Lender Processing Services, Inc.
Form 10-Q
May 07, 2010

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

Form 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from to

Commission File No. 001-34005

Lender Processing Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**26-1547801**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
601 Riverside Avenue Jacksonville, Florida	**32204**
(Address of principal executive offices)	*(Zip Code)*

(904) 854-5100
(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of April 30, 2010, 94,817,544 shares of the registrant s common stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended March 31, 2010
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Part I: FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements (Unaudited).

LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

	March 31, 2010	December 31, 2009 (1)
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 122,960	$ 70,528
Trade receivables, net of allowance for doubtful accounts of $25.7 million and $26.0 million, respectively	395,581	401,333
Other receivables	3,367	3,770
Prepaid expenses and other current assets	29,413	26,985
Deferred income taxes, net	46,123	47,528
Total current assets	597,444	550,144
Property and equipment, net of accumulated depreciation of $151.4 million and $146.2 million, respectively	118,310	113,108
Computer software, net of accumulated amortization of $128.1 million and $120.3 million, respectively	193,225	185,376
Other intangible assets, net of accumulated amortization of $311.2 million and $304.4 million, respectively	66,426	72,796
Goodwill	1,166,142	1,166,142
Other non-current assets	107,338	109,738
Total assets	$ 2,248,885	$ 2,197,304
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 75,100	$ 40,100
Trade accounts payable	43,883	38,166
Accrued salaries and benefits	28,786	54,376
Recording and transfer tax liabilities	12,329	15,208
Due to affiliates		3,321
Income taxes payable	28,890	
Other accrued liabilities	158,393	151,601
Deferred revenues	63,593	66,602
Total current liabilities	410,974	369,374
Deferred revenues	35,749	37,681
Deferred income taxes, net	70,887	65,215
Long-term debt, net of current portion	1,212,975	1,249,250

Other non-current liabilities	19,691	19,926
Total liabilities	1,750,276	1,741,446
Commitments and contingencies (note 8)		
Stockholders equity:		
Preferred stock $0.0001 par value; 50 million shares authorized, none issued at March 31, 2010 and December 31, 2009, respectively		
Common stock $0.0001 par value; 500 million shares authorized, 97.4 million and 97.0 million shares issued at March 31, 2010 and December 31, 2009, respectively	10	10
Additional paid-in capital	191,993	173,424
Retained earnings	393,913	330,963
Accumulated other comprehensive loss	(5,751)	(7,630)
Treasury stock $0.0001 par value; 2.2 million and 1.2 million shares at March 31, 2010 and December 31, 2009, respectively, at cost	(81,556)	(40,909)
Total stockholders equity	498,609	455,858
Total liabilities and stockholders equity	$ 2,248,885	$ 2,197,304

(1) Derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
(Unaudited)

	Three months ended March 31, 2010	2009
	(In thousands, except per share data)	
Processing and services revenues (note 3)	$ 592,394	$ 529,817
Cost of revenues (note 3)	396,022	354,702
Gross profit	196,372	175,115
Selling, general, and administrative expenses (note 3)	60,720	71,178
Operating income	135,652	103,937
Other income (expense):		
Interest income	623	524
Interest expense	(18,845)	(21,914)
Other expense, net	4	(1)
Total other income (expense)	(18,218)	(21,391)
Earnings from continuing operations before income taxes and equity in losses of unconsolidated entity	117,434	82,546
Provision for income taxes	44,918	31,575
Earnings from continuing operations before equity in losses of unconsolidated entity	72,516	50,971
Equity in losses of unconsolidated entity		(37)
Earnings from continuing operations	72,516	50,934
Discontinued operation, net of tax		(504)
Net earnings	72,516	50,430
Net earnings attributable to noncontrolling minority interest		(384)
Net earnings attributable to Lender Processing Services, Inc.	$ 72,516	$ 50,046
Amounts attributable to Lender Processing Services, Inc.:		
Earnings from continuing operations, net of tax	$ 72,516	$ 50,550
Discontinued operation, net of tax		(504)
Net earnings	$ 72,516	$ 50,046

Net earnings per share basic from continuing operations	$	0.76	$	0.53
Net earnings per share basic from discontinued operation				
Net earnings per share basic	$	0.76	$	0.53
Weighted average shares outstanding basic		95,532		94,847
Net earnings per share diluted from continuing operations	$	0.75	$	0.53
Net earnings per share diluted from discontinued operation				
Net earnings per share diluted	$	0.75	$	0.53
Weighted average shares outstanding diluted		96,416		95,284

See accompanying notes to consolidated financial statements.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Earnings
(Unaudited)

	Three months ended March 31,	
	2010	**2009**
	(In thousands)	
Net earnings attributable to Lender Processing Services, Inc.	$ 72,516	$ 50,046
Other comprehensive earnings:		
Unrealized (loss) gain on other investments, net of tax	(397)	47
Unrealized gain on interest rate swaps, net of tax (1)	2,276	685
Other comprehensive earnings	1,879	732
Comprehensive earnings attributable to Lender Processing Services, Inc.	$ 74,395	$ 50,778

(1) Net of income tax expense of $1.4 million and $0.4 million for the three months ended March 31, 2010 and 2009.

