extent the Company or the Company Subsidiary is responsible for payment thereof) prior to or on the Closing Date in connection with the negotiation, documentation and consummation of the transactions contemplated by this Agreement, including all legal fees and expenses of Kirkland & Ellis LLP, the fees and expenses of the Company's accountants, and any fees of Lincolnshire Management, Inc., and (ii) the fees and expenses of Credit Suisse First Boston LLC pursuant to the letter agreement referred to in Schedule 5.04.

"Closing Indebtedness" means all Indebtedness of the Company and the Company Subsidiary as of immediately prior to the Closing (but after giving effect to the payment by the Company at the Closing of any Indebtedness of the Company and the Company Subsidiary as contemplated by Section 3.01(e)).

"Closing Statement" means the statement derived from the Closing Balance Sheet, which shall set forth (i) the Closing Indebtedness, (ii) the Closing Cash Balance, (iii) the Revenue Adjustment Amount and (iv) the calculation of the Adjustment Amount based on the items described in clauses (i), (ii) and (iii) of this definition.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"COBRA" means the requirements of Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code and of any similar state Law.

"Company" has the meaning set forth in the preamble hereto.

"Company Intellectual Property Rights" has the meaning set forth in Section 5.11(b).

"Company Subsidiary" means American Debtor Education, Inc., a Delaware corporation.

"Confidentiality Agreement" has the meaning set forth in Section 7.02.

"Debt Commitment Letter" has the meaning set forth in Section 6.08.

"Deductible" has the meaning set forth in Section 9.04(b).

"Depository Agreement" means that certain Referral Fee and Deposit Services Agreement dated as of December 16, 2003, by and between the Company and the Depository Institution, as amended by Amendment No. 1 dated as of October 29, 2004 and as further amended, supplemented or modified from time to time.

"Depository Institution" means JPMorgan Chase Bank or any Affiliate of JPMorgan Chase Bank acting as the Bank (as such term is defined in the Depository Agreement) under the Depository Agreement.

"Dispute Notice" has the meaning set forth in Section 2.05(b).

"Employee Benefit Plan" means each "employee benefit plan" (as such term is defined in ERISA Section 3(3)) and each other material benefit plan, program, policy or arrangement which the Company or the Company Subsidiary maintains, sponsors or contributes to.

"Environmental, Health, and Safety Requirements" shall mean all federal, state, local, and foreign statutes, regulations, ordinances, and other provisions having the force or effect of law, and all judicial and administrative orders and determinations, concerning occupational health and safety, pollution or protection of the environment, as the foregoing are enacted or in effect prior to or on the Closing Date.

"Equity Commitment Letters" has the meaning set forth in Section 6.08.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder.

"Estimated Adjusted Purchase Price" means an amount, calculated by Seller Representative in good faith, equal to the sum of (i) the Base Purchase Price minus (ii) the Estimated Closing Indebtedness plus (iii) the Estimated Closing Cash Balance plus (iv) the Estimated Revenue Adjustment Amount (which may be negative) minus (v) any unpaid Closing Expenses (if any), in the case of clauses (ii), (iii) and (iv), as set forth in the Pre-Closing Statement in accordance with Section 2.04.

"Estimated Closing Cash Balance" means an estimate of the Closing Cash Balance as determined pursuant to Section 2.04.

"Estimated Closing Indebtedness" means an estimate of the Closing Indebtedness as determined pursuant to Section 2.04.

"Estimated Revenue Adjustment Amount" means an estimate of the Revenue Adjustment Amount as determined pursuant to Section 2.04.

"Financial Statements" has the meaning set forth in Section 5.06.

"Form Trustee Agreements" has the meaning set forth in Section 5.18(c).

"Fundamental Buyer Representations" has the meaning set forth in Section 9.01.

"Fundamental Company Representations" has the meaning set forth in Section 9.01.

"Fundamental Seller Representations" has the meaning set forth in Section 9.01.

"GAAP" means generally accepted accounting principles in the United States as set forth in pronouncements of the Financial Accounting Standards Board (and its predecessors) and the American Institute of Certified Public Accountants.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indebtedness" means, with respect to any Person, at any particular time, without duplication, (i) any obligations of such Person under any indebtedness for borrowed money (including all obligations for principal, interest, premiums, penalties, fees, make-whole payments, expenses, indemnities, breakage costs and bank overdrafts thereunder), (ii) any indebtedness of such Person evidenced by any note, bond, debenture or other debt security, (iii) any written commitment by which such Person assures a creditor against loss (including contingent reimbursement obligations with respect to letters of credit), (iv) any indebtedness of such Person pursuant to a guarantee to a creditor of another Person, (v) any obligations under capitalized leases, (vi) any borrowing of money secured by a Lien on such Person's assets and (vii) all obligations of such Person for the deferred and unpaid purchase price of property or services (other than trade payables, deferred capital expenditures and accrued expenses incurred in the Ordinary Course of Business).

"Indemnified Party" means either a Buyer Indemnified Party or Seller Indemnified Party, as applicable.

"Indemnatee" has the meaning set forth in Section 9.07.

"Indemnitor" has the meaning set forth in Section 9.07.

"Intellectual Property Rights" means all of the following in any jurisdiction throughout the world: (i) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissues, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof, (ii) all trademarks, service marks, trade dress, logos, slogans, designs, trade names, corporate names, and Internet domain names, together with all translations, adaptations, derivations, and combinations thereof, all applications, registrations, and renewals in connection therewith, and including all goodwill associated with any of the foregoing, (iii) all works of authorship, all copyrights, and all applications, registrations, and renewals in connection therewith, (iv) all trade secrets and other proprietary information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals) and all trade secret rights therein, (v) all computer software (including source code, executable code, data, databases, and related documentation), (vi) all other

proprietary and intellectual property rights, and (vii) all copies and tangible embodiments of any of the foregoing (in whatever form or medium).

"IRS" has the meaning set forth in Section 5.16(b).

"Knowledge of Buyer" means the actual knowledge, as of the date hereof, of Tim Palmer, Mark Rosen, Michael Choe and J. Ryan Carroll.

"Knowledge of the Company" means the actual knowledge, as of the date hereof, of David Watkins, Michael Gutman, Joseph Jasz and Kim Connors.

"Law" means any binding statute, law, treaty, rule, regulation, order, decree or writ of any court or governmental authority.

"Leased Real Property" means all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures, or other interest in the real property held by the Company or the Company Subsidiary.

"Leases" means all leases, subleases, licenses, and other agreements (written or oral), including all amendments, extensions, renewals, and other agreements with respect thereto, pursuant to which the Company holds any interest in Leased Real Property, including the right to all security deposits and other amounts and instruments deposited by or on behalf of the Company or the Company Subsidiary thereunder.

"Lien" means any mortgage, pledge, lien, encumbrance, charge or other security interest. For the avoidance of doubt, a license of Intellectual Property Rights shall not be deemed a "Lien" hereunder.

"Losses" has the meaning set forth in Section 9.02(a).

"Material Adverse Effect" means any change or effect that is materially adverse to the business, condition (financial or otherwise) or results of operations of the Company and the Company Subsidiary taken as a whole; provided, however, that none of the following shall be deemed in and of itself, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been or will be, a Material Adverse Effect: (a) any failure by the Company and the Company Subsidiary to meet internal projections or forecasts or published revenue or earnings predictions for any period ending (or for which revenues or earnings are released) on or after the date of this Agreement; (b) any adverse change, effect, event, occurrence, state of facts or development attributable to the announcement or pendency of the transactions contemplated by this Agreement; (c) any adverse change, effect, event, occurrence, state of facts or development attributable to conditions affecting the bankruptcy or banking industry (including a change in interest rates), the U.S. economy as a whole or the capital markets in general; (d) any adverse change, effect, event, occurrence, state of facts or development resulting from or relating to compliance with the terms of, or the taking of any action required by, this Agreement; (e) any adverse change, effect, event, occurrence, state of facts or development arising from or relating to any change in GAAP; (f) any adverse change, effect, event, occurrence, state of facts or development arising from or relating to any change in applicable laws, rules or regulations or the interpretation thereof; (g) any

adverse change, effect, event, occurrence, state of facts or development caused by acts of terrorism or war (whether or not declared) occurring after the date hereof; (h) any reduction in the aggregate Trustee Deposits that is less than twelve percent (12%) of the aggregate amount of Trustee Deposits as of the date hereof or (i) any change, effect, occurrence or development of any nature with respect to (including loss or termination of) the NEGT Balances and/or the Refco Balances.

"Material Contract" has the meaning set forth in Section 5.12.

"Most Recent Balance Sheet" has the meaning set forth in Section 5.06.

"Most Recent Balance Sheet Date" has the meaning set forth in Section 5.06.

"NEGT Balances" means any deposits relating to that certain case titled In re National Energy & Gas Transmission Inc. (f/k/a PG&E National Energy Group, Inc.) et. al.

"New Plan" has the meaning set forth in Section 8.04(b).

"Old Plan" has the meaning set forth in Section 8.04(b).

"Ordinary Course of Business" means the ordinary course of business of the Company and the Company Subsidiary consistent with past custom and practice (including with respect to quantity and frequency).

"Participating Sellers" has the meaning set forth in Section 7.07.

"Party" means any Person who is a party to this Agreement.

"Permitted Lien" means with respect to any asset or property of the Company or the Company Subsidiary: (i) taxes, assessments and other governmental levies, fees, or charges imposed with respect to such asset or property that are (A) not due and payable as of the Closing Date or (B) being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (ii) mechanics' Liens and similar Liens for labor, materials, or supplies provided with respect to such asset or property incurred in the Ordinary Course of Business for amounts that are (A) not due and payable as of the Closing Date and which shall be paid in full and released at Closing or (B) being contested in good faith and for which appropriate reserves have been established in accordance with GAAP; (iii) zoning, building codes and other land use laws regulating the use or occupancy of Leased Real Property or the activities conducted thereon that are imposed by any governmental authority having jurisdiction over such Leased Real Property that are not violated by the current use or occupancy of such Leased Real Property or the operation of the Company's or the Company Subsidiary's businesses as currently conducted thereon; (iv) easements, covenants, conditions, restrictions, and other similar matters of record affecting title to Leased Real Property that do not impair the use or occupancy of Leased Real Property in the operation of the Company's or the Company Subsidiary's business as currently conducted thereon and (v) matters that would be disclosed on an accurate survey of Leased Real Property.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof."

"Post-Signing Matter" has the meaning set forth in Section

7.06(a).

"Pre-Closing Agreement" means any agreement, arrangement or understanding entered into on or before the Closing to make a payment or take any other action which is subject to the disallowance provisions of Section 280G(a) of the Code other than any agreement, arrangement or understanding entered into with the Company, the Company Subsidiary or any Affiliate of the Company or the Company Subsidiary when such Person is controlled by the Buyer or any Affiliate of the Buyer.

"Pre-Closing Statement" has the meaning set forth in Section

2.04.

"Pre-Signing Matter" has the meaning set forth in Section

7.06(a).

"Pre-Signing Matters Cap" has the meaning set forth in Section

9.04(b).

"Pro Rata Portion" means, with respect to any Seller, the percentage set forth opposite such Seller's name on Schedule III attached hereto.

"Products" means those computer programs and/or services and related documentation developed, manufactured, marketed, licensed, sold and/or distributed by the Company or the Company Subsidiary as its own products.

"Proprietary Information" has the meaning set forth in Section

12.07.

"Refco Balances" means any deposits relating to any portion of the estate of Refco LLC.

"Revenue" means, for any day or period of days, the sum of the aggregate fees earned by the Company and the Company Subsidiary under (i) the Depository Agreement and (ii) any other agreement for such day or such period of days. For purposes of determining the aggregate fees earned by the Company under Article IV of the Depository Agreement for any period of days that is less than a calendar month, each reference to "month" in the definitions and formulas set forth in the Depository Agreement for calculating such aggregate fees shall be deemed to be a reference to such period of days.

"Revenue Adjustment Amount" means an amount, which may be negative, equal to (i) the unpaid Revenue, if any, for the month ending prior to the month in which the Closing occurs plus (ii) the unpaid Revenue for the days that have elapsed in the month in which the Closing occurs as of the Closing (including the Closing Date), minus (iii) the 30-day Revenue Target.

"Sale Bonuses" means any bonus payable to an employee of the Company or the Company Subsidiary in connection with the consummation of the transactions contemplated by this Agreement pursuant to the bonus agreements or arrangements listed on Schedule 5.16.

"Sale Bonus Losses" has the meaning set forth in Section 9.02(e).

"Securities Act" means the Securities Act of 1933, as amended.

"Seller" has the meaning set forth in the preamble hereto.

"Seller Adjustment Amount" has the meaning set forth in Section 2.05(c).

"Seller Indemnified Party" has the meaning set forth in Section 9.03.

"Seller Releasing Parties" has the meaning set forth in Section 12.05.

"Seller Representative" has the meaning set forth in Section 11.01.

"Shares" means, collectively, the Class B Common Shares and the Class C Common Shares.

"Stockholders" has the meaning set forth in the preamble hereto.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of the partnership or other similar ownership interests thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons own a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity's gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term "Subsidiary" shall include all Subsidiaries of such Subsidiary.

"Subsidiary Shares" has the meaning set forth in Section 5.02(a).

"Tax" or "Taxes" means any U.S. federal, state, local, or non-U.S. income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax, whether computed on a separate or consolidated, unitary or combined basis, including any interest, penalty, or addition thereto.

"Tax Benefit" has the meaning set forth in Section 9.08.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Transfer Taxes" has the meaning set forth in Section 12.03.

"Trustee" means a trustee under Title 11 of the United States Code or other Person to whom the Company or the Company Subsidiary provides bankruptcy management services.

"Trustee Deposits" means, with respect to any Trustee as of any time of determination, the available aggregate amount of the cash balances deposited by such Trustee with the Depository Institution as of such time pursuant to the Depository Agreement. For the avoidance of doubt, "Trustee Deposits" shall not include any cash balances described on Schedule II attached hereto.

"Warrant Holder" has the meaning set forth in the preamble hereto.

"Warrants" has the meaning set forth in the recitals hereto.

ARTICLE II

PURCHASE AND SALE OF SHARES AND

----- CANCELLATION OF WARRANTS -----

2.01 Purchase and Sale of Shares. -----

At the Closing, upon the terms and subject to the conditions set forth in this Agreement, the Stockholders shall sell, assign, transfer and convey to Buyer, and Buyer shall purchase and acquire from the Stockholders, all of the Shares, free and clear of any Lien other than restrictions pursuant to applicable securities laws, for the consideration specified in Section 2.03 below.

2.02 Cancellation of Warrants. -----

At the Closing, each outstanding Warrant shall be cancelled and extinguished and the Warrant Holder shall be entitled to receive, in complete satisfaction of any and all obligations owing from the Company to the Warrant Holder on account of such outstanding Warrant, the consideration specified in Section 2.03 below.

2.03 Payment for and Surrender of Shares and Cancellation of -----

Warrants.

(a) Upon the terms and subject to the conditions set forth in this Agreement, Buyer shall pay to Sellers, in consideration for the Shares and the cancellation of any outstanding Warrants, the aggregate purchase price of \$384,500,000 (Three Hundred and Eighty Four Million and Five Hundred Thousand) (the "Base Purchase Price"), subject to the adjustments set forth herein. Adjustments to the consideration paid to Sellers hereunder shall be estimated prior to the Closing pursuant to Section 2.04 and adjusted after the Closing pursuant to Section 2.05.

(b) At the Closing, each Seller holding any Shares shall receive payment by Buyer in cash equal to such Seller's Pro Rata Portion of the Estimated Adjusted Purchase Price (less any amounts reduced pursuant to any agreement among the Sellers). Payment for such Seller's Shares shall be made by wire transfer of immediately available funds to an account or accounts specified by Seller Representative in writing at least two (2) Business Days prior to the Closing.

(c) At the Closing, each Seller holding any Warrants shall receive payment by Buyer of an amount in cash equal to such Seller's Pro Rata Portion (with respect to such Warrants) of the Estimated Adjusted Purchase Price (less any amounts reduced pursuant to any agreement among the Sellers) in exchange for the delivery to the Company, for cancellation, of one or more certificates representing all of the outstanding Warrants held by such holder. Payment at the Closing to such Warrant Holder in consideration of cancellation of such Warrants shall be made by wire transfer of immediately available funds to an account or accounts specified in writing by Seller Representative at least two (2) Business Days prior to the Closing.

(d) For the avoidance of doubt, the aggregate amount of cash payments to be made by Buyer pursuant to Sections 2.03(b) and 2.03(c) shall equal the Estimated Adjusted Purchase Price. Each Seller hereby authorizes Buyer to pay the aggregate Estimated Adjusted Purchase Price to Sellers in accordance with Sections 2.03(b) and 2.03(c) and agrees that, following such payment in full, Buyer shall have no liability to any Seller in respect of the allocation of the Estimated Adjusted Purchase Price among Sellers made by Seller Representative pursuant to Sections 2.03(b) and 2.03(c).

(e) At the Closing, Buyer shall pay an amount equal to the Estimated Closing Indebtedness to such person as may be directed by the Seller Representative.

2.04 Pre-Closing Adjustment to Base Purchase Price.

At least two (2) Business Days prior to the Closing Date, Seller Representative shall in good faith and in consultation with Buyer, prepare and deliver to Buyer a written statement (the "Pre-Closing Statement"), based upon the books and records of the Company and the Company Subsidiary, which shall set forth (i) the Estimated Closing Indebtedness, (ii) the Estimated Closing Cash Balance, (iii) the Estimated Revenue Adjustment Amount and (iv) the Estimated Adjusted Purchase Price based upon the items described in clauses (i), (ii) and (iii). The Pre-Closing Statement and the Estimated Adjusted Purchase Price set forth therein shall be binding on Buyer and Sellers, subject to any adjustments to the Estimated Adjusted Purchase Price made after the Closing pursuant to Section 2.05(a).

2.05 Post-Closing Adjustment to the Estimated Adjusted Purchase Price.

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(a) The Estimated Adjusted Purchase Price shall be adjusted after the Closing as follows: (i)(A) reduced by the amount, if any, by which the Closing Indebtedness is greater than the Estimated Closing Indebtedness or (B) increased by the amount, if any, by which Closing Indebtedness is less than the Estimated Closing Indebtedness, (ii)(A) increased by the amount, if any, by which the Closing Cash Balance is greater than the Estimated Closing Cash Balance or (B) decreased by the amount, if any, by which the Closing Cash Balance is less than the Estimated Closing Cash Balance, and

(iii) (A) increased by the amount, if any, by which the Revenue Adjustment Amount is greater than the Estimated Revenue Adjustment Amount or (B) decreased by the amount, if any, by which the Revenue Adjustment Amount is less than the Estimated Revenue Adjustment Amount.

(b) After the Closing Date, Buyer shall cause to be prepared a balance sheet of the Company and the Company Subsidiary on a consolidated basis as of immediately prior to the Closing (the "Closing Balance Sheet"). The Closing Balance Sheet shall be prepared in accordance with GAAP and utilizing the Accounting Principles; provided, however, that if there is a conflict between GAAP and the Accounting Principles, GAAP shall be applied. Buyer shall deliver the Closing Balance Sheet, together with the Closing Statement, to Seller Representative within thirty (30) days after the Closing Date. If within thirty (30) days following the delivery of the Closing Balance Sheet, Seller Representative has not given Buyer written notice (a "Dispute Notice") of its objection to any item in the Closing Balance Sheet and/or the Closing Statement (such notice, if given, must contain a statement reasonably detailing the basis of Seller Representative's objection to each disputed item), then the Closing Balance Sheet and the Closing Statement shall be deemed final and binding on Buyer and Sellers. If Seller Representative delivers a Dispute Notice, then Buyer and Seller Representative shall consult in good faith to resolve the disputed items set forth in the Dispute Notice and, if any disputed items have not been resolved within thirty (30) days following delivery of the Dispute Notice, the issues that remain in dispute will be submitted to an accounting or valuation firm mutually agreed between the Seller Representative and Buyer (each acting reasonably) (the "Accountants") for resolution. Any item not specifically referred to the Accountants for resolution shall be final and binding on Buyer and Sellers. If any items in dispute are submitted to the Accountants for resolution: (A) Buyer and Seller Representative shall furnish to the Accountants and each other such work papers and other documents and information relating to the disputed issues as the Accountants may request and are available to that Party (or its accountants) or within the control of such parties, and shall be afforded the opportunity to present to the Accountants any materials relating to the determination and to discuss the determination with the Accountants; (B) the Accountants shall be authorized to resolve each item in dispute by choosing a value between Buyer's position for such item (as set forth in the Closing Balance Sheet and/or the Closing Statement) and Seller Representative's position for such item (as set forth in the Dispute Notice delivered to Buyer by Seller Representative) or within such other range of numbers as Buyer and Seller Representative may agree in writing and shall thereafter deliver to the Accountants in writing; and (C) the determination by the Accountants of the Closing Balance Sheet, the Closing Statement and the Adjustment Amount, as set forth in a written notice delivered to both parties by the Accountants, shall be binding and conclusive on the parties. The fees of the Accountants for such determination shall be borne by Buyer, on the one hand, and Sellers, on the other hand, in inverse proportion to the manner in which such parties prevail on the items resolved by the Accountants, which proportionate allocation shall be calculated on an aggregate basis based on the relative dollar values of the amounts in dispute and shall be computed by the Accountants at the time the determination of the Accountants is rendered.

(c) On the tenth (10th) Business Day following the final determination of the Adjustment Amount, (i) if the Adjustment Amount is positive (the "Buyer Adjustment Amount"), Buyer shall pay (or shall cause the Company to pay) the Adjustment Amount to Sellers, as directed in writing by Seller Representative, or (ii) if the Adjustment Amount is negative (the "Seller

Adjustment Amount"), LEF II (on behalf of the Sellers) shall pay the Seller Adjustment Amount to the Company up to a maximum of \$5,000,000 (Five Million Dollars) with any excess amount payable by each Seller on a several basis based on such Seller's Pro Rata Portion of such excess amount. The Adjustment Amount shall be treated as an adjustment to the Estimated Adjusted Purchase Price.

(d) Each Seller hereby (i) authorizes Buyer to pay any Buyer Adjustment Amount required to be paid by Buyer pursuant to clause (i) of Section 2.05(c) as directed by Seller Representative and agrees that, following such payment in full, Buyer shall have no liability to any Seller in respect of the allocation of the Adjustment Amount among Sellers made by Seller Representative pursuant to Section 2.05(c) and (ii) authorizes LEF II to pay the portion of the Seller Adjustment Amount required to be paid by LEF II pursuant to clause (ii) of Section 2.05(c) as determined by Seller Representative and agrees that, following such payment or earlier demand by LEF II, each Seller shall promptly pay its Pro Rata Portion of such payment to LEF II.

2.06 The Closing.

The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Kirkland & Ellis LLP located at 153 East 53rd Street, New York, New York at 10:00 a.m. on the day that is the later of (i) July 31, 2006 and (ii) on or prior to the second (2nd) Business Day following satisfaction or waiver of all of the closing conditions set forth in Article III (other than those to be satisfied at the Closing itself) or on such other date as Buyer and Seller Representative may agree in writing. The date on which the Closing occurs is referred to herein as the "Closing Date."

ARTICLE III

CONDITIONS TO CLOSING

3.01 Conditions to Buyer's Obligations.

The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction or waiver in writing by Buyer of the following conditions as of the Closing Date:

(a) The representations and warranties set forth in Articles IV and V (other than those representations and warranties that address matters as of particular dates) shall be true and correct at and as of the Closing Date as though then made and as though the Closing Date were substituted for the date of this Agreement throughout such representations and warranties, except where the failure of such representation and warranties to be so true and correct would not, in the aggregate, have a Material Adverse Effect;

(b) The Company and Sellers shall have performed in all material respects all of the covenants and agreements required to be performed by them under this Agreement at or prior to the Closing;

(c) The applicable waiting periods, if any, under the HSR Act shall have expired or been terminated;

(d) No action or proceeding before any court or government body shall be pending wherein an unfavorable judgment, decree or order would prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby;

(e) Buyer shall have received fully executed payoff letters or UCC-3 termination statements and other terminations, pay-offs and/or releases, necessary to terminate or release, as the case may be, all Liens on the Company's and the Company Subsidiary's properties and assets (other than Permitted Liens), and the Company shall have satisfied in full the Indebtedness giving rise to such Liens (or made adequate provision in a manner reasonably acceptable to Buyer for such Indebtedness to be paid at the Closing (including out of proceeds paid by Buyer at the Closing));

(f) The Company shall have paid in full all Sale Bonuses and all Closing Expenses (or made adequate provision in a manner reasonably acceptable to Buyer for such Sale Bonuses and Closing Expenses to be paid at the Closing (including out of proceeds paid by Buyer at the Closing));

(g) Subject to the second to last sentence of Section 7.06(a), no event or events shall have occurred or failed to have occurred since the date of this Agreement that together with any Pre-Signing Matter(s), individually or in the aggregate, have had a Material Adverse Effect;

(h) That certain Amended and Restated Stockholders Rights Agreement, dated as of December 16, 2003, among the Company and the Sellers, that certain Amended and Restated Consulting Agreement, dated as of December 29, 2004, between the Company and Lincolnshire Management, Inc. and all other agreements among the Sellers or the Sellers (or their Affiliates) and the Company shall have been terminated; and

(i) The Company or Seller Representative (on behalf of Sellers), as the case may be, shall have delivered to Buyer each of the following:

(A) a certificate of the Company, dated the Closing Date, stating that the conditions specified in subsections (a), (b) and (d) of this Section 3.01, as they relate to the Company and the Company Subsidiary, have been satisfied;

(B) a certificate of Seller Representative (on behalf of Sellers), dated the Closing Date, stating that the conditions specified in subsections (a), (b) and (d) of this Section 3.01, as they relate to Sellers, have been satisfied;

(C) evidence of the receipt of the governmental and other third party consents set forth on Schedule 3.01;

(D) the stock certificates representing the outstanding Shares, in each case duly endorsed for transfer or accompanied by duly executed stock powers or transfer documents;

(E) the Warrants duly marked "CANCELLED";

(F) all minute books, stock books, ledgers and registers, corporate seals, if any, and other corporate records relating to the organization, ownership and maintenance of the Company and the Company Subsidiary, if not already located on the premises of the Company or the Company Subsidiary;

(G) resignations effective as of the Closing Date from all non-employee officers and directors of the Company and the Company Subsidiary as Buyer shall have requested in writing and delivered to Seller Representative not less than five (5) Business Days prior to the Closing Date;

(H) a copy of the certificate of incorporation of the Company and the Company Subsidiary, in each case, certified by the Secretary of State of Delaware, and a certificate of good standing from Delaware for each of the Company and the Company Subsidiary, in each case, dated within five (5) days of the Closing Date;

(I) certified copies of the resolutions duly adopted by the Company's board of directors authorizing the Company's execution, delivery and performance of this Agreement and the other agreements contemplated hereby, and the consummation of all transactions contemplated hereby and thereby;

(J) a certified copy of the Company's and the Company Subsidiary's by-laws, in each case, with all amendments thereto;

(K) any back up copies of any source code of any Products in the possession of Lincolnshire Management, Inc. or any of its Affiliates;

(L) an opinion of Kirkland & Ellis LLP, counsel to the Company, dated as of the Closing Date, covering the matters set forth in Exhibit C hereto; and

(M) a copy of a statement issued by the Company satisfying the requirements of Treasury Regulations Section 1.1445-2(c), certifying that the Shares are not a United States real property interest within the meaning of Code Section 897, a form of which is attached as Exhibit D hereto.

3.02 Conditions to Sellers' Obligations.

The obligations of Sellers to consummate the transactions contemplated by this Agreement are subject to the satisfaction or waiver in writing by the Seller Representative of the following conditions as of the Closing Date:

(a) Receipt by the Sellers of the Estimated Adjusted Purchase Price pursuant to Section 2.03;

(b) The representations and warranties set forth in Article VI (other than those representations and warranties that address matters as of particular dates) shall be true and correct at and as of the Closing Date as though then made and as though the Closing Date were substituted for the date of this Agreement throughout such representations and warranties, except where

the failure of such representation and warranties to be so true and correct would not, in the aggregate, have a Material Adverse Effect;

(c) Buyer shall have performed in all material respects all the covenants and agreements required to be performed by it under this Agreement at or prior to the Closing;

(d) The applicable waiting periods, if any, under the HSR Act shall have expired or been terminated;

(e) No action or proceeding before any court or government body shall be pending wherein an unfavorable judgment, decree or order would prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby;

(f) Buyer shall have made adequate provision for any Estimated Closing Indebtedness (based on the amount specified in the Pre-Closing Statement) to be paid at or immediately following the Closing pursuant to Section 2.03(e));

(g) Buyer shall have delivered to Seller Representative certified copies of the resolutions duly adopted by Buyer's board of directors (or its equivalent governing body) authorizing Buyer's execution, delivery and performance of this Agreement and the other agreements contemplated hereby, and the consummation of all transactions contemplated hereby and thereby;

(h) Buyer shall have delivered to Seller Representative (on behalf of Sellers) a certificate, dated the Closing Date, stating that the conditions specified in subsections (b), (c) and (e) of this Section 3.02 have been satisfied; and

(i) an opinion of Goodwin Procter LLP, counsel to Buyer, dated as of the Closing Date, covering the matters set forth in Exhibit F hereto.

ARTICLE IV

REPRESENTATIONS AND

WARRANTIES OF EACH SELLER

Each Seller, solely for himself, herself or itself (on a several and not joint basis), represents and warrants to Buyer as follows:

4.01 Authority.

Such Seller has all requisite power and authority and full legal capacity to execute and deliver this Agreement and to perform his, her or its obligations hereunder.

4.02 Execution and Delivery; Valid and Binding Agreement.

This Agreement has been duly executed and delivered by such Seller. The execution, delivery and performance of this Agreement by such Seller and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite action, and no other proceedings on its part are

necessary to authorize the execution, delivery or performance of this Agreement. Assuming that this Agreement is the valid and binding agreement of Buyer, the Company and the other Sellers, this Agreement constitutes the valid and binding obligation of such Seller, enforceable against such Seller in accordance with its terms, except as enforceability may be limited by bankruptcy laws, other similar laws affecting creditors' rights and general principles of equity effecting the availability of specific performance and other equitable remedies.

4.03 Noncontravention.

Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which such Seller is subject or, if such Seller is a corporation, any provision of its charter or bylaws or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which such Seller is a party or by which he, she or it is bound or to which any of his, her or its assets is subject.

4.04 Ownership of Capital Stock and Warrants.

Such Stockholder or Warrant Holder, as the case may be, is the record owner of the number of Shares or Warrants, as applicable, set forth opposite his, her or its name on Schedule 5.02 attached hereto. Such Seller has good and marketable title to (i) the Shares which are to be sold, transferred and assigned by such Seller pursuant to this Agreement and (ii) the Warrants owned by such Seller, if any, in each case, free and clear of any and all Liens. Other than as set forth on Schedule 5.02, such Seller does not own any of the Company's capital stock or other equity securities of the Company or any options, warrants or other rights to purchase or obtain (including upon conversion, exchange or exercise) any of the Company's capital stock or other equity securities of the Company, whether vested or unvested. All Shares of such Seller will be sold, transferred and conveyed to Buyer, pursuant to the procedures set forth in this Agreement, free and clear of all Liens (including, without limitation, claims of spouses, former spouses and other family members).

4.05 Brokers Fees.

Such Seller has no liability for or any obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which Buyer, the Company or the Company Subsidiary could become liable or obligated.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Buyer as follows:

5.01 Organization; Qualification; Corporate Power; Officers and

Directors, Authorization.

The Company and the Company Subsidiary are each a corporation duly organized, validly existing, and in good standing under the Laws of the State of Delaware. The Company and the Company Subsidiary are each qualified to conduct business and are in good standing under the Laws of each jurisdiction where such qualification is necessary, except to the extent where failure to so qualify would not result in a Material Adverse Effect. Each of the Company and the Company Subsidiary has all corporate power and authority to own, lease and use its properties and carry on its business as currently conducted.

(a) Schedule 5.01 lists the names of the directors and the names and titles of the officers of each of the Company and the Company Subsidiary. The Company has delivered to Buyer correct and complete copies of the certificate of incorporation and bylaws for the Company and the Company Subsidiary (as amended to date). The minute books (containing the records of meetings of the stockholders, the board of directors, and any committees of the board of directors), the stock certificate books, and the stock record books for the Company and the Company Subsidiary are correct and complete in all material respects.

(b) Neither the Company nor the Company Subsidiary is in default under or in violation of any provision of its charter or bylaws.

(c) The Company has the requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(d) The execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite action, and no other proceedings on its part are necessary to authorize the execution, delivery or performance of this Agreement. This Agreement has been duly executed and delivered by the Company and assuming the due authorization, execution and delivery by the other parties hereto constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, other similar laws affecting creditors' rights and general principles of equity effecting the availability of specific performance and other equitable remedies.