See accompanying notes to consolidated financial statements.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
Consolidated Statement of Equity
(Unaudited)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Shares	Treasury Stock	Total Equity
					(In thousands)			
Balances, December 31, 2009	97,049	$ 10	$ 173,424	$ 330,963	$ (7,630)	(1,210)	$ (40,909)	$ 455,858
Net earnings attributable to Lender Processing Services, Inc.				72,516				72,516
Cash dividends paid (1)				(9,566)				(9,566)
Issuance of restricted stock	2							
Exercise of stock options and restricted stock vesting	375		12,778			(8)	(330)	12,448
Income tax expense from exercise of stock options			(766)					(766)
Stock-based compensation			6,557					6,557
Treasury stock repurchases						(1,021)	(40,317)	(40,317)
Unrealized loss on investments, net					(397)			(397)
Unrealized gain on interest rate swaps, net					2,276			2,276
Balances, March 31, 2010	97,426	$ 10	$ 191,993	$ 393,913	$ (5,751)	(2,239)	$ (81,556)	$ 498,609

(1) Dividends of $0.10 per common share were paid on

March 30, 2010.

See accompanying notes to consolidated financial statements.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31, 2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net earnings attributable to Lender Processing Services, Inc.	$ 72,516	$ 50,046
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	23,654	23,991
Amortization of debt issuance costs	1,148	1,282
Gain on sale of discontinued operation		(2,574)
Deferred income taxes, net	5,917	(651)
Stock-based compensation	6,557	6,843
Income tax expense (benefit) from exercise of stock options	766	(1,222)
Equity in losses of unconsolidated entity		37
Noncontrolling minority interest		384
Changes in assets and liabilities, net of effects of acquisitions:		
Trade receivables	5,752	(25,871)
Other receivables	403	4,622
Prepaid expenses and other assets	(4,109)	(6,347)
Deferred revenues	(4,941)	(479)
Accounts payable, accrued liabilities and other liabilities	1,377	25,312
Net cash provided by operating activities	109,040	75,373
Cash flows from investing activities:		
Additions to property and equipment	(12,265)	(11,659)
Additions to capitalized software	(15,779)	(10,912)
Acquisition of title plants		(5,764)
Acquisitions, net of cash acquired		490
Proceeds from sale of discontinued operation, net of cash distributed		(32,638)
Net cash used in investing activities	(28,044)	(60,483)
Cash flows from financing activities:		
Debt service payments	(1,275)	(76,276)
Exercise of stock options and restricted stock vesting	12,448	714
Income tax (expense) benefit from exercise of stock options	(766)	1,222
Dividends paid	(9,566)	(9,481)
Treasury stock repurchases	(26,427)	
Payments of contingent consideration related to acquisitions	(2,978)	
Net cash used in financing activities	(28,564)	(83,821)

Net increase (decrease) in cash and cash equivalents	52,432	(68,931)
Cash and cash equivalents, beginning of period	70,528	125,966
Cash and cash equivalents, end of period	$ 122,960	$ 57,035
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 25,839	$ 28,763
Cash paid for taxes	$ 7,641	$ 7,746
Non-cash redistribution of assets to FIS	$	$ 434
Non-cash consideration received from sale of discontinued operation	$	$ 40,310
Non-cash consideration issued in acquisition of business	$	$ (5,162)

See accompanying notes to consolidated financial statements.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Except as otherwise indicated or unless the context otherwise requires, all references to LPS, we, the Company, or the registrant are to Lender Processing Services, Inc., a Delaware corporation that was incorporated in December 2007 as a wholly-owned subsidiary of FIS, and its subsidiaries; all references to FIS, the former parent, or the holding company are to Fidelity National Information Services, Inc., a Georgia corporation formerly known as Certegy Inc., and its subsidiaries, that owned all of LPS s shares until July 2, 2008; all references to former FIS are to Fidelity National Information Services, Inc., a Delaware corporation, and its subsidiaries, prior to the Certegy merger described below; all references to old FNF are to Fidelity National Financial, Inc., a Delaware corporation that owned a majority of former FIS s shares through November 9, 2006; and all references to FNF are to Fidelity National Financial, Inc. (formerly known as Fidelity National Title Group, Inc.), formerly a subsidiary of old FNF but now a stand-alone company.

(1) Basis of Presentation

The unaudited financial information included in this report includes the accounts of Lender Processing Services, Inc. and its subsidiaries prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated. The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. This report should be read in conjunction with the Company s Annual Report on Form 10-K that was filed on February 23, 2010 and our other filings with the Securities and Exchange Commission.

Lender Processing Services, Inc. Spin-off Transaction

On July 2, 2008, FIS distributed to its shareholders a dividend of one-half share of our common stock, par value $0.0001 per share, for each issued and outstanding share of FIS common stock held on June 24, 2008, which we refer to as the spin-off. Also on July 2, 2008, FIS exchanged 100% of our debt obligations for a like amount of FIS s existing Tranche B Term Loans issued under its Credit Agreement dated as of January 18, 2007. The spin-off was tax-free to FIS and its shareholders, and the debt-for-debt exchange undertaken in connection with the spin-off was tax-free to FIS. On July 3, 2008, we commenced regular way trading on the New York Stock Exchange under the trading symbol LPS. Prior to the spin-off, we were a wholly-owned subsidiary of FIS.

Principles of Consolidation

The historical financial statements of the Company have been presented on a consolidated basis for financial reporting purposes.

Reporting Segments

We are a provider of integrated technology and outsourced services to the mortgage lending industry, with mortgage processing and default management services in the U.S. We conduct our operations through two reporting segments, Technology, Data and Analytics and Loan Transaction Services.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(2) Fair Value

Fair Value of Financial Assets and Liabilities

The fair value of financial assets and liabilities are determined using the following fair value hierarchy:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

quoted prices for similar assets or liabilities in active markets;

quoted prices for identical or similar assets or liabilities in inactive markets;

inputs other than quoted prices that are observable for the asset or liability; and

inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level within the fair value hierarchy our assets and liabilities measured at fair value on a recurring basis.