5.02 Capitalization; Subsidiaries.

(a) The entire authorized capital stock of the Company consists of (i) 5,500,000 shares of Class B Common Stock, par value \$0.01 per share, of which 911,298.70 shares are issued and outstanding as of the date hereof (the "Class B Common Shares"), and (ii) 5,500,000 shares of Class C Common Stock, par value \$0.01 per share (the "Class C Common Shares"), of which 4,221,012.20 shares are issued and outstanding as of the date hereof. The Shares are owned beneficially and of record by the Stockholders as set forth on Schedule 5.02 attached hereto. The entire authorized capital stock of the Company Subsidiary consists of 1,000 shares of common stock, par value \$0.01 per share, of which 100 shares, constituting the "Subsidiary Shares", are issued and outstanding and are owned beneficially and of record by the Company. All of the Shares and the Subsidiary Shares have been duly authorized and are validly

issued, fully paid, and non-assessable. The Warrants, in the aggregate, are exercisable for 101,130.60 shares of Class B Common and are held by the Warrant Holder as set forth on Schedule 5.02 attached hereto. Except for the Warrants or as set forth in the Company's certificate of incorporation, there are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, or other contracts or commitments that could require the Company or the Company Subsidiary to issue, sell, or otherwise cause to become outstanding any of their respective capital stock. There are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights (excluding any employee bonus plan) with respect to the Company or the Company Subsidiary. Except as set forth on Schedule 5.02 attached hereto, there are no voting trusts, proxies, or other similar agreements or understandings with respect to voting the Shares or the Subsidiary Shares.

(b) Other than the Company Subsidiary, the Company does not have any Subsidiary. Neither the Company nor the Company Subsidiary has any ownership interest in or right to acquire any ownership interest in any other Person.

5.03 Non-contravention.

Except as set forth on Schedule 5.03 attached hereto, neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Company or the Company Subsidiary is subject or any provision of the charter or bylaws of the Company or the Company Subsidiary or (ii) constitute a default under or result in the acceleration of any Material Contract, license, permit or authorization to which the Company or the Company Subsidiary is a party or by which either is bound or to which any of their respective assets are subject (or result in the imposition of any Lien upon any of their respective material assets). Except as set forth on Schedule 5.03 or as required pursuant to the HSR Act, neither the Company nor the Company Subsidiary needs to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency or other third party or Person in order for the parties hereto to consummate the transactions contemplated by this Agreement.

5.04 Brokers' Fees.

Except as set forth on Schedule 5.04, neither the Company nor the Company Subsidiary has any liability to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Buyer could become liable or obligated.

5.05 Title to Assets.

Except as set forth on Schedule 5.05, each of the Company and the Company Subsidiary has good and valid title to or a valid leasehold interest in, free and clear of all Liens (other than Permitted Liens), the material tangible properties and assets used by it as of the date hereof, except for properties and assets disposed of in the Ordinary Course of Business since the date hereof in accordance with Section 7.01. Each such tangible asset is free from defects

(latent and patent), has been maintained in accordance with normal industry practice and is in good operating condition and repair (subject to normal wear and tear). The properties and assets of each of the Company and the Company Subsidiary are sufficient in all material aspects for the conduct of its business as presently conducted.

5.06 Financial Statements.

The Company has furnished to Buyer prior to the date hereof the following financial statements (collectively, the "Financial Statements"): audited consolidated balance sheets and statements of operation, stockholders' equity and cash flows as of and for the fiscal years ended December 31, 2004 and December 31, 2005 (the "Most Recent Balance Sheet Date") and an unaudited consolidated balance sheet and statements of operation, stockholders equity and cash flows as of and for the three (3) months ended March 31, 2006. The balance sheet of the Company as of the Most Recent Balance Sheet Date is referred to herein as the "Most Recent Balance Sheet". The Financial Statements have been prepared in accordance with GAAP throughout the periods covered thereby, present fairly the financial condition of the Company and the Company Subsidiary on a consolidated basis as of such dates and the results of operations of the Company and the Company Subsidiary on a consolidated basis for such periods, are correct and complete and are consistent with the books and records of the Company (which books and records are correct and complete in all material respects), subject, in the case of the unaudited Financial Statements, to the absence of footnotes and normal year end adjustments (which will not be material, individually or in the aggregate).

5.07 Events Subsequent to Most Recent Fiscal Year End.

Since December 31, 2005, there has not been any Material Adverse Effect. Without limiting the generality of the foregoing, since that date, except as set forth on Schedule 5.07 or after the date hereof in accordance with Section 7.01:

(a) neither the Company nor the Company Subsidiary has sold, leased, transferred or assigned any assets, tangible or intangible, with an aggregate value in excess of \$250,000 (other than the sale of inventory and property, plant and equipment in the Ordinary Course of Business);

(b) neither the Company nor the Company Subsidiary has entered into, modified or terminated any Material Contract (other than any contract with any customer in the Ordinary Course of Business);

(c) no party (including the Company and the Company Subsidiary) has provided written notice of its election to accelerate, terminate, modify in a manner adverse to the Company or the Company Subsidiary or cancel any Material Contract;

(d) neither the Company nor the Company Subsidiary has experienced any material damage or destruction to any of its assets taken as a whole;

(e) neither the Company nor the Company Subsidiary has increased in any respect the compensation (including bonuses) or fringe benefits of, or paid any bonus to, any director, officer or employee by more than, or in an amount exceeding, \$50,000 individually outside the Ordinary Course of Business (excluding annual salary increases and annual bonuses consistent with past practice);

(f) neither the Company nor the Company Subsidiary has amended, adopted or modified any Employee Benefit Plan, other than to comply with applicable Law;

(g) neither the Company nor the Company Subsidiary has made any capital expenditure (or series of related capital expenditures) involving more than \$250,000 in the aggregate (other than capital expenditures in connection with the purchase of computers and related equipment in the Ordinary Course of Business or other budgeted capital expenditures);

(h) neither the Company nor the Company Subsidiary has incurred, assumed or guaranteed any Indebtedness;

(i) there has been no change in the charter or bylaws of the Company or the Company Subsidiary;

(j) neither the Company nor the Company Subsidiary has issued, sold or otherwise disposed of any of its capital stock or granted any option, warrant, or other right to purchase or obtain (including upon conversion, exchange or exercise) any of its capital stock;

(k) neither the Company nor the Company Subsidiary has experienced any resignation, termination or removal of any key officer or material loss of personnel or material change in the terms and conditions of the employment of the any key officer;

(l) neither the Company nor the Company Subsidiary has changed its accounting methods or practices, or made material changes to its collection policies, pricing policies or payment policies;

(m) neither the Company nor the Company Subsidiary has declared, set aside, or paid any dividend or made any distribution with respect to its capital stock (whether in cash or in kind) or redeemed, purchased or otherwise acquired any of its capital stock (except that the Company may declare a distribution or a dividend subsequent to the date hereof in compliance with Section 7.01(a)); and

(n) neither the Company nor the Company Subsidiary has committed to any of the foregoing.

5.08 Legal Compliance.

Except as set forth in Schedule 5.08, the Company and the Company Subsidiary, in connection with the operation of their businesses, are and have heretofore been in compliance in all material respects with all applicable Laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder and including the Foreign Corrupt Practices Act, 15 U.S.C. 78dd-1 et seq.) of federal, state, local, and foreign governments (and all agencies thereof). Except as set forth on Schedule 5.08, neither the Company nor the Company Subsidiary has ever entered into or been subject to any judgment, consent decree, compliance order or administrative order with respect to any aspect of the business, affairs, properties or assets

of the Company or the Company Subsidiary or received any material request for information, notice, demand letter, administrative inquiry or formal complaint or claim from any regulatory agency with respect to any aspect of the business, affairs, properties or assets of the Company or the Company Subsidiary.

5.09 Tax Matters.

(a) Except as set forth on Schedule 5.09:

(i) each of the Company and the Company Subsidiary has filed all income Tax Returns and material non-income Tax Returns that it was required to file when due (taking into account extensions), and all such Tax Returns are true, complete and correct in all material respects;

(ii) each of the Company and the Company Subsidiary has paid all Taxes due and owing by it (whether or not shown on any Tax Return), and has withheld and timely paid over to the appropriate taxing authority all Taxes which it is required to withhold from amounts paid or owing to any employee, shareholder or creditor;

(iii) neither the Company nor the Company Subsidiary has waived any statute of limitations with respect to any Taxes of the Company or the Company Subsidiary, as applicable, agreed to any extension of time with respect to any Tax assessment or deficiency, or agreed to any extension of time for filing any Tax Return which has not been filed;

(iv) no U.S. federal, state or local or non-U.S. tax audits or assessments or administrative or judicial proceedings are being conducted or, to the Knowledge of the Company, threatened with respect to the Company or the Company Subsidiary;

(v) there are no Liens on any of the assets of the Company or the Company Subsidiary that arose in connection with any failure to pay any Tax;

(vi) other than the group comprised of the Company and the Company Subsidiary, since the formation of the Company Subsidiary, neither the Company nor the Company Subsidiary has ever been a member of an Affiliated Group or filed a combined, consolidated or unitary income Tax Return and neither the Company nor the Company Subsidiary is a party to nor is bound by any Tax allocation or Tax sharing agreement;

(vii) Neither the Company nor the Company Subsidiary has any liability for the Taxes of any Person (other than the Company and the Company Subsidiary) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local, or non-U.S. law), as a transferee or successor or by contract;

(viii) No claim has ever been made by an authority in a jurisdiction where the Company or the Company Subsidiary does not file Tax Returns that the Company or the Company Subsidiary is or may be subject to taxation by that jurisdiction; and

(ix) Neither the Company nor the Company Subsidiary is a party to any agreement, contract, arrangement, or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Section 280G of the Code (or any corresponding provision of state, local, or non-U.S. Tax law).

(b) Neither the Company nor the Company Subsidiary has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code.

(c) Schedule 5.09(c) lists all federal, state, local, and non-U.S. income Tax Returns filed with respect to any of the Company or the Company Subsidiary for taxable periods ended on or after January 1, 2003 and indicates those Tax Returns that have been audited. The Seller Representative has delivered to Buyer correct and complete copies of all U.S. federal income Tax Returns and statements of deficiencies agreed to, by the Company or the Company Subsidiary since January 1, 2003.

(d) To the Knowledge of the Company, neither the Company nor the Company Subsidiary has participated, within the meaning of Treasury Regulations Section 1.6011-4(c), in any "reportable transaction" within the meaning of Code Section 6011 and the Treasury Regulations thereunder.

(e) Neither the Company nor the Company Subsidiary has distributed stock of another Person, or has had its stock distributed by another Person, in a transaction that was purported or intended to be governed in whole or in part by Code Section 355 or Code Section 361.

(f) Each of the Company and the Company Subsidiary is and always has been an accrual method taxpayer.

5.10 Real Property.

(a) Neither the Company nor the Company Subsidiary owns any real property.

(b) Schedule 5.10 attached hereto sets forth the address of each Leased Real Property, and a true and complete list of all Leases for each such Leased Real Property (including the date and name of the parties to such Lease document). The Company has delivered to Buyer prior to the date hereof a true and complete copy of each such Lease document, and in the case of any oral Lease, a written summary of the material terms of such Lease. Except as set forth on Schedule 5.10 attached hereto, with respect to each of the Leases:

(i) such Lease is legal, valid, binding and in full force and effect, subject to proper authorization and execution of such Lease by the other party thereto and except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting the rights of creditors generally;

(ii) the Company's or the Company Subsidiary's possession and quiet enjoyment of the Leased Real Property, as applicable, under such Lease has not been disturbed and, to the Knowledge of the Company, there are no disputes with respect to such Lease;

(iii) neither the Company or the Company Subsidiary, as applicable, nor, to the Knowledge of the Company, any other party to the Lease is in breach of or default under such Lease, and, to the Knowledge of the Company, no event has occurred or circumstance exists that, with the delivery of notice, the passage of time or both, would constitute such a breach or default, or permit the termination, modification or acceleration of rent under such Lease; and

(iv) neither the Company nor the Company Subsidiary has subleased, licensed or otherwise granted any Person the right to use or occupy the Leased Real Property or any portion thereof.

5.11 Intellectual Property.

(a) Schedule 5.11(a)(i) contains a list of all: (i) patented or registered Intellectual Property Rights and (ii) pending patent applications or other applications for registrations of other Intellectual Property Rights, in each case, owned by the Company or the Company Subsidiary and material to their respective businesses. Schedule 5.11(a)(ii) contains a complete and accurate list of all written agreements under which (x) any third party is granted a license with respect to any Company Intellectual Property Rights (other than any agreement with a Trustee pursuant to which the Company grants such Trustee a license to use the Company's software products in the Ordinary Course of Business) and (y) any third party grants to the Company or the Company Subsidiary a license with respect to any Intellectual Property Rights (other than mass-marketed software) material to the conduct of their respective businesses. With respect to each agreement set forth on Schedule 5.11(a)(ii), except as set forth on 5.11(a)(iii): (i) the agreement is and immediately following the Closing, subject to the receipt of any required third party consent or the giving of any required notice as set forth on Schedule 5.03, will continue to be, in full force and effect, legal, valid, binding, and enforceable against the Company or the Company Subsidiary, as applicable, and, to the Knowledge of the Company, the other parties thereto, in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting the rights of creditors generally; and (ii) neither the Company nor the Company Subsidiary, as applicable, is in breach or default in any material respect, and, to the Knowledge of the Company, no other party to any of such agreements is in breach or default in any material respect thereunder.

(b) Except as set forth on Schedule 5.11(b), the Company or the Company Subsidiary, as applicable, owns, free and clear of all Liens (other than Permitted Liens), all right, title and interest in and to, or has a valid right to use, without further payment to a third party (except with respect to any licenses), all Intellectual Property Rights material to the operation of their respective businesses as presently conducted (collectively, the "Company Intellectual Property Rights"), and no current or former employee or consultant of the Company or the Company Subsidiary owns any rights in or to any of the Company Intellectual Property Rights. All of the Company Intellectual Property Rights are valid and subsisting, and, to the Knowledge of the Company, enforceable.

(c) Except as set forth on Schedule 5.11(c), (i) neither the Company nor the Company Subsidiary has received any written notice contesting the validity, use, ownership or enforceability of any of the Company Intellectual Property Rights, and (ii) neither the operation of the business of the Company or the Company Subsidiary, as applicable, as currently conducted, nor any activity of the Company or the Company Subsidiary, as applicable, infringes, misappropriates or otherwise violates, or to the knowledge of the Company in the past infringed, misappropriated or otherwise violated, any Intellectual Property Rights of other Persons in any material respect other than the rights of any other Person under any patent, and to the knowledge of the Company, neither the operation of the business of the Company or the Company Subsidiary, as applicable, as currently conducted, nor any activity of the Company or the Company Subsidiary, as applicable, infringes, misappropriates or otherwise violates (or in the past infringed, misappropriated or otherwise violated), any Intellectual Property Rights of other Persons in any material respect under any patent.

(d) To the knowledge of the Company, there is no infringement, misappropriation or violation by any Person of any of the Company Intellectual Property Rights.

(e) The Company and the Company Subsidiary have taken reasonable security measures to protect the confidentiality of all trade secrets included in the Company Intellectual Property Rights owned by the Company or the Company Subsidiary, or used or held for use by the Company or the Company Subsidiary in their respective businesses.

(f) Except as set forth on Schedule 5.11(f), neither the Company nor the Company Subsidiary has directly or indirectly granted any rights, licenses or interests in the source code of any Products, and since the Company or the Company Subsidiary developed the source code of the Products, neither the Company nor the Company Subsidiary has provided or disclosed the source code of the Products to any Person other than its employees and consultants.

(g) Except as set forth on Schedule 5.11(g), the Products do not contain, incorporate, link or call or otherwise use any software (in source or object code form) licensed from another Person under a license commonly referred to as an open source, free software, copyleft or community source code license (including but not limited to any library or code licensed under the GNU General Public License, GNU Lesser General Public License), and the incorporation, linking or calling or other use by the Products of any such software listed on Schedule 5.11(g) does not obligate the Company or the Company Subsidiary to make available, offer or deliver the source code of any Product or component thereof to any third party.