As of March 31, 2010 (in millions):

			Fair Value			
	Classification	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	Asset	$ 123.0	$123.0	$	$	$ 123.0
Long-term debt (note 6)	Liability	1,288.1	393.3	918.8		1,312.1
Interest rate swaps (note 6)	Liability	9.5		9.5		9.5

As of December 31, 2009 (in millions):

			Fair Value			
	Classification	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	Asset	$ 70.5	$ 70.5	$	$	$ 70.5
Long-term debt (note 6)	Liability	1,289.4	390.7	912.3		1,303.0
Interest rate swaps (note 6)	Liability	13.2		13.2		13.2

The fair values of other financial instruments, which primarily include trade receivables and payables and other receivables, are estimated as of period-end. The carrying amounts of these assets and liabilities approximate their fair values. These estimates are subjective in nature and involve uncertainties and significant judgment in the interpretation of current market data. Therefore, the values presented are not necessarily indicative of amounts we could realize or settle currently.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Fair Value of Assets Acquired and Liabilities Assumed

The values of assets acquired and liabilities assumed in business combinations are estimated using various assumptions. The most significant assumptions, and those requiring the most judgment, involve the estimated fair values of intangible assets and software, with the remaining value, if any, attributable to goodwill. The Company utilizes third-party experts to determine the fair values of intangible assets and software purchased in business combinations.

(3) Related Party Transactions

We have historically conducted business with FNF and FIS. Because William P. Foley, II serves as Executive Chairman of the board of directors of FNF and served as Executive Chairman of the Board of LPS prior to March 15, 2009, FNF was considered a related party of the Company. Mr. Foley retired from our Board of Directors on March 15, 2009. Accordingly, for periods subsequent to March 15, 2009, FNF is not a related party. Because Lee A. Kennedy serves as Executive Chairman of our Board, and served on our Board of Directors in other capacities since May 2008, and served as an executive and a director of FIS until February 28, 2010, FIS was considered a related party of the Company. Mr. Kennedy retired as an executive and a director of FIS on February 28, 2010. Accordingly, for periods subsequent to February 28, 2010, FIS is not a related party. Additionally, Mr. Kennedy was appointed interim Chairman and Chief Executive Officer of Ceridian Corporation (Ceridian) on January 25, 2010, and therefore, Ceridian will be a related party for periods during the term of his interim service.

We have various agreements with FNF under which we provide title agency services, software development and other data services. Additionally, we have been allocated corporate costs from FIS and will continue to receive certain corporate services from FIS for a period of time, and have other agreements under which we incur other expenses to, or receive revenues from, FIS and FNF. A summary of these agreements in effect as of March 31, 2010 is as follows:

Agreements to provide title agency services. These agreements allow us to provide services to existing customers through loan facilitation transactions, primarily with large national lenders. The arrangement involves providing title agency services which result in the issuance of title policies on behalf of title insurance underwriters owned by FNF. Subject to certain early termination provisions for cause, each of these agreements may be terminated upon five years prior written notice, which notice may not be given until after the fifth anniversary of the effective date of each agreement, which ranges from July 2004 through September 2006 (thus effectively resulting in a minimum ten year term and a rolling one-year term thereafter). Under these agreements, we earn commissions which, in the aggregate, are equal to at least 87% of the total title premium from title policies that we place with subsidiaries of FNF. The commissions we earn are subject to adjustment based on changes in FNF s provision for claim losses, but under no circumstances are the commissions less than 87%. We also perform similar functions in connection with trustee sale guarantees, a form of title insurance that subsidiaries of FNF issue as part of the foreclosure process on a defaulted loan.

Agreements to provide software development and services. Under these agreements, we are paid for providing software development and services to FNF which consist of developing software for use in the title operations of FNF.

Arrangements to provide other data services. Under these arrangements, we are paid for providing other data services to FNF, primarily consisting of data services required by the FNF title insurance operations.

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LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A detail of related party items included in revenues for the three months ended March 31, 2010 and 2009 is as follows (in millions):

	2010 (1)	2009 (2)
Title agency commissions	$	$ 74.8
Software development revenue		13.4
Other data related services		3.4
Total revenues	$	$ 91.6

(1) Includes revenues generated from FIS under these agreements through February 28, 2010. The revenues generated from FIS were less than $10,000 during the period from January 1, 2010 to February 28, 2010. FIS ceased to be a related party of the Company on February 28, 2010. We continue to generate revenues from contracts that were entered into while FIS was a related party.

(2) Includes revenues generated from FNF under these agreements

through March 31, 2009. FNF ceased to be a related party of the Company on March 15, 2009; however, it was impracticable to estimate revenues received from FNF as of that date. We continue to generate revenues from contracts that were entered into while FNF was a related party.

Title plant access and title production services. Under these agreements, we obtain access to FNF s title plants for real property located in various states, including access to their online databases, physical access to title records, use of space, image system use, and use of special software, as well as other title production services. For the title plant access, we pay monthly fees (subject to certain minimum charges) based on the number of title reports or products ordered and other services received. For the title production services, we pay for services based on the number of properties searched, subject to certain minimum use. The title plant access agreement had an initial term of 3 years beginning in November 2006 and is automatically renewable for successive 3 year terms unless either party gives 30 days prior written notice. The title production services agreement can be terminated by either party upon 30 days prior written notice.