5.12 Contracts. -----

Schedule 5.12 lists the following contracts and other agreements to which the Company or the Company Subsidiary is a party (collectively, the "Material Contracts"):

(a) any agreement (or group of related agreements) for the lease of personal property to or from any Person providing for lease payments in excess of \$250,000 per annum;

(b) any agreement (or group of related agreements) for the purchase or sale of supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one (1) year and involve consideration in excess of \$250,000 (other than any agreement with any Trustee in the Ordinary Course of Business);

(c) any agreement concerning a partnership or joint venture or which involves a sharing of revenues, profits, losses, costs or liabilities by the Company or the Company Subsidiary with any other Person;

(d) any contract containing covenants directly or explicitly prohibiting the Company or the Company Subsidiary to compete in any line of business or with any Person;

(e) any royalty, dividend or similar arrangement based on the revenues or profits of the Company or the Company Subsidiary or any contract or agreement involving fixed price or fixed volume arrangements;

(f) any acquisition, merger or similar agreement;

(g) any contract with any governmental entity;

(h) any agreement (or group of related agreements) under which the Company or the Company Subsidiary has incurred, assumed, or guaranteed any Indebtedness or under which it has imposed a Lien (other than a Permitted Lien) on any of its assets, tangible or intangible;

(i) any agreement with any Affiliate of the Company or the Company Subsidiary (other than any such agreement that will be terminated at or prior to Closing);

(j) any written agreement for the employment of any employee on a full-time, part-time, consulting, or other basis providing annual compensation in excess of \$100,000 or providing severance benefits;

(k) any agreement under which the Company or the Company Subsidiary has advanced or loaned any amount to any employee (other than advances in the Ordinary Course of Business); or

(l) any settlement, conciliation or similar agreement, the performance of which will involve payment by the Company or the Company Subsidiary in excess of \$250,000 after the Closing Date.

The Company has delivered to Buyer prior to the date hereof a correct and complete copy of each Material Contract (as amended to date) and a written summary setting forth the material terms and conditions of each oral Material Contract. With respect to each Material Contract, except as set forth on Schedule 5.12: (i) the agreement is and immediately following the Closing, subject to the receipt of any required third party consent or the giving of any required notice as set forth on Schedule 5.03, will continue to be, legal, valid, binding, and enforceable against the Company or the Company Subsidiary,

as applicable, and, to the Knowledge of the Company, the other parties thereto, in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting the rights of creditors generally; and (ii) neither the Company nor the Company Subsidiary, as applicable, is in breach or default in any material respect, and, to the Knowledge of the Company, no other party to any of the Material Contracts is in breach or default in any material respect thereunder. To the Knowledge of the Company, the Company has not received any notice or threat to terminate any Material Contract, which termination could reasonably be expected to have a Material Adverse Effect.

5.13 Insurance.

Schedule 5.13 sets forth the following information with respect to each material insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) maintained by the Company or the Company Subsidiary:

- policyholder;
- (a) the name of the insurer and the name of the
 - (b) the policy number and the period of coverage; and
 - (c) a brief description of the coverage provided under
- such policy.

The Company has delivered to Buyer prior to the date hereof a true and correct copy of each insurance policy required to be disclosed on Schedule 5.13. Each such insurance policy is, and immediately following the Closing, subject to the receipt of any required third party consent or the giving of any required notice as set forth on Schedule 5.03, will continue to be, legal, valid, binding, and enforceable against the Company or the Company Subsidiary, as applicable, and, to the Knowledge of the Company, the other parties thereto, in accordance with its terms except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting the rights of creditors generally. To the Knowledge of the Company, and except as set forth on Schedule 5.13, the Company has in full force and effect general commercial, general liability, product liability, professional liability, specified director's and officer's liability, workers compensation and employee's liability, fire and casualty and such other appropriate insurance policies with coverages customary for similarly situated companies in the same or similar industries in all material respects and as required by applicable law or any Material Contract. Except as set forth on Schedule 5.13, there are currently no claims pending against the Company or the Company Subsidiary under any insurance policies currently in effect and covering the property, business or employees of the Company and the Company Subsidiary, and all premiums due and payable with respect to the policies maintained by the Company and the Company Subsidiary have been paid to date. To the Knowledge of the Company, there is no threatened termination of any such policies or arrangements.

5.14 Litigation.

Schedule 5.14 sets forth each instance in which the Company or the Company Subsidiary, as applicable, (i) is subject to any outstanding injunction, judgment, order, decree, administrative proceeding, ruling, or charge or (ii) is, or since December 16, 2003 was, a party, or, to the Knowledge of the Company, is, or since December 16, 2003 was, threatened to be made a party to,

any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator (other than any immaterial employment related disputes).

5.15 Employees.

With respect to the Company's and the Company Subsidiary's employees:

(a) there is no collective bargaining agreement or relationship with any labor organization;

(b) the Company is not delinquent in payments to any of its employees for any wages, salaries, commissions, bonuses or other direct compensation for any services performed for the Company or the Company Subsidiary as of the date hereof or amounts required to be reimbursed to such employees other than in the Ordinary Course of Business;

(c) to the Knowledge of the Company, no executive officer has any present intention to terminate his or her employment;

(d) to the Knowledge of the Company, no labor organization or group of employees has filed any representation petition or made any written or oral demand for recognition;

(e) to the Knowledge of the Company, as of the date hereof, no union organizing or decertification efforts are underway or threatened; and

(f) as of the date hereof, no labor strike, work stoppage, slowdown, or other material labor dispute is underway or, to the Knowledge of the Company, threatened.

5.16 Employee Benefits.

(a) Schedule 5.16 lists (i) each Employee Benefit Plan and (ii) each employee of the Company and the Company Subsidiary who is entitled to receive a Sale Bonus.

(b) With respect to each Employee Benefit Plan, the Company has made available to Buyer the most recent plan documents and summary plan descriptions, the most recent determination letter or opinion letter received from the Internal Revenue Service ("IRS"), and the most recent annual reports (Form 5500).

(c) Each Employee Benefit Plan has been maintained, funded and administered in all material respects in accordance with its terms and with the applicable requirements of ERISA and the Code. The Company has complied in all material respects with COBRA. Each Employee Benefit Plan that is intended to meet the requirements of a "qualified plan" under Section 401(a) of the Code has received a favorable determination letter or opinion letter from the IRS.

(d) Neither the Company nor the Company Subsidiary maintains, sponsors, or contributes to (i) any "defined benefit plan" as defined in Section 3(35) of ERISA (or any other plan subject to the funding requirements

of Section 412 of the Code or Section 302 or Title IV of ERISA), (ii) any "multiemployer plan" as defined in Section 3(37) or 4001(a)(3) of ERISA, or (iii) any employee benefit plan, program or arrangement that provides for post-retirement medical, life insurance or other welfare-type benefits (other than health continuation coverage required by COBRA).

(e) With respect to each Employee Benefit Plan, (i) to the Knowledge of the Company there have been no non-exempt "prohibited transactions" (as defined in Section 406 of ERISA or Section 4975 of the Code), (ii) to the Knowledge of the Company no "fiduciary" (as defined in Section 3(21) of ERISA) has any material liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of such Employee Benefit Plan and (iii) no action, investigation, suit, proceeding, hearing or claim with respect to the assets thereof (other than routine claims for benefits) is pending or, to the Knowledge of the Company, threatened.

5.17 Environmental, Health, and Safety Matters.

(a) Each of the Company and the Company Subsidiary is in compliance in all material respects with all Environmental, Health, and Safety Requirements.

(b) The Company and the Company Subsidiary are not required to possess any permits, licenses or other authorizations pursuant to Environmental, Health, and Safety Requirements for the occupation of the Leased Real Property or the operation of the business of the Company and the Company Subsidiary as currently conducted.

(c) Neither the Company nor the Company Subsidiary has received any notice of any actual or alleged violation of Environmental, Health, and Safety Requirements, or any liability, including any investigatory, remedial or corrective obligations, under Environmental, Health, and Safety Requirements, in each case relating to the business of the Company or the Company Subsidiary or the Leased Real Property.

(d) The Company has delivered to Buyer prior to the date hereof all environmental audits, reports and other material environmental documents relating to the Leased Real Property, any other current or former properties or facilities of the Company or the Company Subsidiary, or the operation of the business of the Company and the Company Subsidiary as currently conducted that are in its possession.

(e) This Section 5.17 sets forth the sole and exclusive representations and warranties of the Company and the Company Subsidiary with respect to environmental, health or safety matters, including all matters relating to Environmental, Health, and Safety Requirements.

5.18 Trustees.

(a) Schedule 5.18 attached hereto lists the Trustees with the twenty (20) largest Trustee Deposits as of December 31, 2005. As of May 18, 2006, the aggregate amount of the Trustee Deposits for all Trustees, as reported by the Depository Institution, is \$2,079,039,889.

(b) Since the date of the Most Recent Balance Sheet and, as of the date hereof, (i) no Trustee listed on Schedule 5.18 attached hereto has indicated in writing that it will cease doing business with the Company or the Company Subsidiary and (ii) to the Knowledge of the Company no Trustee listed on Schedule 5.18 attached hereto has threatened to cease doing business with the Company or the Company Subsidiary.

(c) The Company is party to agreements substantially in the form of the agreements attached hereto as Exhibit E (the "Form Trustee Agreements") with each of the Trustees. No agreements with any Trustee deviate in any material respect from the Form Trustee Agreements. Except as set forth on Schedule 5.18, the Company is not party to any contract or agreement with any Trustee other than agreements that are not materially different from the Form Trustee Agreements. With respect to each agreement with each of the Trustees listed on Schedule 5.18, except as set forth on Schedule 5.18: (i) the agreement is, and immediately following the Closing will continue to be, legal, valid, binding, and enforceable against the Company or the Company Subsidiary, as applicable, and, to the Knowledge of the Company, the other parties thereto, in accordance with its terms, except as enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Law affecting the rights of creditors generally; and (ii) neither the Company nor the Company Subsidiary, as applicable, is in breach or default in any material respect, and, to the Knowledge of the Company, no Trustee is in breach or default in any material respect thereunder (other than failure from time to time of a Trustee to deposit substantially all of its bankruptcy deposits with the Depository Institution).

5.19 Undisclosed Liabilities.

Neither Company nor the Company Subsidiary has any liability which is required to be reflected on a balance sheet prepared in accordance with GAAP, except for (i) liabilities set forth in the Most Recent Balance Sheet, (ii) liabilities that have arisen after the Most Recent Balance Sheet Date in the Ordinary Course of Business or (iii) liabilities listed on Schedule 5.19 or (iv) liabilities arising with respect to the subject areas covered by the other representations and warranties set forth in this Article V.

5.20 Transactions with Affiliates.

Except as disclosed on Schedule 5.20, there are no loans, leases or other agreements between the Company or the Company Subsidiary and any present or former stockholder, director or officer of the Company or the Company Subsidiary, or to the Knowledge of the Company any member of such officer's, director's or stockholder's immediate family, or any person controlled by such officer, director or stockholder (other than stockholders of any Seller that is a publicly traded entity or an Affiliate of a publicly traded entity). Except as disclosed on Schedule 5.20, no stockholder, director or officer of the Company or the Company Subsidiary, or to the Knowledge of the Company any of their respective spouses or family members, owns directly or indirectly, on an individual or joint basis, any material interest in, or serves as an officer or director or in another similar capacity of, any competitor, customer or supplier of the Company or the Company Subsidiary, or any organization which is a party to a Material Contract with the Company or the Company Subsidiary.

5.21 Illegal Payments.

None of the Company, the Company Subsidiary or, to the Knowledge of the Company, any Person affiliated with the Company or the Company Subsidiary (acting on behalf of the Company) has ever offered, made or received on behalf of the Company or the Company Subsidiary any illegal payment or contribution of any kind, directly or indirectly, including, without limitation, illegal payments, gifts or gratuities, to any person, entity, or United States or foreign national, state or local government officials, employees or agents or candidates therefor or other persons.

5.22 Depository Institution Relationship.

To the Knowledge of the Company, as of the date hereof, in all material respects:

(i) since October 29, 2004, the Depository Institution has not notified the Company that it intends to terminate its existing depository business relationship (the "Relationship") with the Company;

(ii) the Relationship is in good standing;

(iii) the Depository Institution has been notified that the Company is considering a potential sale of the Company; and

(iv) there is no reasonable basis to believe that the Depository Institution would terminate or adversely modify the Depository Agreement as a result of a sale of the Company.

The representations set forth in this Section 5.22 are not intended to guarantee any future outcome or result.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers and the Company as follows:

6.01 Organization and Power.

Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Buyer has all requisite power and authority to execute and deliver this Agreement and perform its obligations hereunder.

6.02 Authorization; Valid and Binding Agreement.

The execution, delivery and performance of this Agreement by Buyer and the consummation of the transactions contemplated hereby have been duly and validly authorized by all requisite action, and no other proceedings on its part are necessary to authorize the execution, delivery or performance of this Agreement. This Agreement has been duly executed and delivered by Buyer and assuming the due authorization, execution and delivery by the other parties hereto constitutes a legal, valid and binding obligation of Buyer, enforceable

in accordance with its terms, except as enforceability may be limited by bankruptcy laws, other similar laws affecting creditors' rights and general principles of equity effecting the availability of specific performance and other equitable remedies.

6.03 No Breach.

Buyer is not subject to or obligated under its certificate of incorporation, its bylaws, or similar organizational or governing documents, any applicable law, or any agreement, instrument, license, franchise or permit, or any order, writ, injunction or decree, which would be breached or violated by Buyer's execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

6.04 Governmental Consents, etc.

Except as pursuant to the applicable requirements of the HSR Act, Buyer is not required to submit any notice, report or other filing with any governmental authority in connection with the execution, delivery or performance by it of this Agreement or the consummation of the transactions contemplated hereby. No consent, approval or authorization of any governmental or regulatory authority or any other party or Person is required to be obtained by Buyer in connection with its execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby. Buyer is not subject to any outstanding judgment, order or decree of any court of governmental body.

6.05 Litigation.

There are no actions, suits or proceedings pending or, to the knowledge of Buyer, overtly threatened against or affecting Buyer at law or in equity, or before or by any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which would adversely affect Buyer's performance under this Agreement or the consummation of the transactions contemplated hereby.

6.06 Brokerage.

There are no claims for brokerage commissions, finders' fees or similar compensation in connection with the transactions contemplated by this Agreement based on any arrangement or agreement made by or on behalf of Buyer.

6.07 Investment Representation.

Buyer is purchasing the Shares for its own account for investment purposes and not with a view to or for sale in connection with any public distribution of such securities in violation of any federal or state securities laws. Buyer is an "accredited investor" as defined in Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended. Buyer acknowledges that it is informed as to the risks of the transactions contemplated hereby and of ownership of the Shares. Buyer acknowledges that the Shares have not been registered under the Securities Act or any state or foreign securities laws and that the Shares may not be sold, transferred, offered for sale, pledged hypothecated or otherwise disposed of unless such transfer, sale, assignment, pledge, hypothecation or other

disposition is pursuant to the terms of an effective registration statement under the Securities Act and are registered under any applicable state or foreign securities laws or pursuant to an exemption from registration under the Securities Act and any applicable state or foreign securities laws.

6.08 Financing.

Attached hereto as Exhibit A are one or more debt financing commitment letters (collectively, the "Debt Commitment Letters"). Attached hereto as Exhibit B are equity commitment letters (the "Equity Commitment Letters" and, together with the Debt Commitment Letters, the "Commitment Letters"). The Commitment Letters are in full force and effect, subject to proper authorization and execution of each such Debt Commitment Letter by the other party thereto. Upon receipt of the financing contemplated by the Commitment Letters at or prior to the Closing, Buyer will have sufficient funds necessary to pay the full consideration payable to Sellers hereunder, to make all other necessary payments by it in connection with transactions contemplated hereby and to pay all of its related fees and expenses. Buyer has no reason to believe that the proceeds contemplated by the Commitment Letters will not be funded, and Buyer has not made any misrepresentation to any lender or provider of equity financing in connection with obtaining the financing commitments contemplated by the Commitment Letters.

6.09 No Knowledge of Buyer of Misrepresentations or Omissions.

To the Knowledge of Buyer, as of the date of this Agreement, the representations and warranties of the Company or Sellers in this Agreement and the schedules are not untrue or incorrect in any respect, and to the Knowledge of Buyer, there are no material errors in, or material omissions from, the schedules to this Agreement; provided, however, that the Knowledge of Buyer of a fact or circumstance shall not be construed as evidence that Buyer had actual knowledge that the existence of such fact or circumstance would constitute a breach of a particular representation or warranty set forth in Article IV or Article V of this Agreement or that such fact or circumstance was or was not appropriately reflected in the schedules; provided, further, that the Company and the Sellers shall have the burden of proving that, prior to the date hereof, Buyer (1) had actual knowledge of such fact or circumstance and (2) had actual knowledge that the existence of such fact or circumstance would constitute a breach of a particular representation or warranty set forth in Article IV or Article V of this Agreement or that such fact or circumstance was or was not appropriately reflected in the schedules.

ARTICLE VII

PRE-CLOSING COVENANTS

7.01 Conduct of the Business.

(a) From the date hereof until the Closing Date, the Company shall use its commercially reasonable efforts to carry on its and the Company Subsidiary's businesses in the Ordinary Course of Business unless Buyer shall have consented in writing, which consent will not be unreasonably withheld or delayed; provided that, the foregoing notwithstanding, the Company may prior to the Closing use all available cash to repay any Indebtedness, pay dividends and make other distributions to the Stockholders and Warrant Holders and pay

Sale Bonuses so long as the Company is able to pay its debts and expenses when they become due and payable prior to Closing consistent with past practice.

(b) Without limiting the generality of Section 7.01(a), from the date hereof until the Closing Date, except as otherwise provided for by this Agreement or as set forth in Schedule 7.01(b) or consented to in writing by Buyer which consent will not be unreasonably withheld or delayed, the Company shall not, and shall not permit any Subsidiary to, (i) issue or sell any shares of its or any Subsidiary's capital stock, (ii) issue or sell any securities convertible into, or options with respect to, warrants to purchase or rights to subscribe for any shares of its or any Subsidiary's capital stock, (iii) effect any recapitalization, reclassification, stock dividend, stock split or like change in its capitalization, (iv) amend its or the Company Subsidiary's certificate or articles of incorporation or bylaws, (v) delay or postpone the payment of accounts receivable or accounts payable other than in the Ordinary Course of Business, (vi) sell, lease, transfer or assign any assets, tangible or intangible, with an aggregate value in excess of \$250,000 (other than the sale of inventory and property, plant and equipment in the Ordinary Course of Business), (vii) enter into, modify or terminate any Material Contract (other than (A) any contract with any customer or trustee in the Ordinary Course of Business and (B) in connection with the Refco Deposits (including any agreement with the Union Bank of California or any other depository with respect thereto); (viii) increase in any respect the compensation (including bonuses) or fringe benefits of, or pay any bonus to, any director, officer or employee (other than in the Ordinary Course of Business); (ix) amend, adopt or modify any Employee Benefit Plan, other than to comply with applicable Law; (x) make any capital expenditure (or series of related capital expenditures) involving more than \$250,000 in the aggregate (other than capital expenditures in connection with the purchase of computers and related equipment in the Ordinary Course of Business or other budgeted capital expenditures); (xi) incur, assume or guarantee any Indebtedness, (xii) change its accounting methods or practices, or make material changes to collection policies, pricing policies or payment policies, (xiii) except as required by applicable Law, make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any amendment to a material Tax Return, settle any material claim or assessment in respect of Taxes, surrender any right to any Tax refund, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, (xiv) redeem, purchase or otherwise acquire any of its capital stock, or (xv) commit to any of the foregoing.

(c) From the date hereof until the Closing Date, the Company shall promptly inform the Buyer if it receives any material request for information, notice, demand letter, administrative inquiry or formal complaint or claim (and if oral, provide a summary of the material terms of such request, inquiry or claim) from any regulatory agency with respect to any aspect of the business, affairs, properties or assets of the Company or the Company Subsidiary.

7.02 Access to Books and Records.

From the date hereof until the Closing Date, the Company shall provide Buyer and its authorized representatives ("Buyer's Representatives") with reasonable access at all reasonable times and upon reasonable notice to the offices, properties, personnel, books and records of the Company and the Company Subsidiary in order for Buyer to have the opportunity to make such investigation as it shall reasonably desire to make of the affairs of the Company and the

Company Subsidiary. Notwithstanding anything to the contrary in the letter agreement, dated January 11, 2006, between Charlesbank Equity Fund VI, Limited Partnership ("Charlesbank VI") and the Company (the "Confidentiality Agreement"), Buyer shall remain bound by the Confidentiality Agreement and the letter agreement dated April 20, 2006 between Charlesbank VI and the Company until the earlier to occur of the Closing or the expiration of the term of the Confidentiality Agreement and the letter agreement as applicable.

7.03 Regulatory Filings.

(a) Each Party hereto shall make an appropriate filing, if necessary, pursuant to the HSR Act with respect to the transactions contemplated by this Agreement promptly after the date hereof and shall supply as promptly as practicable to the appropriate Governmental Authorities any additional information and documentary material that may be requested pursuant to the HSR Act. The fees and expenses associated with any such filing shall be borne by Buyer. Without limiting the generality of the foregoing, the Company, Buyer and their respective Affiliates shall not extend any waiting period or comparable period under the HSR Act or enter into any agreement with any governmental authority not to consummate the transactions contemplated hereby, except with the prior written consent of the Company, Buyer and Seller Representative.

(b) The Company and Buyer will (i) promptly notify the other Party of any written or oral communication to that Party or its Affiliates from any governmental authority and, subject to applicable Law, permit the other Party to review in advance any proposed written communication to any governmental authority, in each case concerning the review, clearance or approval of the transactions contemplated hereby under the HSR Act; (ii) not participate, agree to participate, or permit its Affiliates to participate, in any substantive meeting or discussion with any governmental authority in respect of any filings, investigation or inquiry concerning the review, clearance or approval of any of the transactions contemplated hereby under the HSR Act unless it consults with the other Party in advance and, to the extent permitted by such governmental authority, gives the other Party or its counsel the opportunity to attend and participate in such meeting; and (iii) furnish the other Party with copies of all correspondence, filings, and communications (and memoranda setting forth the substance thereof) drafted by or in conjunction with outside counsel between it and its Affiliates and its respective representatives on the one hand, and any governmental authority or members of such governmental authority's staff on the other hand, concerning the review, clearance or approval of any of the transactions contemplated hereby under the HSR Act, except to the extent prohibited by applicable Law or the instructions of such governmental authority.

7.04 Conditions.

Each of the Parties hereto shall use his, her or its reasonable best efforts to take all actions and to do all things necessary in order to consummate and make effective the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, (i) Buyer shall use reasonable best efforts to cause the conditions set forth in Section 3.02 to be satisfied and (ii) the Company shall use reasonable best efforts to cause the conditions set forth in Section 3.01 to be satisfied; provided that none of the Company, the Company Subsidiary or any Stockholder or Warrant Holder shall be required to expend any funds to obtain any governmental or other third-party consents.

7.05 Exclusive Dealing.

During the period from the date of this Agreement through the Closing or the earlier termination of this Agreement pursuant to Section 10.01 hereof, no Seller shall take or permit any other Person on his, her or its behalf to take, and neither the Company nor the Company Subsidiary shall take or permit any of its directors, officers, employees, bankers, brokers or any other Person acting on its behalf to take, any action to encourage, initiate or engage in discussions or negotiations with, or provide any information to, any Person (other than Buyer and Buyer's Representatives) concerning any acquisition of the Company or the Company Subsidiary, purchase of the Shares or Warrants, any merger involving the Company or the Company Subsidiary, any sale of all or substantially all of the assets of the Company and the Company Subsidiary, on a consolidated basis, or similar transaction involving the Company (other than assets sold in the Ordinary Course of Business).

7.06 Notification.

(a) From the date hereof until the Closing Date, the Company and each Seller shall disclose to Buyer in writing (in the form of updated schedules, if applicable) any material variances from the representations and warranties contained in Article IV (but only with respect to the representations and warranties made by such Seller in Article IV) and Article V, as applicable, promptly upon such Seller becoming aware of such variances with respect to Article IV and promptly upon such variances with respect to Article V coming to the attention of the Knowledge of the Company. Such disclosures shall amend and supplement the appropriate schedules delivered on the date hereof. Notwithstanding any provision in this Agreement to the contrary, unless Buyer provides the Company or Seller Representative with an objection notice within five (5) Business Days after delivery by the Company or Seller Representative of an updated disclosure schedule pursuant to this Section 7.06(a), Buyer shall be deemed to have accepted and agreed to the updated disclosure schedule. Any fact, matter or occurrence disclosed in such updated Schedule that should have been disclosed in the Disclosure Schedules with respect to the representations and warranties contained in Article IV or Article V as of the date hereof is referred to herein as a "Pre-Signing Matter" and any fact, matter or occurrence that occurs after the date hereof and that is disclosed pursuant to the first sentence of this Section 7.06(a) with respect to the representations and warranties contained in Article IV or Article V in an updated Schedule is referred to herein as a "Post-Signing Matter". Buyer may not terminate this Agreement pursuant to Section 10.01(b) due to the failure to satisfy the Closing condition specified in Section 3.01(g) on account of a Pre-Signing Matter or a Post-Signing Matter unless a decision to so terminate has been communicated in writing to Seller Representative along with the objection notice referred to in this Section 7.06(a) relating to such Pre-Signing Matter or Post-Signing Matter, as applicable; provided, however, if any Pre-Signing Matter or Post-Signing Matter is subsequently disclosed, any previously disclosed Pre-Signing Matter or Post-Signing Matter may be considered in determining if the condition set forth in Section 3.01(g) may be satisfied or not. For the avoidance of doubt, any decision by Buyer or the Seller Representative to terminate this Agreement pursuant to Section 3.01 or 3.02, as applicable, may be challenged by the Seller Representative or Buyer, as applicable, pursuant to all available remedies.

(b) From the date hereof until the Closing Date, Buyer shall disclose to the Company and Seller Representative in writing any material variances from Buyer's representations and warranties contained in Article VI promptly upon discovery thereof, and Buyer shall promptly notify Seller Representative if, to the Knowledge of Buyer, the representations and warranties of Sellers or the Company in this Agreement and the schedules (including updated schedules) are not true and correct in all material respects, or if, to the Knowledge of Buyer, there exists any material errors in, or omissions from, the schedules (including updated schedules) to this Agreement.

7.07 Management Co-Investment.

The Parties acknowledge and agree that Buyer may, in its sole discretion, offer certain Sellers (other than BMS LLC) (the "Participating Sellers") the opportunity to contribute up to an aggregate of \$15,000,000 in Shares to Buyer in exchange for equity securities of Buyer immediately prior to or at the Closing. The Parties hereto agree to negotiate reasonably and in good faith any amendment to this Agreement necessary to reflect such contribution(s) and to effect the foregoing in a tax-efficient manner for such Sellers, including, without limitation, by amending Schedule 5.02 (to reflect the fact that such contribution may be structured to occur immediately prior to Closing) and permitting Buyer to assign its interest (or a portion of its interest) in this Agreement to a wholly-owned subsidiary of Buyer (but such assignment shall not relieve Buyer or the Guarantors of any of their obligations under this Agreement or the Commitment Letters); provided, that, any such amendment shall not reduce any consideration payable hereunder to any Seller that is not a Participating Seller or increase any obligation of such Seller hereunder. Each of the Sellers acknowledges and agrees that the foregoing offer may not be extended to all Sellers (including such Seller). The Seller Representative shall have the authority to act behalf of the Sellers with respect to the matters contemplated by this Section 7.07. Notwithstanding anything to the contrary herein, if Buyer and the Participating Sellers, if any, are not able to agree to the terms of such Participating Sellers' investment in Buyer, nothing in this Section 7.07 shall in any way provide any Party with the right to terminate this Agreement or seek any recourse or indemnification from any Party.

ARTICLE VIII

ADDITIONAL COVENANTS OF BUYER

8.01 Access to Books and Records.

From and after the Closing, Buyer shall, and shall cause the Company and the Company Subsidiary to, provide Seller Representative, Sellers and their authorized representatives with reasonable access (for the purpose of examining and copying), during normal business hours, to the books and records of the Company and the Company Subsidiary with respect to periods beginning on or prior to the Closing Date in connection with any Tax filings, or for the purposes of defending any claim brought by any Person involving the Company or pursuant to this Agreement or for any other reasonable purpose. Unless otherwise consented to in writing by Seller Representative, Buyer shall not permit the Company or the Company Subsidiary, for a period of seven (7) years following the Closing Date, to destroy, alter or otherwise dispose of any books and records of the Company or the Company Subsidiary, relating to periods beginning on or prior to

the Closing Date without first giving reasonable prior written notice to Seller Representative and offering to surrender to Seller Representative such books and records or such portions thereof.

8.02 Director and Officer Liability and Indemnification.

(a) For a period of six (6) years after the Closing, Buyer shall not, and shall not permit the Company or the Company Subsidiary to, amend, repeal or modify any provision in the Company's or the Company Subsidiary's certificate or articles of incorporation or bylaws (or other organizational documents) relating to the exculpation or indemnification of any officers and directors (unless required by law), it being the intent of the parties that the officers and directors of the Company and the Company Subsidiary shall continue to be entitled to such exculpation and indemnification to the full extent of the law.

(b) At the Closing, Buyer will purchase, and pre-pay in full any premiums with respect to, a six (6) year "tail" on the current directors' and officers' liability insurance maintained by the Company in form and substance substantially similar to that in existence immediately prior to the Closing.

8.03 Contact with Customers and Suppliers.

Prior to the Closing, Buyer and Buyer's Representatives may contact or communicate with the customers and suppliers of the Company and the Company Subsidiary in connection with the transactions contemplated hereby only with the prior written consent of Seller Representative.

8.04 Employee Benefits.

(a) Buyer and its Affiliates shall, for a period of at least one year following the Closing Date, provide employees of the Company or the Company Subsidiary with compensation and benefits (other than any stock option or stock incentive benefits) that are substantially similar, in the aggregate, to compensation and benefits provided by the Company and the Company Subsidiary immediately prior to the Closing. Notwithstanding anything to the contrary in this Section 8.04(a), (i) Buyer shall have the same rights to amend, modify or terminate any Benefit Plan as the Company or the Company Subsidiary has to amend, modify or terminate such Benefit Plan and (ii) Buyer will have sole discretion, to the extent permitted under applicable law, to terminate the employment of any "at-will" employee of the Company or the Company Subsidiary.

(b) For all purposes under the employee benefit plans of Buyer and its Affiliates providing benefits after the Closing Date, each employee who is as of the Closing Date an employee of the Company or the Company Subsidiary shall be credited with his or her years of service with the Company or the Company Subsidiary, as applicable, before the Closing Date, to the same extent as such employee was entitled, before the Closing Date, to credit for such service under any similar Employee Benefit Plans, except to the extent such credit would result in a duplication of benefits. In addition, and without limiting the generality of the foregoing: (i) each employee shall be immediately eligible to participate, without any waiting time, in any and all employee benefit plans sponsored by Buyer and its Affiliates for the benefit of employees

(such plans, collectively, the "New Plans") to the extent coverage under such New Plan replaces coverage under a comparable Employee Benefit Plan in which such employee participated immediately before the Closing Date (such Plans, collectively, the "Old Plans"); and (ii) for purposes of each New Plan providing medical, dental, pharmaceutical or vision benefits to any employee, Buyer shall cause all pre-existing condition exclusions and actively-at-work requirements of such New Plan to be waived for such employee and his or her covered dependents, and Buyer shall cause any eligible expenses incurred by such employee and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date such employee's participation in the corresponding New Plan begins to be taken into account under such New Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such employee and his or her covered dependents for the applicable plan year as if such amounts had been paid in accordance with such New Plan. Buyer shall be solely responsible for any obligations arising under COBRA with respect to all "M&A qualified beneficiaries" as defined in Treasury Regulation Section 54.4980B-9.

(c) Nothing in this Section 8.04 shall cause any employee of the Company or any Company Subsidiary (or any of their eligible dependents or other beneficiaries) to be a third party beneficiary of, or have any right or claim under, this Agreement.

8.05 Commitment Letters.

Buyer shall not terminate, amend or otherwise modify any of the Commitment Letters in any manner that would reasonably be expected to adversely affect Buyer's ability to obtain the financings contemplated thereby without the consent of Seller Representative.

ARTICLE IX
INDEMNIFICATION

9.01 Survival of Representations, Warranties and Covenants.

The representations and warranties of the Company, Sellers and Buyer in this Agreement and in any certificate delivered pursuant hereto by any such party shall terminate as of the Closing or upon termination of this Agreement pursuant to Article X, as the case may be; provided that:

(i) the representations and warranties of each Seller in Sections 4.01, 4.02, 4.04 and 4.05 (collectively, the "Fundamental Seller Representations") shall survive the Closing for a period of one year;

(ii) the representations and warranties of the Company in Sections 5.01(c), 5.01(d), 5.02 and 5.04 (collectively, the "Fundamental Company Representations") shall survive the Closing for a period of one year; and

(iii) the representations and warranties of Buyer in Sections 6.01 (but only the second sentence thereof), 6.02 and 6.06 (collectively, the "Fundamental Buyer Representations") shall survive the Closing for a period of one year.

The covenants in this Agreement that apply to any period ending on the Closing shall terminate as of the Closing (other than the covenants set forth in Sections 7.01 and the first sentence of 7.06(a) which shall also terminate at Closing but with respect to which a claim for breach may be brought within 60 days of the Closing). The covenants in this Agreement that apply to any period after the Closing shall survive the Closing in accordance with their terms. Any claim for indemnification with respect to (A) any Pre-Signing Matter must be made within 60 days of the Closing and (B) Sale Bonus Losses must be made prior to December 31, 2009. No claim for indemnification hereunder for breach of any representation, warranty or covenant may be made after the expiration of the survival period applicable to such representation, warranty or covenant; provided, that any representation or warranty in respect of which indemnity may be sought under Section 9.02 or under Section 9.03, and the indemnity with respect thereto, shall survive the time at which it would otherwise terminate pursuant to this Section 9.01 if reasonably detailed written notice of the breach or potential breach thereof giving rise to such right or potential right of indemnity shall have been given to the Person against whom such indemnity may be sought prior to such time; provided, that, it shall be sufficient for any Buyer Indemnified Party to give notice with respect to any breach or potential breach to the Seller Representative so long as such notice identifies the Seller(s) against whom such indemnity is sought.