Agreements to provide administrative corporate support services to and from FIS and from FNF. Historically, FNF provided to FIS certain administrative corporate support services relating to general management, statutory accounting, claims administration, and other administrative support services. Prior to the spin-off, as a part of FIS, we also received these administrative corporate support services from FNF. In connection with the spin-off, we entered into a separate agreement with FNF for the provision of certain of these administrative corporate support services by FNF. In addition, prior to the spin-off, FIS provided general management, accounting, treasury, payroll, human resources, internal audit, and other corporate administrative support services to us. In connection with the spin-off, we entered into corporate services agreements with FIS under which we receive from FIS, and we provide to FIS, certain transitional corporate support services. The pricing for all of these services, both from FNF and FIS, and to FIS, is on an at-cost basis. The term of the corporate services agreements is two years, subject to early termination because the services are no longer required by the party receiving the services or upon mutual agreement of the parties and subject to extension in certain circumstances. Management believes the methods used to allocate the amounts included in these financial statements for corporate services are reasonable.

Agreement to receive support services from Ceridian. Ceridian provides certain support services to our human resources group, including Family and Medical Leave Act (FMLA) administrative services, military leave administrative services and Consolidated Omnibus Budget Reconciliation Act (COBRA) health benefit services. The FMLA and military leave agreement had an initial term of 1 year beginning in January 2010 and is automatically renewable for successive 1 year terms unless either party gives 90 days prior written notice, or 30 days after written notice in the event of a breach. The COBRA agreement had an initial term of 1 year beginning in January 2009 and is automatically renewable for successive 1 year terms unless either party gives 90 days prior written notice, or 30 days after written notice in the event of a breach.

LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Corporate aircraft use agreements. Historically the Company has had access to certain corporate aircraft owned or leased by FNF and by FIS. Pursuant to an aircraft interchange agreement, LPS is included as an additional permitted user of corporate aircraft leased by FNF and FIS. FNF and FIS also continue to be permitted users of any aircraft leased by LPS. LPS was also added as a party to the aircraft cost sharing agreement that was previously signed between FNF and FIS. Under this agreement, the Company and FIS share the costs of one of FNF s aircraft that is used by all of the entities. The cost for use of each aircraft under the aircraft interchange agreement is calculated on the same basis and reflects the costs attributable to the time the aircraft is in use by the user. The aircraft interchange agreement is terminable by any party on 30 days prior notice. The costs under the aircraft cost sharing agreement are shared equally among FNF, FIS and the Company, and the agreement remains in effect so long as FNF has possession or use of the aircraft (or any replacement) but may be terminated at any time with the consent of FNF, FIS and the Company.

Real estate management, real estate lease and equipment lease agreements. In connection with the spin-off and the transfer of the real property located at the Company s corporate headquarters campus from FIS to LPS, the Company entered into new leases with FNF and FIS, as tenants, as well as a new sublease with FNF, as sub landlord, for office space in the building known as Building V, which is leased by FNF and is located on the Company s corporate headquarters campus. The Company also entered into a new property management agreement with FNF with respect to Building V. Included in the Company s expenses are amounts paid to FNF for the lease of certain equipment and the sublease of office space in Building V, together with furniture and furnishings. In addition, the Company s financials include amounts paid by FNF and FIS for the lease of office space located at the Company s corporate headquarters campus and property management services for FNF for Building V.

Licensing, cost sharing, business processing and other agreements. These agreements provide for the reimbursement of certain amounts from FNF and FIS related to various licensing and cost sharing agreements, as well as the payment of certain amounts by the Company to FNF or its subsidiaries in connection with our use of certain intellectual property or other assets of or services by FNF.

A detail of related party items included in expenses for the three months ended March 31, 2010 and 2009 is as follows (in millions):

	2010 (1)	2009 (2)
Title plant information expense (3)	$	$ 4.1
Corporate services (4)	(0.1)	3.5
Licensing, leasing and cost sharing agreements (4)	0.1	(1.2)
Total expenses	$	$ 6.4

(1) Includes expense reimbursements paid to or received from FIS under these agreements through February 28,

2010. FIS ceased to be a related party of the Company on February 28, 2010. We continue to incur expenses and receive reimbursements under contracts that were entered into while FIS was a related party.

(2) Includes expense reimbursements paid to or received from FNF under these agreements through March 31, 2009. FNF ceased to be a related party of the Company on March 15, 2009; however, it was impracticable to estimate expense reimbursements paid to FNF as of that date. We continue to incur expenses and receive reimbursements under contracts that were entered into while FNF was a related party.

(3) Included in cost of revenues.

(4)

Included in selling, general, and administrative expenses.

LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

We believe the amounts earned from or charged by FNF or FIS under each of the foregoing service arrangements are fair and reasonable. We believe that the aggregate commission rate on title insurance policies is consistent with the blended rate that would be available to a third party title agent given the amount and the geographic distribution of the business produced and the low risk of loss profile of the business placed. The software development services provided to FNF are priced within the range of prices we offer to third parties. These transactions between us and FIS and FNF are subject to periodic review for performance and pricing.

Other related party transactions:

FNRES Holdings, Inc. and Investment Property Exchange Services, Inc.

On December 31, 2006, FNF contributed $52.5 million to FNRES Holdings, Inc. (FNRES), a FIS subsidiary, for approximately 61% of the outstanding shares of FNRES. In June 2008, FIS contributed its remaining 39% equity investment in FNRES to the Company in the spin-off (note 1). On February 6, 2009, we acquired the remaining 61% of the equity interest of FNRES from FNF in exchange for all of our interests in Investment Property Exchange Services, Inc. (IPEX) (note 5). The exchange resulted in FNRES becoming our wholly-owned subsidiary.