9.02 Indemnification by the Sellers and LEF II for the Benefit of

Buyer.

(a) After the Closing, subject to the limitations set forth in this Article IX, each Seller (other than BMS LLC), individually and not severally with any other Seller shall indemnify the Company, Buyer and Buyer's officers, directors, employees, agents, representatives, affiliates, successors and permitted assigns (collectively, the "Buyer Indemnified Parties") and save and hold them harmless against any loss, liability, damage or expense (collectively, "Losses"), which the Buyer Indemnified Parties may suffer or sustain as a result of:

(i) any breach by such Seller of any Fundamental Seller Representation made by such Seller under Article IV; and

(ii) any Pre-Signing Matter arising from a representation made by such Seller under Article IV.

(b) After the Closing, the Sellers (other than BMS LLC), severally and not jointly (based upon their respective Pro Rata Portions) shall indemnify the Buyer Indemnified Parties and save and hold them harmless against any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach of any Fundamental Company Representation made by the Company under Article V.

(c) After the Closing, each Seller (other than BMS LLC) shall indemnify the Buyer Indemnified Parties and save and hold them harmless against any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach by such Seller:

(i) of any covenant in this Agreement that applies to any period after the Closing; and

(ii) of the covenant set forth in the first sentence of Section 7.06(a) with respect to any representation made by such Seller in Article IV; provided, that, no Seller shall be liable for any liability or obligation of any other Seller under this Section 9.02(c).

(d) After the Closing, the Sellers (other than BMS LLC), severally and not jointly (based upon their respective Pro Rata Portions), shall indemnify the Buyer Indemnified Parties and save and hold them harmless against any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any Pre-Signing Matter arising from a representation made by the Company under Article V and any breach by the Company of its obligations under Section 7.01 or the first sentence of Section 7.06(a);

(e) After the Closing, the Sellers (other than BMS LLC) severally and not jointly (based on their respective Pro Rata Portions) shall indemnify the Buyer Indemnified Parties and save and hold them harmless against any Losses (including Taxes) which the Buyer Indemnified Parties may incur, suffer or sustain because of the application of Section 280G and/or 4999 (or the related withholding provisions) of the Code (and any corresponding provisions of state law) to any payment (or other action) made by the Company, the Company Subsidiary (or any Affiliate of either the Company or the Company Subsidiary) on or before the Closing or pursuant to a Pre-Closing Agreement (such Losses, the "Sale Bonus Losses").

(f) After the Closing, BMS LLC and LEF II, jointly and severally with each other, shall indemnify the Buyer Indemnified Parties and save and hold them harmless against:

(i) any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach by BMS LLC (solely in its capacity as a Seller) of any Fundamental Seller Representation made by BMS LLC under Article IV;

(ii) BMS LLC's Pro Rata Portion of any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach of any Fundamental Company Representation made by the Company under Article V;

(iii) BMS LLC's Pro Rata Portion of any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any Pre-Signing Matter arising from a representation made by the Company under Article V and any breach by the Company of its obligations under Section 7.01 or the first sentence of 7.06(a) ;

(iv) any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach by BMS LLC of its obligations under the first sentence of Section 7.06(a) with respect to any representation made by BMS LLC in Article IV and any Pre-Signing Matter arising from a representation made by BMS LLC under Article IV;

(v) BMS LLC's Pro Rata Portion of any Sale Bonus Losses;
and

(vi) any Losses which the Buyer Indemnified Parties may suffer or sustain as a result of any breach by BMS LLC (solely in its capacity as a Seller) of any covenant in this Agreement that applies to any period after the Closing.

9.03 Indemnification by Buyer for the Benefit of the Sellers.

After the Closing, Buyer and the Company, jointly and severally, shall indemnify the Sellers and their respective officers, directors, employees, agents, representatives, affiliates, successors and permitted assigns (collectively, the "Seller Indemnified Parties") and hold them harmless against any losses which the Seller Indemnified Parties may suffer or sustain, as a result of:

(a) any breach of any Fundamental Buyer Representation made by Buyer under Article VI; and

(b) any breach by Buyer or the Company of any covenant in this Agreement that applies to any period after the Closing.

9.04 Limitations on Indemnification.

Notwithstanding anything to the contrary contained in this Agreement, the obligations of the Sellers or Buyer under Section 9.02 or Section 9.03, as applicable, shall subject to the following limitations:

(a) No Indemnitee shall be entitled to any indemnification pursuant to Article IX with respect to any Loss resulting from any single claim or aggregated claims arising out of the same facts, events or circumstances unless such Loss equals or exceeds \$50,000 (Fifty Thousand Dollars); provided, this limitation shall not apply to any breach by any Party of a covenant that applies to any period after the Closing.

(b) None of the Indemnitors shall have any liability or obligation to indemnify any Indemnitee under Section 9.02(a), 9.02(b), 9.02(c)(ii), 9.02(d), 9.02(f)(i), 9.02(f)(ii), 9.02(f)(iii) and 9.02(f)(iv) and Section 9.03(a), as applicable, unless the aggregate amount of all Losses relating thereto for which the Sellers or Buyer, as applicable, would, but for this Section 9.04(b), be liable exceeds on a cumulative basis an amount equal to \$7,690,000 (Seven Million Six Hundred and Ninety Thousand Dollars) (the "Deductible"), and then only to the extent such Losses exceed the Deductible. In addition, (i) the Sellers' and LEF II's aggregate liability and obligation to indemnify the Buyer Indemnified Parties under Sections 9.02(a)(ii), 9.02(c)(ii), 9.02(d), 9.02(f)(iii) and 9.02(f)(iv) (collectively, the "Limited Cap Provisions") shall in no event exceed \$25,000,000 (Twenty Five Million Dollars) (the "Limited Cap") in the aggregate; (ii) the Sellers' and LEF II's aggregate liability and obligation to indemnify the Buyer Indemnified Parties under Sections 9.02(a)(i), 9.02(b), 9.02(f)(i) and 9.02(f)(ii) (collectively, the "General Cap Provisions") and the Limited Cap Provisions shall in no event exceed \$96,125,000 (Ninety Six Million One Hundred and Twenty Five Thousand Dollars) (the "General Cap") in the aggregate; (iii) the Sellers' and LEF II's aggregate liability and obligation to indemnify the Buyer Indemnified Parties under Sections 9.02(e) and 9.02(f)(v) (collectively, the "Tax Cap Provisions") shall in no event exceed \$4,500,000 (Four Million Five Hundred Thousand Dollars) (the "Tax Cap"); (iv) the maximum liability and obligation of any Seller (and of BMS LLC and LEF II taken together) to indemnify the Buyer Indemnified Parties (A) under the Limited Cap Provisions shall in no event exceed an amount in the aggregate equal to the product of such Seller's Pro Rata Portion and the Limited Matters Cap, (B) under the Limited Cap Provisions and the General Cap Provisions, taken together, shall in no event exceed an amount in the aggregate equal to the product of such Seller's Pro Rata Portion and the General Cap, (C)

under the Tax Cap Provisions shall in no event exceed an amount in the aggregate equal to the product of such Seller's Pro Rata Portion and the Tax Matters Cap (which with respect to BMS LLC and LEF II taken together shall not in the aggregate exceed an amount equal to the product of BMS LLC's Pro Rata Portion of the Limited Matters Cap, the General Matters Cap or the Tax Cap (as applicable)) and (D) with respect to all matters contemplated by this Article IX shall not in the aggregate exceed an amount equal to the product of such Seller's Pro Rata Portion and the Base Purchase Price (which in the case of BMS LLC and LEF II taken together shall be equal to the product of BMS LLC's Pro Rata Portion and the Base Purchase Price); (v) each Seller and LEF II shall be a credited a portion of the Deductible equal to the product of such Seller's Pro Rata Portion and the Deductible (which in the case of BMS LLC and LEF II taken together shall be an amount equal to the product of BMS LLC's Pro Rata Portion and the Deductible); and (vi) Buyer's liability and obligation to indemnify the Seller Indemnified parties (A) under Section 9.03(a) shall in no event exceed \$96,125,000 (Ninety-six Million One Hundred Twenty-five Thousand Dollars) and (B) with respect to all matters contemplated by this Article IX shall not in the aggregate exceed the Base Purchase Price.

(c) Notwithstanding anything in this Article IX to the contrary and except with respect to Pre-Closing Matters, no Indemnitee shall be entitled to indemnification under Section 9.02(a)(i), 9.02(b), 9.02(f)(i), 9.02(f)(ii) or 9.03(a), as applicable, and no Indemnitor shall be liable for, any loss suffered by any Indemnitee as a result of a breach of any particular representation or warranty set forth in Article IV, Article V or Article VI, as applicable, of this Agreement if, prior to the date hereof, such Indemnitee (i) had actual knowledge of any fact or circumstance and (ii) had actual knowledge that the existence of such fact or circumstance would constitute a breach of the particular representation or warranty set forth in Article IV, Article V or Article VI, as applicable, of this Agreement; provided, however, that the knowledge of a Indemnitee of a fact or circumstance shall not be construed as evidence that the relevant Indemnitee had actual knowledge that the existence of such fact or circumstance would constitute a breach of a particular representation or warranty set forth in Article IV, Article V or Article VI, as applicable, of this Agreement or that such fact or circumstance was or was not appropriately reflected in the schedules; provided, further, that the Indemnitor shall have the burden of proving that, prior to the date hereof, the relevant Indemnitee (1) had actual knowledge of such fact or circumstance and (2) had actual knowledge that the existence of such fact or circumstance would constitute a breach of a particular representation or warranty set forth in Article IV, Article V or Article VI, as applicable, of this Agreement or that such fact or circumstance was or was not appropriately reflected in the schedules.

(d) The parties hereby agree that LEF II shall have no liabilities of any kind or nature whatsoever (including, without limitation, in respect of rights of indemnification or other payment obligations) to any Buyer Indemnified Person under this Agreement or any other agreement delivered in connection with the Agreement, other than as expressly set forth in Section 9.02.

9.05 Exclusive Remedy; No Punitive Damages.

Notwithstanding anything contained in this Agreement to the contrary, after the Closing, other than with respect to fraud, the indemnification provisions of this Article IX shall constitute the sole and exclusive remedy of the parties hereto for any and all losses or other claims relating to or arising from this Agreement or any certificate or other instrument delivered pursuant

hereto and the transactions contemplated hereby. In no event shall any Indemnatee be entitled to recover or make a claim for any amounts in respect of punitive damages. The Parties agree that with respect to any breaches of any covenants occurring prior to the Closing, the Parties shall have prior to the Closing, in addition to the right to seek specific performance, the right to seek damages with respect to any such breach.

9.06 Manner of Payment.

Any indemnification of a Buyer Indemnified Party pursuant to Section 9.02(a) shall be effected by wire transfer of immediately available funds from the applicable individual Seller to an account designated by Buyer within 15 days after the final determination thereof. Any indemnification of a Buyer Indemnified pursuant to Section 9.02(b) shall be effected by wire transfer of immediately available funds from the Sellers (pro rata based upon their respective Pro Rata Portions) to an account designated by Buyer within 15 days after the final determination thereof. Any indemnification of a Seller Indemnified Party pursuant to Section 9.03 shall be effected by wire transfer of immediately available funds from Buyer or the Company to an account designated by Seller Representative within 15 days after the final determination thereof.

9.07 Defense of Third Party Claims.

Any Person making a claim for indemnification under Section 9.02 or Section 9.03 (an "Indemnatee") shall notify the indemnifying party (an "Indemnitor") of the claim in writing promptly after receiving written notice of any action, lawsuit, proceeding, investigation or other claim against it (if by a third party), describing the claim, the amount thereof (if known and quantifiable) and the basis thereof. Any Indemnitor shall be entitled to participate in the defense of such action, lawsuit, proceeding, investigation or other claim giving rise to an Indemnatee's claim for indemnification at such Indemnitor's expense, and at its option shall be entitled to assume the defense thereof by appointing a reputable counsel reasonably acceptable to the Indemnatee to be the lead counsel in connection with such defense; provided that the Indemnatee shall be entitled to participate in the defense of such claim and to employ counsel of its choice for such purpose; provided, however, that the fees and expenses of such separate counsel shall be borne by the Indemnatee. If the Indemnitor shall control the defense of any such claim, the Indemnitor shall obtain the prior written consent of the Indemnatee (which consent shall not be unreasonably withheld) before entering into any settlement of a claim or ceasing to defend such claim if, pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief will be imposed against the Indemnatee or if such settlement does not expressly and unconditionally release the Indemnatee from all liabilities and obligations with respect to such claim, without prejudice except for payments that would be required to be paid by Buyer representing the Deductible.

9.08 Determination of Loss Amount.

The amount of any Loss subject to indemnification under Section 9.02 or Section 9.03 shall be calculated net of (i) any Tax Benefit inuring to the Indemnatee on account of such Loss and (ii) any insurance proceeds received by the Indemnatee on account of such Loss. If the Indemnatee receives a Tax Benefit after an indemnification payment is made to it, the Indemnatee shall promptly pay to the Person or Persons that made such indemnification payment the amount

of such Tax Benefit at such time or times as and to the extent that such Tax Benefit is realized by the Indemnatee. For purposes hereof, "Tax Benefit" shall mean any refund of Taxes paid or reduction in the amount of Taxes which otherwise would have been paid, in each case computed at the highest marginal tax rates applicable to the recipient of such benefit. The Indemnatee shall seek full recovery under all insurance policies covering any Loss to the same extent as it would if such Loss were not subject to indemnification hereunder. In the event that an insurance or other recovery is obtained by any Indemnatee with respect to any Loss for which any such Indemnatee has been indemnified hereunder, then a refund equal to the aggregate amount of the recovery shall be made promptly to the Person or Persons that provided such indemnity payments to such Indemnatee. Each Indemnatee shall have the obligation to mitigate any Loss in accordance with general law.

9.09 Non-Rescission.

Notwithstanding anything in this Agreement to the contrary, no breach of any representation, warranty, covenant or agreement contained herein or in any document, certificate or other instrument delivered pursuant hereto shall have rise to any right on the party of Buyer, the Company or any Seller to rescind this Agreement, in whole or in part, or any of the transactions contemplated hereby.

9.10 Treatment of Indemnity Payments.

Any payments made to a Buyer Indemnified Party or a Seller Indemnified Party pursuant to this Article IX shall be treated as an adjustment to the Estimated Adjusted Purchase Price for tax purposes.

ARTICLE X

TERMINATION

10.01 Termination.

This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of Buyer, the Company and Seller Representative (on behalf of Sellers);

(b) by Buyer, if there has been a material violation or breach by the Company or any Seller of any covenant, representation or warranty contained in this Agreement which has prevented the satisfaction of any condition to the obligations of Buyer at the Closing and such violation or breach has not been waived by Buyer or, in the case of a covenant breach, cured by the Company or such Seller within fifteen (15) days after written notice thereof from Buyer;

(c) by Seller Representative, if there has been a material violation or breach by Buyer of any covenant, representation or warranty contained in this Agreement which has prevented the satisfaction of any condition to the obligations of Sellers at the Closing and such violation or breach has not been waived by Seller Representative or, with respect to a covenant breach, cured by Buyer within fifteen (15) days after written notice

thereof by Seller Representative (provided that neither a breach by Buyer of Section 6.08 nor the failure of Buyer to deliver the consideration pursuant to Section 2.03 at the Closing as required hereunder shall be subject to cure hereunder unless otherwise agreed to in writing by Seller Representative); or

(d) by Seller Representative or Buyer if the transactions contemplated hereby have not been consummated by August 7, 2006; provided that (i) Seller Representative shall not be entitled to terminate this Agreement pursuant to this Section 10.01(d) if the Company's, the Company Subsidiary's or any Seller's knowing or willful breach of this Agreement has prevented the consummation of the transactions contemplated hereby and (ii) Buyer shall not be entitled to terminate this Agreement pursuant to this Section (d) if Buyer's knowing or willful breach of this Agreement has prevented the consummation of the transactions contemplated hereby.

10.02 Effect of Termination.

In the event of termination of this Agreement as provided above, the provisions of this Agreement shall immediately become void and of no further force and effect (other than this Section 10.02 and Article XIII, both of which shall survive the termination of this Agreement), and there shall be no liability on the part of Buyer, the Company, the Company Subsidiary or any Seller to one another, except for breaches of this Agreement prior to the time of such termination.

ARTICLE XI

SELLER REPRESENTATIVE

11.01 Designation.

Bankruptcy Management Solutions, LLC ("BMS LLC" or the "Seller Representative") is hereby designated by each Seller to serve as the representative of Sellers with respect to the matters expressly set forth in this Agreement to be performed by Seller Representative.

11.02 Authority.

Each of the Sellers, by the execution of this Agreement, hereby irrevocably appoints the Seller Representative as the agent, proxy and attorney-in-fact for such Seller for all purposes of this Agreement (including the full power and authority on such Seller's behalf (i) to consummate the transactions contemplated herein; (ii) to pay such Seller's expenses incurred in connection with the negotiation and performance of this Agreement (whether incurred on or after the date hereof); (iii) to disburse any funds received hereunder to such Seller and each other Seller; (iv) to endorse and deliver any certificates or instruments representing the Shares and execute such further instruments of assignment as Buyer shall reasonably request; (v) to execute and deliver on behalf of such Seller any amendment or waiver hereto; (vi) to take all other actions to be taken by or on behalf of such Seller in connection herewith including; (vii) to withhold funds to pay Seller-related expenses and obligations and (viii) to do each and every act and exercise any and all rights which such Seller of the Sellers collectively are permitted or required to do or exercise under this Agreement). Each of the Sellers agrees that such agency and proxy are coupled with an interest, are therefore irrevocable without the consent of the Seller Representative and shall survive the death, incapacity, bankruptcy, dissolution or liquidation of any Seller. All decisions and actions

by the Seller Representative (to the extent authorized by this Agreement) shall be binding upon all of the Sellers, and no Seller shall have the right to object, dissent, protest or otherwise contest the same.

ARTICLE XII

ADDITIONAL COVENANTS AND AGREEMENTS

12.01 Disclosure Generally.

If and to the extent any information required to be furnished in a particular schedule attached hereto is contained in this Agreement or in any other schedule (or updated schedule), such information shall be deemed to be included in such particular schedule to the extent that it is reasonably apparent on its face that the disclosure in such other schedule (or updated schedule) applies to the information requirement for the particular schedule. The inclusion of any information in any schedule (or updated schedule) shall not be deemed to be an admission or acknowledgment by the Company or Sellers, in and of itself, that such information is material to or outside the Ordinary Course of Business.

12.02 Acknowledgment by Buyer.

Buyer acknowledges that it has conducted to its satisfaction, an independent investigation and verification of the financial condition, results of operations, assets, liabilities, properties and projected operations of the Company and the Company Subsidiary and, in making its determination to proceed with the transactions contemplated by this Agreement, Buyer has relied only on the results of its own independent investigation and verification and the representations and warranties of the Company and the Company Subsidiary expressly and specifically set forth in this Agreement, including the schedules (and updated schedules). SUCH REPRESENTATIONS AND WARRANTIES BY THE COMPANY AND SELLERS CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND SELLERS TO BUYER IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND BUYER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE EXPRESS OR IMPLIED (INCLUDING, BUT NOT LIMITED TO, ANY RELATING TO THE FUTURE OR HISTORICAL FINANCIAL CONDITION, RESULTS OF OPERATIONS, ASSETS OR LIABILITIES OF THE COMPANY) ARE SPECIFICALLY DISCLAIMED BY THE COMPANY AND SELLERS.

12.03 Tax Matters.

Buyer will pay, and will indemnify and hold Sellers harmless against, any real property transfer or gains tax, stamp tax, stock transfer tax, or other similar Tax imposed on the Company, the Company Subsidiary or one or more Sellers as a result of the transactions contemplated by this Agreement (collectively, "Transfer Taxes"), and any penalties or interest with respect to the Transfer Taxes. Sellers agree to cooperate with Buyer in the filing of any returns with respect to the Transfer Taxes, including promptly supplying any information in their possession that is reasonably necessary to complete such returns.

12.04 Further Assurances.

From time to time, as and when requested by any party hereto and at such party's expense, any other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as the requesting party may reasonably deem necessary or desirable to evidence and effectuate the transactions contemplated by this Agreement.

12.05 Release.

(a) Subject to the consummation of the transactions contemplated by Section 2.01, for and in consideration of the amount to be paid to each Seller under this Agreement, and the additional covenants and promises set forth in this Agreement, each Seller, on behalf of itself and its assigns, heirs, beneficiaries, representatives, agents and Affiliates (the "Seller Releasing Parties"), hereby, effective as of the Closing, fully, finally and irrevocably releases, acquits and forever discharges the Company and the Company Subsidiary, and each of their officers, directors, partners, general partners, limited partners, managing directors, members, stockholders, trustees, shareholders, representatives, employees, principals, agents, Affiliates, parents, subsidiaries, predecessors, successors, assigns, beneficiaries, heirs and executors (collectively, the "Buyer Released Parties") from any and all commitments, actions, debts, claims, counterclaims, suits, causes of action, damages, demands, liabilities, obligations, costs, expenses, and compensation of every kind and nature whatsoever, past, present, or future, at law or in equity, whether known or unknown, contingent or otherwise, which such Seller Releasing Parties, or any of them, had, has, or may have had at any time in the past until and including the date of this Agreement against Buyer Released Parties, or any of them, including but not limited to any claims which relate to or arise out of such Seller Releasing Party's prior relationship with the Company or its rights or status as a stockholder, officer or director of the Company (collectively, for the purposes of this Section 12.05, "Buyer Causes of Action"); provided, however, the term Buyer Causes of Action shall not include, and nothing contained herein shall operate to release (i) any obligation of Buyer or any Buyer Released Party under this Agreement or any agreement delivered in connection herewith (including the Commitment Letters), (ii) any rights a Seller Releasing Party may have (A) under this Agreement or any agreement delivered in connection herewith or under any agreement with a Buyer Released Party with the subject matter not related in any way to the Company or the Company Subsidiary, or (B) any accrued salary, bonus, wages, benefits or other compensation earned and unpaid through the date of the Closing or reimbursement of expenses arising out of any Seller Releasing Party's employment with the Company or the Company Subsidiary or (iii) any right of any Seller Releasing Party to be indemnified by the Company or the Company Subsidiary according to the terms of the applicable certificate of incorporation or bylaws, directors' and officers' liability insurance and state corporate law.

(b) Each Seller hereby represents to Buyer Released Parties that such party (i) has not assigned any Causes of Action or possible Causes of Action against any Released Party, (ii) fully intends to release all Causes of Action against the applicable Released Parties including, without limitation, unknown and contingent Causes of Action (other than those specifically reserved above), and (iii) has consulted with counsel with respect to the execution and delivery of this general release and has been fully

apprised of the consequences hereof. Furthermore, each Seller further agrees not to institute any litigation, lawsuit, claim or action against any Buyer Released Party with respect to the released Causes of Action.

12.06 Nonsolicitation.

Subject to the consummation of the transactions contemplated by Section 2.01, each of the Sellers will not, and will cause each of their Affiliates not to, for a period beginning on the Closing Date and ending on the date which is three (3) years from and after the Closing Date (such period, the "Restricted Period"), (i) recruit, solicit, lure or entice away any Person who is an employee of the Company or the Company Subsidiary as of the date hereof to leave the employ of the Company of any of its Subsidiaries, or hire any such Person, or (ii) request or advise any Person who is a customer or supplier of the Company or any of its Subsidiaries to withdraw, curtail or cancel any such customer's or supplier's business with the Company or any of its Subsidiaries; provided, that, the limitations set forth in clause (i) above with respect to any non-key officer or employee of the Company or the Company Subsidiary shall not apply to the portfolio companies of any fund managed by Lincolnshire Management, Inc.; provided, further, that the foregoing shall not be construed to prohibit the Sellers or any of their Affiliates after the Closing Date from hiring or interviewing any Person who responds to any general advertisements seeking for employees or consultants in newspapers, periodicals or other media of general circulation (including through a recruiting firm) or any Person who makes an unsolicited approach to any Seller or its Affiliates. If the final judgment of a court of competent jurisdiction declares that any term or provision of this Section 12.06 is invalid or unenforceable, the parties hereto agree that the court making the determination of invalidity or unenforceability will have the power to reduce the scope, duration, or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement will be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

12.07 Confidentiality.

From the date hereof until the date that is three (3) years after the Closing Date, each Party will treat and hold as confidential all of the information, whether or not in writing, concerning the business, technology, business relationships or financial affairs of the other Party (collectively, "Proprietary Information") and refrain from using any of the Proprietary Information except in connection with this Agreement; provided that LEF II and its Affiliates may disclose to investors, potential investors, potential portfolio companies and investment bankers or brokers the amount invested by LEF II and its Affiliates in the Company, related investment return information, a general description of the business of the Company and the Company Subsidiary and describe in general terms the financial progress made by the Company during their ownership and any strategies or enhancements implemented or suggested by LEF II or its Affiliates (other than proprietary trade secrets). If any Party is requested or required (by oral question or request for information or documents in any Action) to disclose any Proprietary Information, that Party will notify the other Party in writing promptly of the request or requirement so that such other Party may seek an appropriate protective order or waive compliance with this Section 12.07. If, in the absence of a protective order or the receipt of a waiver hereunder, any Party is, on the written advice of counsel, compelled to

disclose any Proprietary Information to any governmental authority, arbitrator, or mediator or else stand liable for contempt, that Party may disclose the Proprietary Information to the governmental authority, arbitrator, or mediator; provided, however, that the disclosing Party shall use its commercially reasonable efforts to obtain, at the request and sole cost and expense of the other Party, a court order or other assurance that confidential treatment will be accorded to such portion of the Proprietary Information required to be disclosed as such other Party shall designate; provided, further, any Party may disclose any such Proprietary Information as follows: (i) to the extent that the Proprietary Information is or becomes generally available to the public through no fault of the Party or its Affiliates making such disclosure; (ii) to the extent that the same information is already known by the Party making such disclosure prior to receipt of such Proprietary Information; (iii) to the extent that the Party that received the Proprietary Information independently develops the same information without in any way relying on any Proprietary Information; or (iv) to the extent that the same information becomes available to the Party making such disclosure on a nonconfidential basis from a source other than another Party or its Affiliates, which source, to the Knowledge of the disclosing Party, is not prohibited from disclosing such information by a legal, contractual or fiduciary obligation to the other Party. For purposes of this Section 12.07 only, the term "Party" shall refer to the Sellers, on the one hand, and Buyer (and, after the Closing, the Company and its Subsidiaries), on the other hand.

ARTICLE XIII

MISCELLANEOUS

13.01 Non-Survival of Representations and Warranties.

Except as set forth in Section 9.01, the representations and warranties in this Agreement and any certificate delivered pursuant hereto by any party hereto shall terminate at the Closing or upon termination of this Agreement pursuant to Article X, as the case may be, and all post-closing covenants set forth in this Agreement shall survive the Closing in accordance with their respective terms.

13.02 Press Releases and Communications.

No press release or public announcement related to this Agreement or the transactions contemplated herein, or prior to the Closing, any other announcement or communication to the employees, customers, suppliers or depository institutions of the Company and the Company Subsidiary related to this Agreement or the transactions contemplated herein, shall be issued or made by any Party hereto without the joint approval of Buyer and Seller Representative, unless required by law (in the reasonable opinion of counsel) in which case Buyer and Seller Representative shall have the right to review such press release, announcement or communication prior to its issuance, distribution or publication.

13.03 Expenses.

Buyer shall pay all of its own expenses (including attorneys' and accountants' fees and expenses) in connection with the negotiation of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated by this Agreement (whether consummated or not).

13.04 Notices.

All notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given (i) when personally delivered, (ii) one (1) Business Day after deposit with Federal Express or similar overnight courier service or (iii) three (3) Business days after being mailed by first class mail, return receipt requested. Notices, demands and communications to Buyer, the Company, Sellers and Seller Representative shall, unless another address is specified in writing, be sent to the addresses indicated below:

Notices to Buyer:

BMS Holdings, Inc.
c/o Charlesbank Capital Partners
200 Clarendon St., 54th floor
Boston, MA 02116-5021
Telecopier: (617) 619-5402
Attn: Tim R. Palmer and Michael Choe

and

Ocwen Financial Corporation
P.O. Box 24737
West Palm Beach, FL 33416
Telecopier: (561) 681-8177
Attn: William C. Erbey

with a copy (which shall not constitute notice to Buyer) to:

Goodwin Procter LLP
Exchange Place
Boston, MA 02109
Telecopier: (617) 523-1231
Attn: Kevin M. Dennis

Notices to Sellers or to Seller Representative:

c/o Lincolnshire Management, Inc.
780 Third Avenue, 40th Floor
New York, NY 10017
Telecopier: (212) 755-5457
Attn: Allan D.L. Weinstein

with a copy (which shall not constitute notice to any Seller or Seller Representative) to:

Kirkland & Ellis LLP
153 East 53rd Street
New York, NY 10022
Telecopier: (212) 446-6460
Attn: Frederick R. Tanne
Srinivas S. Kaushik

Notices to Company:

Bankruptcy Management Solutions, Inc.
8 Corporate Park, 2nd Floor
Irvine, CA 92606
Attn: David Watkins

with a copy (which shall not constitute notice to the Company) to:

Lincolnshire Management, Inc.
780 Third Avenue, 40th Floor
New York, NY 10017
Telecopier: (212) 755-5457
Attn: Allan D.L. Weinstein

and:

Kirkland & Ellis LLP
153 East 53rd Street
New York, NY 10022
Telecopier: (212) 446-6460
Attn: Frederick R. Tanne
Srinivas S. Kaushik

13.05 Assignment.

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, except that neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned or delegated (i) by Buyer without the prior written consent of Seller Representative or (ii) by the Company or any Seller without the prior written consent of Buyer; provided, that, the Buyer may assign its rights under this Agreement for collateral security purposes to any lender providing financing to Buyer or its Affiliates but such assignment shall not in any way relieve Buyer of its obligations hereunder.

13.06 Severability.

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

13.07 References.

The table of contents and the section and other headings and subheadings contained in this Agreement and the exhibits hereto are solely for the purpose of reference, are not part of the agreement of the parties hereto, and shall not in any way affect the meaning or interpretation of this Agreement or any exhibit hereto. All references to days or months shall be deemed references to calendar days or months. All references to "\$" shall be deemed references to United States dollars. Unless the context otherwise requires, any reference to a "Section," "Exhibit," or "Schedule" shall be deemed to refer to a section of this Agreement, exhibit to this Agreement or a schedule to this Agreement, as applicable. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The use of the term "including" herein shall mean "including without limitation". The phrases "made available to Buyer" or "furnished to Buyer" or similar phrases as used in this Agreement will mean all documents to which Buyer, its Affiliates or advisers have been provided with either through access to the documents posted to the "ace2006" data room at datasite.merrillcorp.com or delivered otherwise to such Persons on or prior to the date hereof.

13.08 Interpretation.

The parties hereto acknowledge and agree that (a) each party hereto and its counsel reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision, (b) the rule of construction to the effect that any ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement and (c) the terms and provisions of this Agreement shall be construed fairly as to all parties hereto, regardless of which Party was generally responsible for the preparation of this Agreement. Any statute, regulation, or other Law defined or referred to herein (or in any agreement or instrument that is referred to herein) means such statute, regulation or other Law as, from time to time, may be amended, modified or supplemented, including (in the case of statutes) by succession of comparable successor statutes. References to a Person also refer to its predecessors and permitted successors and assigns.

13.09 Amendment and Waiver.

Any provision of this Agreement or the schedules or exhibits may be amended or waived only in a writing signed by Buyer, the Company and Seller Representative. No waiver of any provision hereunder or any breach or default thereof shall extend to or affect in any way any other provision or prior or subsequent breach or default.

13.10 Complete Agreement.

This Agreement and the documents referred to herein (including the Confidentiality Agreement) contain the complete agreement between the parties hereto and supersede any prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

13.11 Counterparts.

This Agreement may be executed in multiple counterparts (including by means of telecopied signature pages), any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same instrument.

13.12 Governing Law.

ALL MATTERS RELATING TO THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF NEW YORK OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

13.13 Waiver of Jury Trial.

THE PARTIES HEREBY EXPRESSLY WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY OR AGAINST ANY OF THEM RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

13.14 Exclusive Jurisdiction.

EACH OF THE PARTIES HERETO HEREBY SUBMITS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT SITTING IN NEW YORK CITY, NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT AND AGREES THAT ALL CLAIMS IN RESPECT OF THE ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT. EACH PARTY HERETO ALSO AGREES NOT TO BRING ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT IN ANY OTHER COURT. EACH OF THE PARTIES HERETO WAIVES ANY DEFENSE OF INCONVENIENT FORUM TO THE MAINTENANCE OF ANY ACTION OR PROCEEDING SO BROUGHT AND WAIVES ANY BOND, SURETY, OR OTHER SECURITY THAT MIGHT BE REQUIRED OF ANY OTHER PARTY WITH RESPECT THERETO.