(4) Net Earnings Per Share

The basic weighted average shares and common stock equivalents are computed using the treasury stock method. The following table summarizes the earnings per share for the three months ending March 31, 2010 and 2009 (in thousands, except per share amounts):

	2010	2009
Amounts attributable to Lender Processing Services, Inc.:		
Earnings from continuing operations	$ 72,516	$ 50,550
Discontinued operation		(504)
Net earnings	$ 72,516	$ 50,046
Weighted average shares outstanding basic	95,532	94,847
Plus: Common stock equivalent shares	884	437
Weighted average shares outstanding diluted	96,416	95,284
Net earnings per share basic from continuing operations	$ 0.76	$ 0.53
Net earnings per share basic from discontinued operation		
Net earnings per share basic	$ 0.76	$ 0.53
Net earnings per share diluted from continuing operations	$ 0.75	$ 0.53
Net earnings per share diluted from discontinued operation		
Net earnings per share diluted	$ 0.75	$ 0.53

Options to purchase approximately 1.1 million shares and 5.5 million shares of our common stock were not included in the computation of diluted earnings per share for the three months ended March 31, 2010 and 2009, respectively, because they were antidilutive.

We intend to limit dilution caused by option exercises, including anticipated exercises, by repurchasing shares on the open market or in privately negotiated transactions. On June 18, 2009, our Board of Directors approved a plan authorizing repurchases of common stock and/or senior notes of up to $75.0 million, of which $50.0 million was available to repurchase our senior notes. On February 5, 2010, our Board of Directors authorized us to repurchase shares of our common stock and/or our senior notes in an amount not to exceed $150.0 million. This new authorization replaces the previous authorization and subsumes all amounts remaining available thereunder. The new plan is effective through March 31, 2012. Our ability to repurchase shares of common stock or senior notes is subject to restrictions contained in our senior secured credit agreement and in the indenture governing our senior

LENDER PROCESSING SERVICES, INC. AND SUBSIDIARIES
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unsecured notes. During the first quarter, we repurchased 1.0 million shares of our stock for $40.3 million, at an average price of $39.50 per share. As of March 31, 2010, we had $126.1 million remaining available for repurchases under our $150.0 million authorization approved by our Board of Directors on February 5, 2010.

(5) Acquisitions and Dispositions

The results of operations and financial position of entities acquired during the year ended December 31, 2009 are included in the consolidated financial statements from and after the date of acquisition. We did not acquire any entities during the first three months of 2010. The purchase price of each acquisition was allocated to the assets acquired and liabilities assumed based on their fair value with any excess cost over fair value being allocated to goodwill. The impact of the acquisitions made from January 1, 2009 through March 31, 2010 was not significant individually or in the aggregate to our historical financial results.

NRC Rising Tide National Auction & REO Solutions, LLC

On October 30, 2009, our subsidiary, LPS Auction Solutions, LLC, acquired substantially all of the assets of NRC Rising Tide National Auction & REO Solutions, LLC (Rising Tide) for a $3.7 million cash payment and a contingent earn-out payment not to exceed $30.0 million. As a result of the transaction, we recognized a contingent earn-out liability totaling $28.2 million. We are in the process of finalizing our review of contingent liabilities resulting from the purchase. The acquisition has resulted in the recognition of $29.0 million of goodwill and $2.9 million of other intangible assets and software. The allocation of the purchase price to goodwill and intangible assets was based on the valuations performed to determine the values of such assets as of the acquisition date. The valuation of Rising Tide was determined using a combination of the income and cost approaches utilizing Level 3-type inputs. Rising Tide is now a part of the Loan Transaction Services segment and it expands our default management services by providing entry into the residential REO auction services market.

RealEC Technologies, Inc.

On July 21, 2009, our subsidiary, LPS Asset Management Solutions, Inc. (Asset Management), acquired 22% of the noncontrolling minority interest of RealEC Technologies, Inc. (RealEC) for $2.6 million. On November 12, 2009, Asset Management acquired the remaining 22% of the noncontrolling minority interest of RealEC for $4.3 million. Prior to the acquisitions we owned 56% of the interest of RealEC, which was consolidated as a part of the Technology, Data and Analytics segment, and we reported noncontrolling minority interest related to RealEC in the equity section of our consolidated balance sheets. RealEC contributed net earnings attributable to minority interest of $0.4 million for the three months ended March 31, 2009. The transactions resulted in RealEC becoming our wholly-owned subsidiary, and we no longer have any outstanding noncontrolling minority interest.

Tax Verification Bureau, Inc.

On June 19, 2009, we acquired Tax Verification Bureau, Inc., which we have renamed LPS Verification Bureau, Inc. (Verification Bureau), for $14.9 million (net of cash acquired). As a result of the transaction, during 2010 we have paid contingent consideration totaling $3.0 million, of which $2.8 million was recognized as goodwill and $0.2 was recognized as expense. We also recognized a deferred tax liability totaling $3.1 million. The acquisition resulted in the recognition of $12.8 million of goodwill and $7.7 million of other intangible assets and software. The allocation of the purchase price to goodwill and intangible assets was based on the valuations performed to determine the values of such assets as of the acquisition date. The valuation of Verification Bureau was determined using a combination of the income and cost approaches utilizing Level 3-type inputs. Verification Bureau is now a part of the Technology, Data and Analytics segment and it expands our data and analytics offerings and fraud solutions capabilities.

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FNRES Holdings, Inc.

On February 6, 2009, we acquired the remaining 61% of the equity interest of FNRES from FNF in exchange for all of our interests in Investment Property Exchange Services, Inc. (IPEX). FNRES is now a part of the Technology, Data and Analytics segment and it expands our data and analytics offerings and IT development capabilities. The exchange resulted in FNRES, which we subsequently renamed LPS Real Estate Group, Inc., becoming our wholly-owned subsidiary. Prior to the exchange we did not consolidate FNRES, but recorded our 39% interest as an equity investment. We recorded equity losses (net of tax) from our investment in FNRES of $2.0 million from January 1, 2009 to February 6, 2009. The net earnings from IPEX, including related party revenues and expense reimbursements, have been reclassified as a discontinued operation in our consolidated statements of earnings for the three months ended March 31, 2009.

FNRES and IPEX were valued at $66.6 million (including $0.5 million in cash) and $37.8 million (including $32.6 million in cash), respectively, resulting in the recognition of a pre-tax gain of $2.6 million ($0.5 million after-tax) which is included in discontinued operation in our consolidated statements of earnings for the three months ended March 31, 2009. The valuation of FNRES was determined using a combination of the market and income approaches utilizing Level 2 and Level 3-type inputs, while the valuation of IPEX was determined using the income approach utilizing Level 3-type inputs. As a result of the transaction, we recognized $32.6 million of goodwill and $14.2 million of other intangible assets and software. The allocation of the purchase price to goodwill and intangible assets is based on the valuations performed to determine the values of such assets as of the acquisition date. FNRES contributed revenues of $8.6 million and $6.8 million for the three months ended March 31, 2010 and 2009, respectively, and pre-tax loss of $0.5 million and $0.1 million for the three months ended March 31, 2010 and 2009, respectively.

(6) Long-Term Debt

Long-term debt as of March 31, 2010 and December 31, 2009 consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Term A Loan, secured, interest payable at LIBOR plus 2.00% (2.25% at March 31, 2010), quarterly principal amortization, maturing July 2013	$ 420,000	$ 420,000
Term B Loan, secured, interest payable at LIBOR plus 2.50% (2.75% at March 31, 2010), quarterly principal amortization, maturing July 2014	501,075	502,350
Revolving Loan, secured, interest payable at LIBOR plus 2.00% (Eurocurrency Borrowings), Fed-funds plus 2.00% (Swingline Borrowings) or Prime plus 1.00% (Base Rate Borrowings) (2.25%, 2.09% or 4.25%, respectively, at March 31, 2010), maturing July 2013. Total of $138.9 million unused (net of outstanding letters of credit) as of March 31, 2010		
Senior unsecured notes, issued at par, interest payable semiannually at 8.125%, due July 2016	367,000	367,000
	1,288,075	1,289,350
Less current portion	(75,100)	(40,100)
Long-term debt, excluding current portion	$ 1,212,975	$ 1,249,250

The fair value of the Company s long-term debt at March 31, 2010 is estimated to be approximately 102% of the carrying value. We have estimated the fair value of the term loans based on values of recent quoted market prices and estimated the fair value of the notes based on values of recent trades.

Principal Maturities of Debt

There have been no significant changes to our principal maturities since our Annual Report on Form 10-K was filed on February 23, 2010.

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Interest Rate Swaps

We have entered into interest rate swap transactions in order to convert a portion of our interest rate exposure on our floating rate debt from variable to fixed. We have designated these interest rate swaps as cash flow hedges. The estimated fair value of these cash flow hedges resulted in liabilities of $9.5 million and $13.2 million as of March 31, 2010 and December 31, 2009, respectively, and is included in the accompanying consolidated balance sheets in other accrued liabilities. A portion of the amount included in accumulated other comprehensive earnings will be reclassified into interest expense as a yield adjustment as interest payments are made on the Term Loans. The inputs used to determine the estimated fair value of our interest rate swaps are Level 2-type measurements. We have considered our own credit risk when determining the fair value of our interest rate swaps.

A summary of the effect of derivative instruments on amounts recognized in other comprehensive earnings (OCE) and on the accompanying consolidated statement of earnings for the three months ended March 31, 2010 and 2009 is as follows (in millions):

	Amount of Loss Recognized in OCE on Derivatives	
Derivatives in Cash Flow Hedging Relationships	**2010**	**2009**
Interest rate swap contract	$ 1.2	$ 3.9

	Amount of Loss Reclassified from Accumulated OCE into Income	
Location of Loss Reclassified from Accumulated OCE into Income	**2010**	**2009**
Interest expense	$ (4.7)	$ (4.9)

It is our policy to execute such instruments with credit-worthy banks and not to enter into derivative financial instruments for speculative purposes. As of March 31, 2010, we believe our interest rate swap counterparties will be able to fulfill their obligations under our agreements, and we believe we will have debt outstanding through the various expiration dates of the swaps such that the occurrence of future hedge cash flows remains probable.

(7) Income Taxes

Reserves for uncertain tax positions are computed by determining a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on measurement and classification of amounts relating to uncertain tax positions, accounting for interest and penalties, and disclosures. The Company has performed an evaluation of its tax positions and has concluded that as of March 31, 2010, there were no significant uncertain tax positions requiring recognition in its financial statements. The Company s policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

(8) Commitments and Contingencies

Litigation

In the ordinary course of business, we are involved in various pending and threatened litigation matters related to our operations, some of which include claims for punitive or exemplary damages. Often, these matters do not include a specific statement as to the dollar amount of damages demanded. Instead, they include a demand in an amount to be proved at trial. For these reasons, it is often not possible to make a meaningful estimate of the amount or range of loss that could result from these matters. Accordingly, we review matters on an ongoing basis when making accrual and disclosure decisions. When assessing reasonably possible and probable outcomes, we base our decision on our assessment of the ultimate outcome following all appeals. We intend to vigorously defend all litigation matters that are brought against us, and we do not believe that the ultimate disposition of any of these lawsuits will have a material adverse impact on our financial position or results of operations. Finally, we believe that no actions, other than the matter listed below, depart from customary litigation incidental to our business.