13.15 No Third Party Beneficiaries.

This Agreement shall not confer any rights or remedies upon any Person other than (i) the parties hereto and their respective successors and permitted assigns, (ii) the officers and directors of the Company and the Company Subsidiary, who shall be third party beneficiaries of Section 8.02 and (iii) the

Seller Released Parties and Buyer Released Parties, who shall be third party beneficiaries of Section 12.05.

13.16 Guarantee of Obligations.

By its execution and delivery of this Agreement, each Guarantor hereby unconditionally guarantees to and for the benefit of the Company and the Sellers the performance of this Agreement by Buyer; provided, however, that this Section 13.16 will terminate, and be of no further force and effect, upon the occurrence of the Closing.

13.17 Specific Performance.

Each of the Parties recognizes and acknowledges that a breach by it of any covenant or agreement contained in this Agreement will cause the relevant Parties to sustain damages for which they would not have an adequate remedy at law for money damages, and therefore each of the Parties agree that in the event of any such breach, in addition to any other remedy they may have at law or in equity, the Parties (including the Seller Representative (on behalf of any Seller)) shall be entitled to the remedy of specific performance of this Agreement without any requirement that a bond or other security be posted. Each of the Parties, to the maximum extent permitted by law, hereby waives any defenses it may have to the remedy of specific performance provided for herein.

13.18 Delivery by Electronic Means.

This Agreement, the agreements referred to herein, and each other agreement or instrument entered into in connection herewith or therewith or contemplated hereby or thereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or other electronic means, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any Party hereto or to any such agreement or instrument, each other Party hereto or thereto shall reexecute original forms thereof and deliver them to all other parties. No Party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or other electronic means to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or other electronic means as a defense to the formation or enforceability of a contract and each such Party forever waives any such defense.

* * * *

IN WITNESS WHEREOF, the parties hereto have executed this
Stock Purchase Agreement on the day and year first above written.

EXHIBIT B
Equity Commitment Letter
[Charlesbank / Ocwen Letterhead]
[date]

[Buyer]
[Buyer Address]
[Buyer Address]

Re: Acquisition of Bankruptcy Management Solutions, Inc. (the "Company")

Gentlemen:

[Charlesbank Equity Fund VI, Limited Partnership / Ocwen Financial Corp.] ("Charlesbank/Ocwen") is pleased to confirm its agreement to purchase (the "[Charlesbank/Ocwen] Investment") equity securities of [_____] ("Buyer"), on the terms and subject to the conditions contained herein. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Stock Purchase Agreement, dated as of the date hereof, by and among Buyer, the Company and the stockholders and warrant holder of the Company parties thereto (as amended, restated or otherwise modified from time to time, the "Purchase Agreement").

1. Investment. Subject to the terms and conditions herein, [Charlesbank/Ocwen] agrees to purchase, immediately prior to the Closing, securities of Buyer (the "Buyer Securities") for an aggregate purchase price equal to \$[Charlesbank and Ocwen shall commit to \$80 million each] in cash (reduced on a dollar-for-dollar basis by the value of shares of the Company's capital stock contributed to Buyer by certain management stockholders of the Company in exchange for equity securities of Buyer) (the "Purchase Price"). The proceeds therefrom will be used by Buyer to pay at the Closing the Estimated Adjusted Purchase Price and for Buyer to make all other payments required by it under the Purchase Agreement and to pay all of Buyer's related fees and expenses. The Purchase Price shall be paid by [Charlesbank/Ocwen] in cash by wire transfer of immediately available funds. Buyer agrees to sell and issue Buyer Securities to [Charlesbank/Ocwen] and to use the proceeds from the [Charlesbank/Ocwen] Investment solely for the purposes described in this paragraph 1. In no event shall [Charlesbank/Ocwen] be under any obligation under any circumstances to contribute or cause to be contributed more than the Purchase Price to Buyer.

2. Conditions to Consummation of the [Charlesbank/Ocwen] Investment. The obligations of [Charlesbank/Ocwen] and Buyer to consummate the [Charlesbank/Ocwen] Investment shall be absolute and not subject to any condition precedent other than the satisfaction or waiver in writing by Buyer of the conditions precedent to Buyer's obligation to consummate the transactions contemplated by the Purchase Agreement set forth in Article III of the Purchase Agreement.

3. Term of this Letter Agreement. This letter agreement shall expire on the earlier to occur of (i) the Closing Date and (ii) the date on which the Purchase Agreement is terminated in accordance with its terms.

4. Third Party Beneficiary. Each Seller (including the Seller Representative in its capacity as a Seller and as the Seller Representative) is an express third party beneficiary of the terms hereof and may enforce this letter to the same extent as if it were a party hereto.

5. Specific Performance. Each of [Charlesbank/Ocwen] and Buyer recognizes and acknowledges that a breach by it of any covenant or agreement contained in this letter agreement will cause the Company and the Sellers to sustain damages for which they would not have an adequate remedy at law for money damages, and therefore each of [Charlesbank/Ocwen] and Buyer agrees that in the event of any such breach, in addition to any other remedy the Company or any Seller may have at law or in equity, the Company or the Seller Representative (on behalf of any Seller) shall be entitled to the remedy of specific performance of this letter agreement without any requirement that a bond or other security be posted. Each of [Charlesbank/Ocwen] and Buyer, to the maximum extent permitted by law, hereby waives any defenses it may have to the remedy of specific performance provided for herein.

6. Miscellaneous. This letter agreement may be executed in any number of counterparts each of which when so executed shall be an original, but all of which together shall constitute one and the same agreement. This letter agreement may be amended only by a written instrument signed by [Charlesbank/Ocwen] and Buyer and only with the prior written consent of the Company. This letter agreement may not be assigned by [Charlesbank/Ocwen] or Buyer without the prior written consent of the Company. The provisions of this letter agreement contain the entire understanding of [Charlesbank/Ocwen] and Buyer with respect to the subject matter hereof and supersede any prior written instruments executed by such parties. This letter agreement shall be construed in accordance with and governed by the internal substantive laws of the State of New York (without giving effect to any conflicts of law provisions thereof).

Very truly yours,

[CHARLESBANK EQUITY FUND VI, LIMITED
PARTNERSHIP / OCWEN FINANCIAL CORP.]

By:

Name:
Title:

Acknowledged and agreed to as of the date hereof by:
[BUYER]

By:

Name:
Title:

AMENDMENT TO STOCK PURCHASE AGREEMENT

This Amendment to Stock Purchase Agreement (this "Amendment") is made and entered into this 31st day of July, 2006, by and among BMS Holdings, Inc., a Delaware corporation ("Holdings"), BMS Intermediate, Inc., a Delaware corporation ("Intermediate"), Bankruptcy Management Solutions, Inc., a Delaware corporation ("BMS"), Bankruptcy Management Solutions, LLC, a Delaware limited liability company ("Seller Representative") and the stockholders of BMS identified on the signature pages hereto as Participating Sellers (each, a "Participating Seller" and collectively, the "Participating Sellers").

WHEREAS, Holdings, BMS, Seller Representative, the Participating Sellers and the other stockholders and the warrant holder of BMS entered into that certain Stock Purchase Agreement, dated as of May 23, 2006 (the "Agreement"), pursuant to the terms of which the Stockholders agreed to sell and Holdings agreed to buy all of the outstanding capital stock of BMS (capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Agreement);

WHEREAS, Section 7.07 of the Agreement permits the amendment of the Agreement and the assignment of the Agreement by Holdings to effect a contribution of Shares by certain Stockholders to Holdings prior to or at the Closing in a tax-efficient manner;

WHEREAS, Holdings desires to assign all of its rights, interests and obligations under the Agreement to Intermediate, and Intermediate is a wholly-owned subsidiary of Holdings;

WHEREAS, in lieu of a portion of the cash payment payable to each Participating Seller under Section 2.03(b) of the Agreement, each Participating Seller desires to contribute to Holdings certain of such Participating Seller's shares of Class B Common Stock, par value \$0.01 per share, of BMS immediately prior to the Closing in exchange for shares of Class A Common Stock, par value \$0.01 per share, of Holdings, in each case as provided in that certain Stockholders Agreement, dated as of the date hereof, by and among Holdings and the stockholders of Holdings parties thereto; and

WHEREAS, the parties desire to amend the Agreement to reflect the contribution of Shares by the Participating Sellers to Holdings and the resulting reduction in the cash payable to the Participating Sellers at the Closing.

NOW, THEREFORE, for and in consideration of the premises, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

A G R E E M E N T S:
- - - - -

1. All terms which are defined in the Agreement shall have the same meanings when used herein, unless specifically provided herein to the contrary.
2. Holdings and Intermediate hereby represent that Intermediate is a wholly-owned subsidiary of Holdings. Pursuant to Section 7.07 of the Agreement, Holdings hereby assigns all of its rights, interests and obligations hereunder and under the Agreement to Intermediate;

provided, however, that the foregoing assignment shall not in any way relieve Holdings of any its obligations hereunder and under the Agreement.

3. Section 1.01 of the Agreement is hereby amended by inserting the following definitions in the appropriate place therein:

"Aggregate Rollover Amount" means the sum of the Rollover Amounts of each of the Participating Sellers as set forth on Schedule IV attached hereto.

"Holdings" means BMS Holdings, Inc., a Delaware corporation and parent of Buyer.

"Rollover Amount" for any Participating Seller, shall be the dollar amount set forth opposite such Participating Seller's name on Schedule IV attached hereto.

4. The parties hereto acknowledge and agree that (i) "Participating Sellers," as such term is used herein and in the Agreement, shall mean those Stockholders listed on Schedule IV attached hereto and (ii) "Buyer," as such term is used herein and in the Agreement, shall hereafter mean Intermediate.
5. Section 2.03(a) of the Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

(a) Upon the terms and subject to the conditions set forth in this Agreement, Buyer shall pay to Sellers, in consideration for the Shares and the cancellation of any outstanding Warrants, the aggregate purchase price equal to (i) \$384,500,000 (Three Hundred and Eighty Four Million and Five Hundred Thousand) (the "Base Purchase Price"), subject to the adjustments set forth herein, less (ii) the Aggregate Rollover Amount. Adjustments to the consideration paid to Sellers hereunder shall be estimated prior to the Closing pursuant to Section 2.04 and adjusted after the Closing pursuant to Section 2.05.

6. Section 2.03(b) of the Agreement is hereby amended by deleting it in

its entirety and replacing it with the following:

(b) At the Closing, each Seller holding any Shares shall receive payment by Buyer in cash equal to such Seller's Pro Rata Portion of the Estimated Adjusted Purchase Price (less (i) any amounts reduced pursuant to any agreement among the Sellers and (ii) if such Seller is a Participating Seller, the Rollover Amount for such Seller). Payment for such Seller's Shares shall be made by wire transfer of immediately available funds to an account or accounts specified by Seller Representative in writing at least two (2) Business Days prior to the Closing.

7. Section 2.03(d) of the Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

(d) For the avoidance of doubt, the aggregate amount of cash payments to be made by Buyer pursuant to Sections 2.03(b) and 2.03(c) shall equal (i) the Estimated Adjusted Purchase Price minus

(ii) the Aggregate Rollover Amount. Each Seller hereby authorizes Buyer to pay the aggregate Estimated Adjusted Purchase Price (less the Aggregate Rollover Amount) to Sellers in accordance with Sections 2.03(b) and 2.03(c) and agrees that, following such payment in full, Buyer shall have no liability to any Seller in respect of the allocation of the Estimated Adjusted Purchase Price (less the Aggregate Rollover Amount) among Sellers made by Seller Representative pursuant to Sections 2.03(b) and 2.03(c).

8. Section 3.02(a) of the Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

(a) Receipt by the Sellers of the Estimated Adjusted Purchase Price (less the Aggregate Rollover Amount) pursuant to Section 2.03;

9. Section 7.07 of the Agreement is hereby amended by deleting any references to "Buyer" in such Section 7.07 and replacing such references with "Holdings".

10. Section 9.04 of the Agreement is hereby amended by deleting the introductory language thereto in its entirety and replacing it with the following:

Notwithstanding anything to the contrary contained in this Agreement, the obligations of the Sellers, LEF II or Buyer under Section 9.02 or Section 9.03, as applicable, shall be subject to the following limitations:

11. The Agreement is hereby amended by adding Schedule IV attached hereto. Subject to the last sentence of this Section 11, the Participating Sellers acknowledge and agree that the Rollover Amounts of the Participating Sellers in Schedule IV are strictly confidential and, as such, Schedule IV will be held on their behalf by Holdings, Intermediate and the Seller Representative. Each of the Participating Sellers will receive a copy of Schedule IV including only his or her Rollover Amount and shall acknowledge in writing thereon that the Rollover Amount for such Participating Seller on Schedule IV is true and correct. The Seller Representative agrees to not disclose any Participating Seller's Rollover Amount to any other Participating Seller without the prior written consent of Holdings; provided, that, the Seller Representative shall (i) not have any liability for any non-intentional breach of this Section 11 and (ii) be permitted to disclose any Participating Seller's Rollover Amount and Schedule IV in connection with enforcement of its rights under this Amendment and the Agreement, to its accountants and counsel and to any investor or potential investor in any fund sponsored by any Affiliate of the Seller Representative.
12. Exhibit E to the Agreement is hereby amended by adding the attached Form Trustee Agreement at the end of such Exhibit E.
13. This Amendment may be executed in separate counterparts, each of which shall be an original and all of which when taken together shall constitute one and the same instrument. Further, this Amendment may be executed by the parties hereto by facsimile signature, such that execution of this Amendment by facsimile signature shall be deemed

effective for all purposes as though this Amendment was executed as a "blue ink" original.

14. All matters relating to the interpretation, construction, validity and enforcement of this Amendment shall be governed by and construed in accordance with the domestic laws of the State of New York without giving effect to any choice or conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of laws of any jurisdiction other than the State of New York.
15. Except as amended hereby, the Agreement shall be and remain in full force and effect and is hereby ratified and confirmed by the parties hereto. To the extent any of the terms and provisions of the Agreement are inconsistent with the terms and provisions of this Amendment, the terms and provisions of this Amendment shall govern and control.
16. Neither this Amendment nor any provision hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date set forth above.

HOLDINGS:

BMS HOLDINGS, INC.

By: _____
Name: _____
Title: _____

INTERMEDIATE:

BMS INTERMEDIATE, INC.

By: _____
Name: _____
Title: _____

BMS:

BANKRUPTCY MANAGEMENT SOLUTIONS, INC.

By: -----

Name: -----

Title: -----

SELLER REPRESENTATIVE

BANKRUPTCY MANAGEMENT SOLUTIONS, LLC

By: -----

Name: -----

Title: -----

Signature Page to Amendment to Stock Purchase Agreement

PARTICIPATING SELLERS:

Michael Gutman

David Watkins

Jozsef Jasz

Jill Bauer

Paul Moore

Tim Swiontek

Jack Royal-Gordon

Stephanie Angelos

Timothy Crouch

PARTICIPATING SELLERS (CONT'D):

Morgan Wisbey

Christine Gunarich

Signature Page to Amendment to Stock Purchase Agreement

SCHEDULE IV
PARTICIPATING SELLERS

[Schedule Omitted pursuant to Item 6.01 of Regulation S-K. The company agrees to furnish supplementally a copy of any omitted schedule to the Commission upon request.]

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 7241,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Erbey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ WILLIAM C. ERBEY

William C. Erbey
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO 15 U.S.C. SECTION 7241,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, David J. Gunter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ocwen Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ DAVID J. GUNTER

David J. Gunter, Senior Vice President &
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES OXLEY ACT OF 2002

I, William C. Erbey, state and attest that:

1. I am the Chief Executive Officer of Ocwen Financial Corporation (the "Registrant").
2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - o the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2006 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ WILLIAM C. ERBEY

Title: Chairman and Chief Executive Officer

Date: August 9, 2006

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES OXLEY ACT OF 2002

I, David J. Gunter, state and attest that:

1. I am the Chief Financial Officer of Ocwen Financial Corporation (the "Registrant").
2. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that
 - o the Quarterly Report on Form 10-Q of the Registrant for the quarter ended June 30, 2006 (the "periodic report") containing financial statements fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
 - o the information contained in the periodic report fairly represents, in all material respects, the financial condition and results of operations of the Registrant for the periods presented.

Name: /s/ DAVID J. GUNTER

Title: Senior Vice President & Chief Financial Officer

Date: August 9, 2006