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Schneider, Kenneth, et al. vs. Lender Processing Services, Inc., et al.

On February 17, 2010 this putative class action complaint was filed in the United States District Court for the Southern District of Florida. In a single count complaint, the plaintiffs sought to recover unspecified damages for alleged violations of the Fair Debt Collection Practices Act relating to the preparation and use of assignments of mortgage in foreclosure actions. The defendants included two large banks, as well as LPS and our document solutions subsidiary. The complaint essentially alleged that the industry practice of creating assignments of mortgages after the actual date on which a loan was transferred from one beneficial owner to another is unlawful. The complaint also challenged the authority of individuals employed by our document solutions subsidiary to execute such assignments as officers of various banks and mortgage companies. On February 26, 2010, this case was voluntarily dismissed.

Regulatory Matters

Due to the heavily regulated nature of the mortgage industry, from time to time we receive inquiries and requests for information from various state and federal regulatory agencies, including state insurance departments, attorneys general and other agencies, about various matters relating to our business. These inquiries take various forms, including informal or formal requests, reviews, investigations and subpoenas. We attempt to cooperate with all such inquiries. Recently, during an internal review of the business processes used by our document solutions subsidiary, we identified a business process that caused an error in the notarization of certain documents, some of which were used in foreclosure proceedings in various jurisdictions around the country. The services performed by this subsidiary were offered to a limited number of customers, were unrelated to our core default management services and were immaterial to our financial results. We immediately corrected the business process and began to take remedial actions necessary to cure the defect in an effort to minimize the impact of the error. We subsequently received an inquiry relating to this matter from the Clerk of Court of Fulton County, Georgia, which is the regulatory body responsible for licensing the notaries used by our document solutions subsidiary. In response, we met with the Clerk of Court, along with members of her staff, and reported on our identification of the error and the status of the corrective actions that were underway. We have since completed our remediation efforts with respect to the affected documents, and we believe that the matter with the Clerk of Court is closed. Most recently, we have learned that the U.S. Attorney s office for the Middle District of Florida is reviewing the business processes of this subsidiary. We have expressed our willingness to fully cooperate with the U.S. Attorney. We continue to believe that we have taken necessary remedial action with respect to this matter.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements other than operating leases and the escrow arrangements described below.

Escrow Arrangements

In conducting our title agency, closing and tax services, we routinely hold customers assets in escrow accounts, pending completion of real estate related transactions. Certain of these amounts are maintained in segregated accounts, and these amounts have not been included in the accompanying consolidated balance sheets. As an incentive for holding deposits at certain banks, we periodically have programs for realizing economic benefits through favorable arrangements with these banks. As of March 31, 2010, the aggregate value of all amounts held in escrow in our title agency, closing and tax services operations totaled $255.3 million.

(9) Stock Option Plans

Awards issued to our employees prior to the spin-off were originally issued under plans established by FIS and old FNF. On July 2, 2008, in connection with the spin-off, all options and restricted stock awards held by our

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employees prior to the spin-off were converted into options and awards issuable in our common stock, authorized by our new stock option plan. The exercise price and number of shares subject to each option and restricted stock award were adjusted to reflect the differences in FIS s and our common stock prices, which resulted in an equal fair value of the options before and after the exchange. Therefore, no compensation charge was recorded in connection with the conversion. Since July 2, 2008, all options and awards held by our employees are issuable in LPS common stock.

Our employees participate in LPS s 2008 Omnibus Incentive Plan (the Plan). Under the Plan, the Company may grant up to 14 million share-based awards to officers, directors and key employees. As of March 31, 2010, 4.7 million share-based awards were available for future grant under the Plan. The shares may be issued from authorized and unissued shares of the Company s common stock, or from the Company s treasury shares. Expired and forfeited awards are available for re-issuance. Vesting and exercise of share-based awards are generally contingent on continued employment.

The Company recognizes equity compensation expense on a straight-line basis over the vesting period of share-based awards. We recorded stock compensation expense of $6.6 million and $6.8 million during the three months ended March 31, 2010 and 2009, respectively, which is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings. Additionally, we recorded an income tax expense (benefit) related to the exercise of stock options of $0.8 million and $(1.2) million for the three months ended March 31, 2010 and 2009, respectively.

During the three months ended March 31, 2010 and 2009, $0.3 million and $1.1 million, respectively, of cash was used for minimum statutory withholding requirements upon net settlement of employee share-based awards.

As of March 31, 2010, the Company had $36.1 million of unrecognized compensation cost related to share-based payments, which is expected to be recognized in pre-tax earnings over a weighted average period of 1.29 years.

Options

The following table summarizes stock option activity under the Plan during the three months ended March 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Exercisable Shares
Outstanding as of December 31, 2009	6,806,710	32.16		
Total Granted	6,900	37.62		
Exercised (1)	(377,063)	33.89		
Cancelled				
Outstanding as of March 31, 2010 (2)	6,436,547	32.06	4.89	2,987,717

(1) The total intrinsic value of stock options exercised during the three months ended March 31, 2010 was $2.5 million.

(2) The total intrinsic value of stock options outstanding as of March 31, 2010 was $36.7 million. The total intrinsic value of stock options exercisable as of March 31, 2010 was $15.3 million.

The number of shares vested and expected to vest, which is calculated using our forfeiture rate of 2%, total approximately 6.3 million, have a weighted average remaining contractual life of 4.89 years, a weighted average exercise price of $32.06 and an intrinsic value of $36.0 million.

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Restricted Stock

Approximately 0.7 million shares of LPS restricted stock awards were outstanding as of March 31, 2010.

(10) Segment Information

Summarized unaudited financial information concerning our segments is shown in the following tables.

As of and for the three months ended March 31, 2010 (in thousands):

	Technology, Data and Analytics	Loan Transaction Services	Corporate and Other	Total
Results from continuing operations:				
Processing and services revenues	$ 179,462	$ 415,285	$ (2,353)	$ 592,394
Cost of revenues	105,795	292,609	(2,382)	396,022
Gross profit	73,667	122,676	29	196,372
Selling, general and administrative expenses	19,811	23,857	17,052	60,720
Operating income	$ 53,856	$ 98,819	$ (17,023)	$ 135,652
Depreciation and amortization	$ 16,538	$ 5,186	$ 1,930	$ 23,654
Balance sheet data:				
Total assets	$ 1,166,162	$ 831,307	$ 251,416	$ 2,248,885
Goodwill	$ 760,081	$ 406,061	$	$ 1,166,142

As of and for the three months ended March 31, 2009 (in thousands):

	Technology, Data and Analytics	Loan Transaction Services	Corporate and Other	Total
Results from continuing operations:				
Processing and services revenues	$ 159,879	$ 374,523	$ (4,585)	$ 529,817
Cost of revenues	90,463	268,936	(4,697)	354,702
Gross profit	69,416	105,587	112	175,115
Selling, general and administrative expenses	16,066	27,359	27,753	71,178
Operating income	$ 53,350	$ 78,228	$ (27,641)	$ 103,937
Depreciation and amortization	$ 17,375	$ 4,608	$ 2,003	$ 23,986
Balance sheet data:				
Total assets	$ 1,115,028	$ 788,151	$ 180,112	$ 2,083,291
Goodwill	$ 734,054	$ 377,072	$	$ 1,111,126

(11) Condensed Consolidating Financial Information

On July 2, 2008, LPS (the Parent Company) entered into a credit agreement and issued senior notes (note 6). The credit agreement and senior notes are fully and unconditionally guaranteed, jointly and severally, by the majority of the subsidiaries of the Parent Company (the Subsidiary Guarantors). Certain other subsidiaries (the Other Subsidiaries) are not guarantors of the Credit Agreement and the Notes. The guarantees by the Subsidiary Guarantors are senior to any of their existing and future subordinated obligations, equal in right of payment with any of their existing and future senior unsecured indebtedness and effectively subordinated to any of their existing and future secured indebtedness.

The Parent Company conducts virtually all of its business operations through its Subsidiary Guarantors and Other Subsidiaries. Accordingly, the Parent Company s main sources of internally generated cash are dividends and distributions with respect to its ownership interests in the subsidiaries, which are derived from the cash flows generated by the subsidiaries. Through March 31, 2010, no dividends have been paid by the subsidiaries to the Parent Company.

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The following tables set forth, on a condensed consolidating basis, the balance sheet, the statement of earnings and the statement of cash flows for the Parent Company, the Subsidiary Guarantors and Other Subsidiaries as of and for the three months ended March 31, 2010.

The following table represents our condensed consolidating balance sheet as of March 31, 2010 (in thousands):

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Assets:					
Current assets	$ 20,669	$ 556,332	$ 20,443	$	$ 597,444
Investment in subsidiaries	1,757,539			(1,757,539)	
Non-current assets	16,313	1,618,990	16,138		1,651,441
Total assets	$ 1,794,521	$ 2,175,322	$ 36,581	$ (1,757,539)	$ 2,248,885
Liabilities and stockholders equity:					
Current liabilities	$ 82,937	$ 312,951	$ 15,086	$	$ 410,974
Total liabilities	1,295,912	437,836	16,528		1,750,276
Total stockholders equity	498,609	1,737,486	20,053	(1,757,539)	498,609
Total liabilities and stockholders equity	$ 1,794,521	$ 2,175,322	$ 36,581	$ (1,757,539)	$ 2,248,885

The following table represents our condensed consolidating statement of earnings for the three months ended March 31, 2010 (in thousands):

	Parent Company (1)	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Processing and services revenues	$	$ 524,478	$ 67,916	$	$ 592,394
Operating expenses	6,557	383,875	66,310		456,742
Operating income	(6,557)	140,603	1,606		135,652
Total other income (expense)	(18,845)	341	286		(18,218)
Earnings before income taxes and equity in earnings of consolidated entities	(25,402)	140,944	1,892		117,434
Provision for income taxes	(9,717)	53,911	724		44,918
Earnings before equity in earnings of consolidated entities	(15,685)	87,033	1,168		72,516
	88,201			(88,201)	

Equity in income of consolidated entities, net of tax										
Net earnings	$	72,516	$	87,033	$	1,168	$	(88,201)	$	72,516

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The following table represents our condensed consolidating statement of cash flows for the three months ended March 31, 2010 (in thousands):

	Parent Company	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total Consolidated Amounts
Cash flows from operating activities:					
Net earnings	$ 72,516	$ 87,033	$ 1,168	$ (88,201)	$ 72,516
Adjustment to reconcile net earnings to net cash provided by operating activities:					
Non-cash expenses and other items	(79,435)	29,207	69	88,201	38,042
Changes in assets and liabilities, net of effects from acquisitions	(20,531)	13,276	5,737		(1,518)